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AECI'S CHAIRMAN, IN HIS LETTER TO SHAREHOLDERS IN THE 2008 ANNUAL REPORT, NOTED THAT "2009 WILL BE A CHALLENGING YEAR WITH MUCH UNCERTAINTY AND, THEREFORE, THE PRESERVATION OF CASH WILL BE A PRIORITY." THE BOARD REQUESTED THAT AECI'S MANAGEMENT CONCENTRATE ON FOUR KEY AREAS TO STEER THE COMPANY THROUGH THE ECONOMIC CRISIS. STRATEGIES IN THIS REGARD, SUMMARIES ON HOW THEY WERE APPLIED, AND THE RESULTS THEREOF, ARE PROVIDED ON PAGES 29, 43, 73 AND 93.

VALUES AND PROFILE

VALUES

Our values guide behaviour to sustain excellent performance

WE WILL

focus intensely on delivering service excellence to our customers;

operate ethically, with integrity and care for others;

operate safely and with care for the environment and the community;

encourage innovation, nimbleness, teamwork and openness among our employees;

pursue and reward performance excellence.

AECI is a specialty product and services Group of companies which provides value-adding solutions to customers through science, technology and industry knowledge. The focus is on serving the mining and manufacturing sectors and in 2009 the Group invested a further R1 billion of the R2 billion strategic capital programme in capital projects to enhance its future growth in these areas.

By the end of 2009, all significant projects were mechanically complete. Commissioning had been concluded or was in progress. Although the projects relate mainly to the mining sector, capital was also invested to augment the Group's ability to service consumer-driven markets.

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

Principal manufacturing sites are located in South Africa, near Johannesburg (explosives and mining services, provided by AEL Mining Services, and specialty chemicals provided by Chemical Services).

Chemical Services, which comprises 20 separate operations, also has a major site near Durban as well as a number of smaller sites country-wide. Its mining chemicals thrust is anchored in Senmin, which operates at Sasolburg in the Free State.

AEL Mining Services and Chemical Services have expanded their presence beyond South Africa. Both businesses continue to explore opportunities to take their products and service packages to niche markets in countries beyond their traditional areas of activity.

AEL Mining Services has a presence in 23 countries. It is well established across the African continent and, in line with the company's international strategy, business in its South East Asian hub made pleasing progress in 2009, particularly in Indonesia. In the year, the company's excellent technology and product position in initiating systems and bulk explosives enabled it to enter into mutually beneficial channel partnerships with leading regional explosives players in Europe and in South America.

Chemical Services has established a stable presence in Brazil and more acquisitions continue to be sought using the existing investment as a platform for growth. To an increasing degree, opportunities in other territories in Southern Africa and beyond are being explored.

In addition to its core businesses, the Group has a most valuable land asset, the release of which it manages carefully. The property activities are managed by Heartland and this company seeks to optimise the value of the property holdings surplus to AECI's operational requirements by selling land and by selectively investing in revenue-producing buildings in order to grow an existing portfolio of properties.

The land holdings are significant and are located in prime locations near Johannesburg and Cape Town. More than 2 000 hectares of excess land are available for redevelopment over the next 15 to 20 years for residential, commercial and industrial end uses and for leasing purposes.

SANS Technical Fibers, in the USA, is the Group's fourth business.

AECI has a total employee complement of about 6 450, many of whom are engaged in the Group's extensive sales, technical service and distribution networks.

The Company is domiciled in South Africa and is listed on the JSE Limited. At 31 December 2009, its market capitalisation was R7,4 billion.

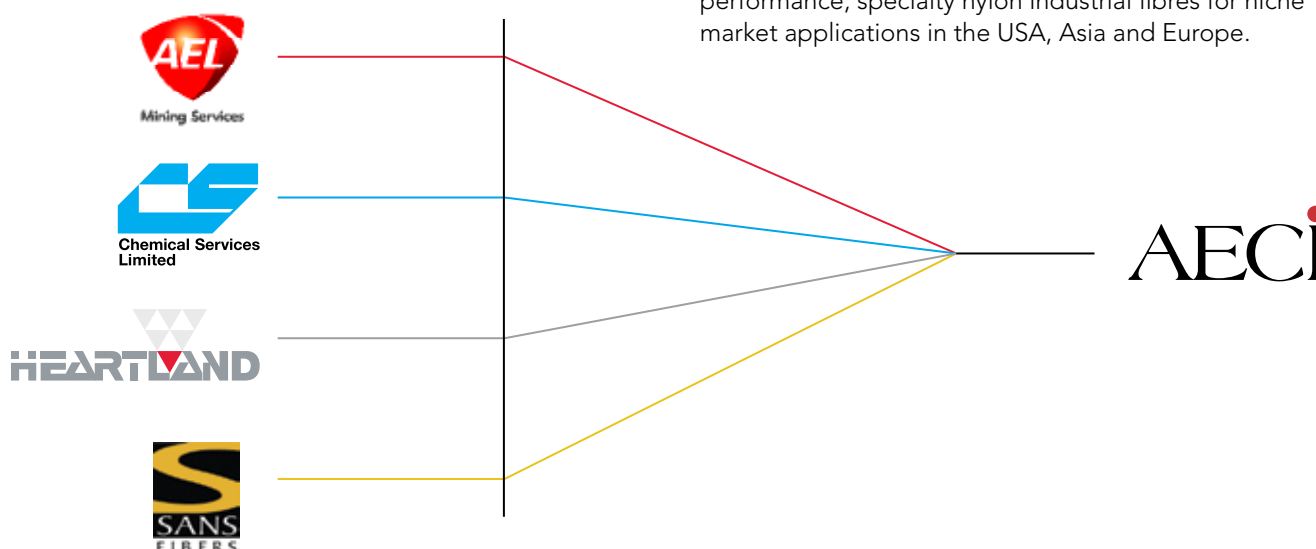
BUSINESSES

AEL Mining Services is a leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for mining, quarrying and construction markets in Africa and in chosen markets abroad. It is the largest supplier of explosives technology and initiating systems in Africa. The company comprises 16 businesses complemented by production facilities and offices throughout Southern Africa, Africa, and selected international regions in Europe, South America and South East Asia.

Chemical Services is the specialty chemicals component of the AECI Group. It is the largest specialty chemicals organisation in Southern Africa and comprises 20 autonomous business units, supplying a diverse range of specialty chemicals, raw materials and related services to a broad spectrum of industries. Chemical Services has sales, distribution, production and laboratory facilities located in key centres throughout South Africa and has also established production and distribution facilities in Southern Africa and abroad.

Heartland manages the land and property-based asset portfolio of the AECI Group. The focus is on development projects that can best realise value from land that has become surplus to AECI's operational requirements and, therefore, can be made available for alternative use. More than 2 000 hectares are available, mainly at Modderfontein, near Johannesburg in Gauteng, and at Somerset West near Cape Town, Western Cape. The company is also tasked with letting and managing buildings at Modderfontein, Potchefstroom in the North West, Somerset West, and at Umbogintwini, south of Durban in KwaZulu-Natal.

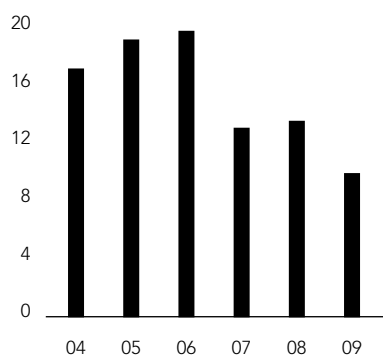
SANS Technical Fibers at Stoneville in North Carolina (USA), manufactures and markets a range of high performance, specialty nylon industrial fibres for niche market applications in the USA, Asia and Europe.



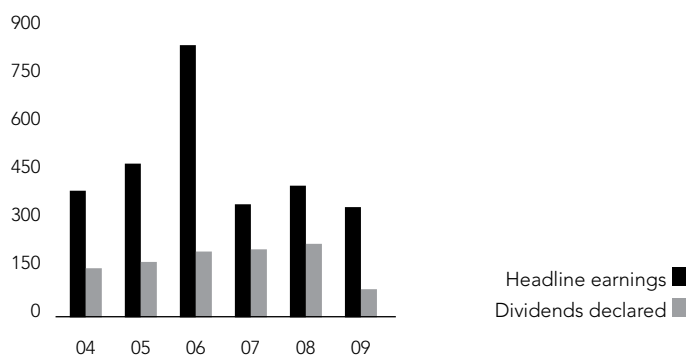
GROUP RESULTS AT A GLANCE

	2009	2008	% change
For the year ended 31 December 2009			
Revenue (R millions)	11 178	14 340	(22)
Profit from operations (R millions)	833	986	(16)
Headline earnings (R millions)	370	443	(16)
Net profit attributable to ordinary shareholders (R millions)	421	385	9
Headline earnings per ordinary share (cents)	346	412	(16)
Dividends declared per ordinary share (cents)	90	231	(61)
Market capitalisation at 31 December (R millions)	7 386	6 060	22
Profit from operations to revenue (%)	7,5	6,9	
Return on net assets (%)	12,6	16,9	
Return on invested capital (%)	10,0	13,6	
Net borrowings as a percentage of shareholders' interest (%)	53	59	

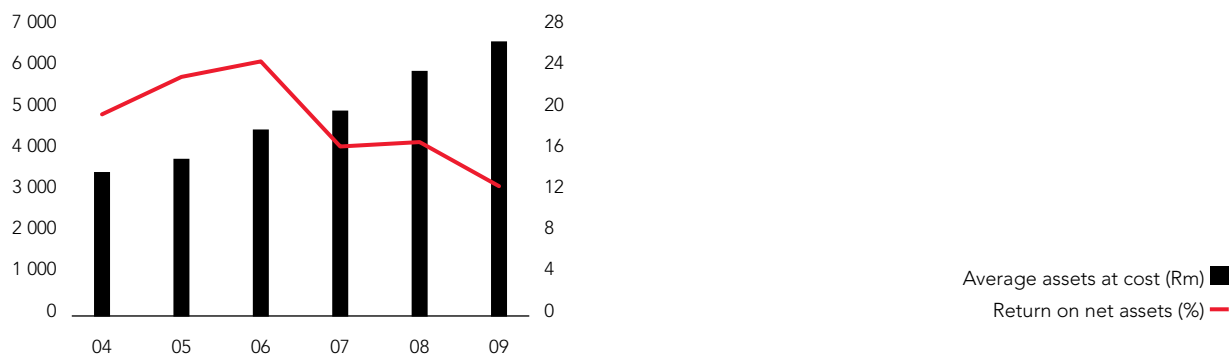
Return on invested capital (%)



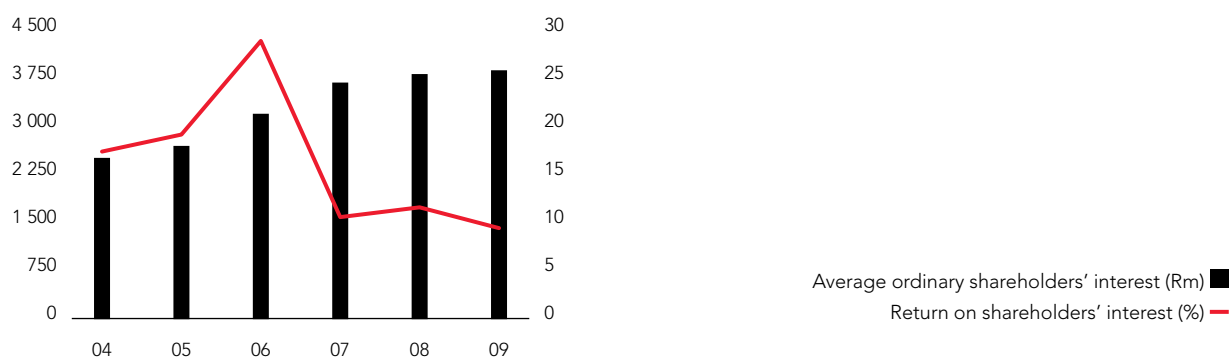
Headline earnings and dividends per ordinary share (cents)



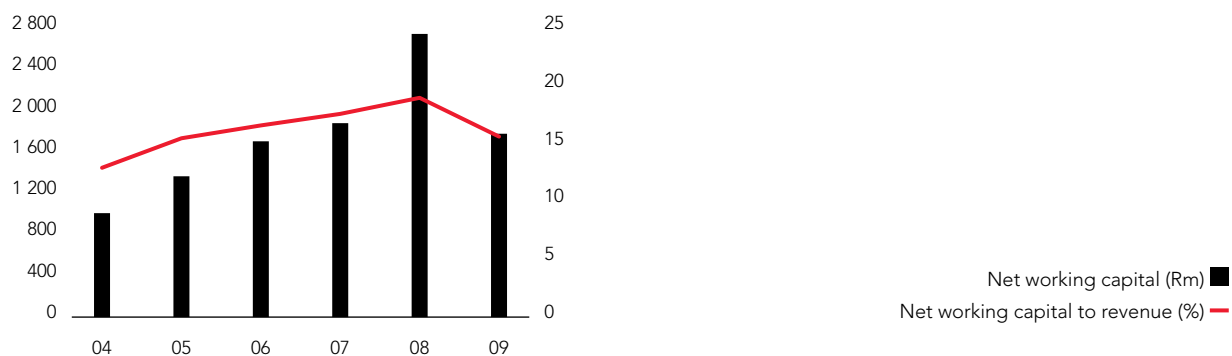
Return on net assets



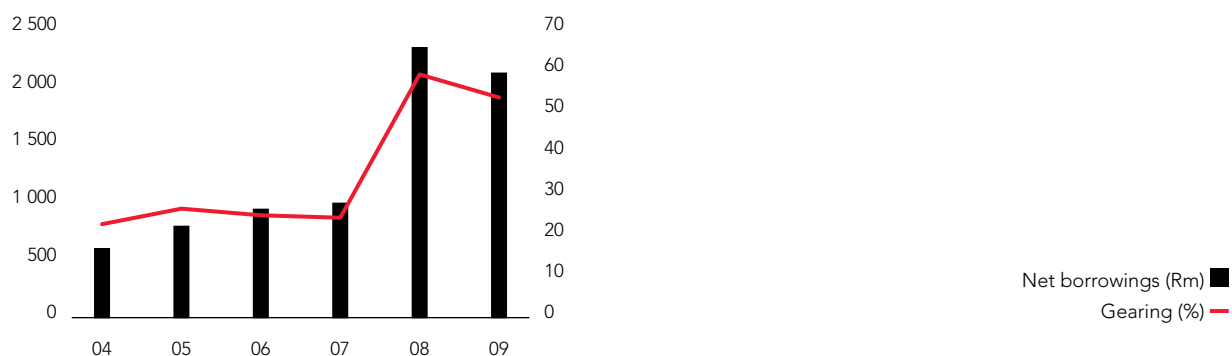
Return on shareholders' interest



Net working capital to revenue



Net borrowings and gearing



HISTORICAL REVIEWS

JSE LIMITED AND SHARE PERFORMANCE

	2009	2008	2007	2006	2005	2004
Ordinary share statistics						
Market price (cents per share)						
High	6 698	7 999	9 600	7 005	5 300	3 942
Low	4 005	4 250	6 300	5 041	3 801	2 900
31 December	6 200	5 099	7 899	6 825	5 300	3 900
Earnings yield (%)	5,6	8,1	4,5	12,5	9,1	10,1
Dividend yield (%) *	1,5	4,5	2,7	3,0	3,3	3,5
Dividend cover *	3,8	1,8	1,7	4,2	2,8	2,8
In issue (millions)	119,1	118,8	120,7	120,7	120,7	119,7
Value traded (R millions)	1 992	3 665	5 898	3 072	2 555	1 476
Volume traded (millions)	37,9	58,7	73,3	51,0	55,9	44,2
Volume traded (%)	31,8	49,4	60,7	42,3	46,3	36,9
Market capitalisation (R millions)	7 386	6 060	9 537	8 241	6 399	4 669
Ordinary share performance (cents per share)						
Headline earnings	346	412	355	853	482	392
Dividends declared *	90	231	213	205	175	138
Net asset value	3 671	3 601	3 430	3 255	2 587	2 381

* The interim dividend in the current year and the final dividend declared after the reporting date have been used in the calculation.

AECI share price (rand)



ABRIDGED FINANCIAL STATEMENTS

R millions	2009	2008	2007	2006	2005	2004
Income statements ¹						
Revenue	11 178	14 340	11 328	10 212	8 768	7 911
Local	8 449	10 347	8 702	7 906	6 951	6 405
Foreign	2 729	3 993	2 626	2 306	1 817	1 506
Profit from operations	833	986	807	1 102	887	743
Net financing costs	218	222	130	103	90	139
Tax	188	226	217	353	225	173
Profit attributable to ordinary shareholders	421	385	455	916	486	283
Headline earnings	370	443	392	942	530	427
Statements of financial position						
Total shareholders' interest	4 058	3 969	3 929	3 727	2 940	2 646
Deferred tax (net)	(259)	(272)	(165)	(111)	(291)	(327)
Net interest-bearing debt	2 143	2 359	1 001	940	798	615
Capital employed	5 942	6 056	4 765	4 556	3 447	2 934
Represented by:						
Property, plant, equipment, investment property, goodwill, Pension Fund employer surplus accounts and investments	5 016	4 177	3 314	3 332	2 734	2 557
Current assets, excluding cash and cash equivalents, less interest-free liabilities	926	1 879	1 451	1 224	713	377
Employment of capital	5 942	6 056	4 765	4 556	3 447	2 934
Statements of cash flows						
Cash generated by operations ²	489	1 224	821	1 076	950	712
Changes in working capital	1 161	(978)	(627)	(259)	(295)	77
Expenditure relating to non-current provisions and restructuring	(198)	(217)	(68)	(143)	(42)	(21)
Net investments to maintain operations ³	(20)	(279)	(272)	(177)	(104)	(112)
	1 432	(250)	(146)	497	509	656
Dividends paid	(167)	(250)	(237)	(206)	(167)	(135)
	1 265	(500)	(383)	291	342	521
Investment to expand operations ³	(1 055)	(747)	(432)	(444)	(453)	(179)
Proceeds from disposal of investments and businesses	94	24	778	3	27	58
Net cash generated/(utilised)	304	(1 223)	(37)	(150)	(84)	400
Depreciation charges	267	216	233	223	212	224
Commitments						
Capital expenditure authorised	737	978	1 251	650	97	188
Future rentals on property, plant and equipment leased	185	317	253	290	235	196
	922	1 295	1 504	940	332	384

1 Includes the results of discontinued operations.

2 Profit from operations plus depreciation of property, plant and equipment and other non-cash flow items and after investment income, net financing costs and taxes paid.

3 Excludes property, plant and equipment of companies acquired.

HISTORICAL REVIEWS

(continued)

RATIOS AND EMPLOYEE DETAILS

	2009	2008	2007	2006	2005	2004
Profitability and asset management						
Profit from operations to revenue (%)	7,5	6,9	7,1	10,8	10,1	9,4
Trading cash flow to revenue (%)	9,8	8,4	9,2	13,0	12,5	12,2
Return on average net assets (%) ¹	12,6	16,9	16,5	24,8	23,4	20,4
Return on invested capital (%) ²	10,0	13,6	13,2	19,9	19,3	16,8
Return on average ordinary shareholders' interest (%) ³	9,5	11,6	10,6	29,2	19,4	16,7
Net working capital to revenue (%) ⁴	15,9	19,2	17,8	16,8	15,7	12,0
Inventory cover (days) ⁵	67	85	79	81	74	68
Average credit extended to customers (days) ⁵	55	73	70	70	66	59
Liquidity						
Cash interest cover ⁶	3,5	4,7	7,0	14,6	12,3	7,7
Interest-bearing debt to cash generated by operations	1,9	1,4	0,9	0,7	0,7	0,6
Gearing (%) ⁷	52,8	59,4	25,5	25,2	27,1	23,2
Current assets to current liabilities	1,4	1,4	1,4	1,4	1,4	1,6
Employees						
Number of employees at year-end ⁸	6 459	6 474	7 123	7 705	7 251	7 260
Employee remuneration (R millions)	1 923	1 804	1 640	1 538	1 375	1 395
Value added per rand of employee remuneration (rand)	1,59	1,68	1,59	1,90	1,81	1,71

1 Profit from operations plus investment income related to average property, plant, equipment, investment property, goodwill, investments, inventories, accounts receivable and assets classified as held for sale less accounts payable and liabilities classified as held for sale.

2 Profit from operations less tax at the standard rate plus investment income related to average property (excluding land revaluation), plant, equipment, investment property, goodwill, investments, inventories, accounts receivable and assets classified as held for sale less accounts payable, liabilities classified as held for sale and tax payable.

3 Headline earnings related to average ordinary shareholders' interest.

4 Excluding businesses sold and equity accounted and including working capital classified as held for sale.

5 Includes assets classified as held for sale.

6 Ratio of profit from operations plus return on Pension Fund employer surplus account and return on plan assets from post-retirement medical aid liabilities less closure costs plus depreciation and dividends received to net finance costs paid.

7 Interest-bearing debt less liquid funds as a percentage of total shareholders' interest.

8 Includes proportional share of joint venture employees.

DISTRIBUTION OF VALUE ADDED

Value added is the difference between revenue received from sales and the cost of raw materials, goods and services purchased outside the Group. It represents the basic surplus of income over expenditure generated by the Group and its employees through manufacturing and selling products and services.

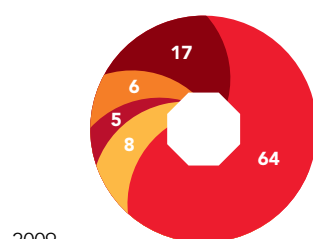
	2009		2008	
	R millions	%	R millions	%
Revenue	11 178	100	14 340	100
Purchased materials and services	8 155	73	11 334	79
Value added through operations	3 023	27	3 006	21
Other income	33	-	27	-
Total value added	3 056	27	3 033	21
Distributed to:				
Employees	1 923	64	1 804	60
Lenders	244	8	236	8
Shareholders	167	5	250	8
Direct taxes	188	6	226	7
Reinvested in the Group	534	17	517	17
	3 056	100	3 033	100

Monetary exchanges with the state

The following monetary exchanges with the state took place during the year:

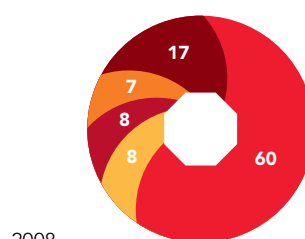
Direct taxes	188	226
Employees' tax collected on behalf of the state	507	356
Property taxes paid to local authorities	19	28
Skills development levies paid to the SA Revenue Service	23	16
VAT collected on behalf of the state	195	16
Channelled through the Group	932	642

Distribution of value added (%)

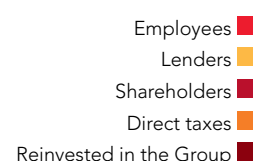


2009

Distribution of value added (%)



2008



SHAREHOLDER ANALYSIS

(SOURCE: JP MORGAN)

1. ANALYSIS OF REGISTERED SHAREHOLDERS AND COMPANY SCHEMES

REGISTERED SHAREHOLDER SPREAD

In accordance with the JSE Listings Requirements, the following table confirms that the spread of registered shareholders as detailed in the annual report and accounts dated 31 December 2009 was:

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1–1 000 shares	2 299	56,28	818 815	0,69
1 001–10 000 shares	1 189	29,11	3 877 039	3,25
10 001–100 000 shares	432	10,57	15 163 940	12,73
100 001–1 000 000 shares	149	3,65	45 985 427	38,60
1 000 001 shares and above	16	0,39	53 290 648	44,73
Total	4 085	100,00	119 135 869	100,00

PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Within the shareholder base, we are able to confirm the split between public shareholdings and directors/Company-related schemes as being:

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	5	0,12	11 938 338	10,02
– Treasury shares	1	0,02	11 884 699	9,98
– Own holdings	4	0,10	53 639	0,04
Public shareholders	4 080	99,88	107 197 531	89,98
Total	4 085	100,00	119 135 869	100,00

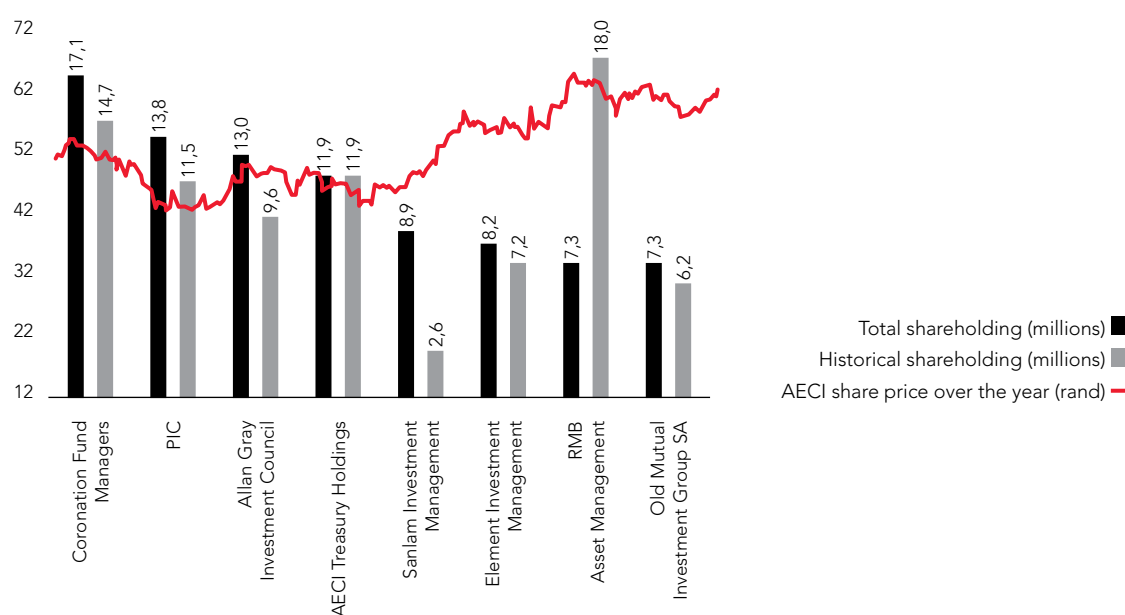
2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS

SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS ABOVE 3%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of Section 140A of the Companies Act, No. 61 of 1973, as amended, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 31 December 2009:

Investment manager	Total shareholding	%
Coronation Fund Managers	17 140 177	14,39
Public Investment Corporation (PIC)	13 819 246	11,60
Allan Gray Investment Council	13 029 530	10,94
AECI Treasury Holdings (Pty) Limited	11 884 699	9,98
Sanlam Investment Management	8 879 340	7,45
Element Investment Management	8 240 992	6,92
RMB Asset Management	7 262 010	6,10
Old Mutual Investment Group SA	7 261 218	6,09
Total	87 517 212	73,47

Investment management shareholding positions above 3% with 12-month change



SHAREHOLDER ANALYSIS

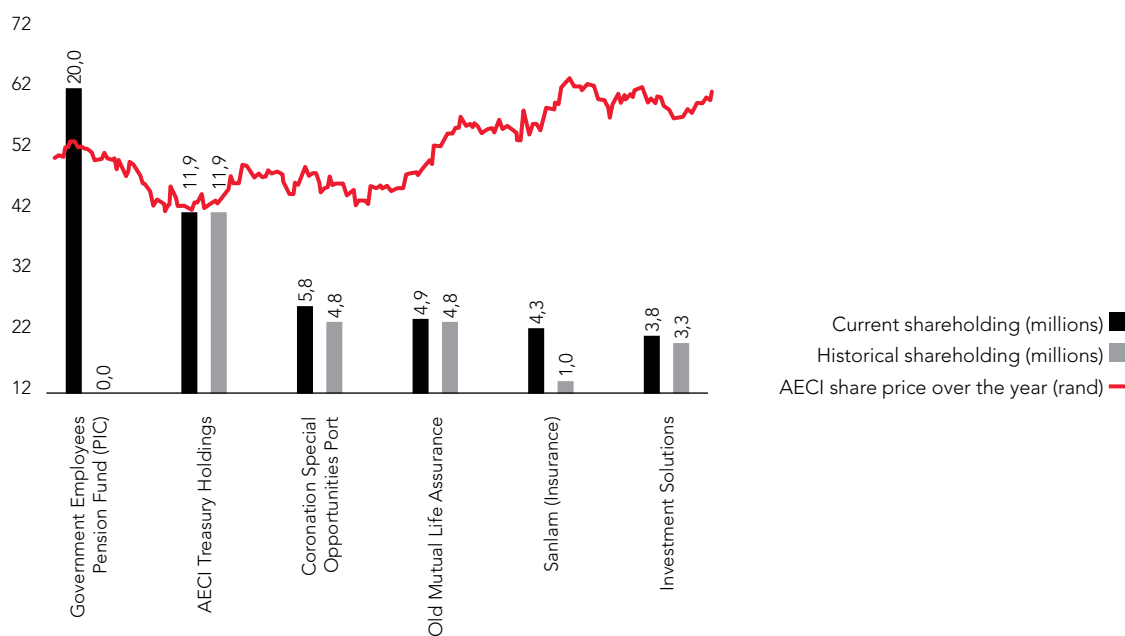
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2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS (continued)

Beneficial shareholdings	Total shareholding	%
Government Employees Pension Fund (PIC) ¹	20 002 770	16,79
AECI Treasury Holdings (Pty) Limited	11 884 699	9,98
Coronation Special Opportunities Port	5 802 745	4,87
Old Mutual Life Assurance Company Limited	4 925 033	4,13
Sanlam (Insurance)	4 304 476	3,61
Investment Solutions	3 838 169	3,22
Total	50 757 892	42,60

¹ In June 2009, Government Employee Pension Fund (GEPF) assets were transferred from the PIC into the name of GEPF.

Beneficial shareholding positions above 3% with 12-month change



2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS (continued)

PREVIOUSLY DISCLOSED HOLDINGS

Manager	Total shareholding	%	Previous %
Investment managers now holding below 3%			
Polaris Capital (Pty) Limited (renamed Abax Investments in January 2010)	1 985 913	1,67	3,79
Rand Merchant Bank	1 460 548	1,23	2,38
Total	3 446 461	2,90	6,17
Beneficial owners now holding below 3%			
PIC	–	–	13,77
Total	–	–	13,77

3. GEOGRAPHIC SPLIT OF SHAREHOLDERS

GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS

Region	Total shareholding	% of issued capital
South Africa	107 841 610	90,52
United States of America and Canada	3 870 332	3,25
United Kingdom	533 877	0,45
Rest of Europe	741 665	0,62
Rest of the world ¹	6 148 385	5,16
Total	119 135 869	100,00

¹ Represents all shareholdings except those in the above regions.

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of issued capital
South Africa	111 036 101	93,20
United States of America and Canada	3 656 904	3,07
United Kingdom	510 269	0,43
Rest of Europe	1 272 898	1,07
Rest of the world ¹	2 659 697	2,23
Total	119 135 869	100,00

¹ Represents all shareholdings except those in the above regions.

SHAREHOLDER ANALYSIS

(continued)

4. SHAREHOLDER CATEGORIES

An analysis of beneficial shareholdings, supported by the Section 140a enquiry process, confirmed the following beneficial shareholder types:

Category	Total shareholding	% of issued capital
Pension funds	44 533 042	37,38
Unit trusts	30 542 374	25,64
Insurance companies	13 488 980	11,32
Corporate holding	11 884 699	9,98
Other managed funds	6 817 308	5,72
Other	5 993 817	5,03
Private investor	3 121 434	2,62
Foreign government	850 858	0,71
Custodians	319 756	0,27
Mutual fund	234 887	0,20
Hedge fund	160 352	0,13
University	158 514	0,13
Trading position	133 553	0,11
Investment trust	42 800	0,04
Charity	37 005	0,03
Remainder	816 490	0,69
Total	119 135 869	100,00

4. SHAREHOLDER CATEGORIES (continued)

Beneficial shareholders: split by category (%) ¹



¹ Includes categories above 2% only.

5. ANALYSIS OF INVESTMENT STYLES

Analysis into institutional attributes broadly indicates the following split of investment approach within the shareholder base:

Analysis of investment styles (%) ¹



¹ Includes categories above 1% only.

NON-EXECUTIVE DIRECTORS

FANI TITI (47)

BSc (Hons), MA, MBA

Fani joined AECI's Board in 2005 and assumed its chairmanship, as well as membership of the Nominations and Remuneration Committees, in 2007. He is currently non-executive chairman of Investec Bank Limited and an executive director of the Tsiya Group, a private equity firm.



RICHARD DUNNE (61)

CA(SA)

Richard joined AECI's Board in 2007 and chairs the Nominations, Remuneration and Risk Committees. He is also a member of the Audit Committee and chairs Chemical Services Limited's financial review committee. Richard retired from Deloitte & Touche in 2006, as chief operating officer. He is a member of the boards and audit committees of Anglo Platinum, the Standard Bank Group and Tiger Brands.



SCHALK ENGELBRECHT (63)

BSc, MBL

Schalk retired as AECI's chief executive in 2008, having served in that position since 2003. He is a member of the Nominations, Remuneration and Risk Committees. In 1980, Schalk joined Chemical Services Limited where he managed a number of subsidiaries before being appointed that group's managing director in 1998. He also serves on the board of Imperial Holdings.





ZELLAH FUPHE (41)

BSocialSc

She joined the AECI Board in 2007 and is a member of the Corporate Citizenship Committee. A graduate of the University of Cape Town, Zella is managing director of Plessey South Africa. Zella serves on the Unisa School of Business and Leadership board and previously served on the boards of Afric Oil (chair), Worldwide Coal Carolina (chair), Engen Limited, the Oceana Group and Worldwide African Investment Holdings.



MIKE LEEMING (66)

BCom, MCom, FCMA, FIBSA, AMP (Harvard)

A non-executive member of the AECI Board since 2002, Mike is chairman of the Audit Committee, a member of the Corporate Citizenship Committee and chairman of Heartland's financial review committee. He is a retired executive director of Nedcor and past chairman of the Banking Council of South Africa and president of the Institute of Bankers. He also serves as a non-executive director on the boards of Altron, Imperial Holdings, Real Africa and Woolworths.



LITHA NYHONYHA (50)

CA(SA)

Appointed to the AECI Board in 2006, Litha is chairman of the Corporate Citizenship Committee, a member of the Audit Committee and chairman of AEL Mining Services' financial review committee. He is executive chairman and a founder member of Regiments Capital, a black-controlled and managed financial services group. He is also a director of Plessey Telecommunications, Regiments Securities, Sovereign Foods and Worldwide African Investment Holdings.

EXECUTIVE COMMITTEE

EXECUTIVE DIRECTORS

GRAHAM EDWARDS (55)

BSc (Mech Eng), BCom, MBA, PhD, Pr Eng

He is AECI's chief executive, which position he took up in 2008. Prior to this, he was managing director of AEL Mining Services (AEL) and he has also served as chairman of the DetNet joint venture. An executive director of AECI since 2007, Graham joined the Group as a design engineer in 1978 and worked in production, engineering, buying and strategic planning. He was appointed managing director of AEL in 1999.



FRANK BAKER (56)

BSc (Chem Eng)

Frank was appointed to AECI's Board in an executive capacity in 2007. He took up his position as managing director of Chemical Services Limited (Chemserve) in 2003. Frank joined AECI in 1976 and, having moved to Chemserve in a management position in 1993, he joined that company's executive committee in 1998 and its board in 1999. From 1993 to 2003 he managed several subsidiaries within the Chemserve group. He will retire from Chemserve and from the AECI Board on 31 March 2010.



MARK KATHAN (39)

CA(SA)

Mark joined AECI in 2008 as financial director and chief financial officer. Prior to his AECI appointment, he had worked for 11 years at a JSE Limited-listed global packaging company where he held a senior finance position and was a member of that company's executive. He has experience in a broad spectrum of finance and business disciplines in South Africa and the rest of Africa.



OTHER EXECUTIVE COMMITTEE MEMBERS

ANTHONY DIEPENBROEK (53)

BSc (Civil Eng), MBA, Pr Eng

He joined the Group as managing director of Heartland, and an AECI Executive Committee member, in 2008. Anthony has more than 20 years' experience in property- and development-related fields. These include construction and project management; sales and marketing; infrastructure and facilities planning; and the management of property portfolios, assets and property investment funds at executive level. He has also served as managing director of other JSE Limited-listed entities in the property sector.



TOBIE LOUW (47)

BSc (Eng)

Tobie joined AEL in 1988 and he returned to this company as managing director in 2008. He also joined AECI's Executive Committee at that time. Tobie left the AECI Group in 1996, returning to Chemsolve in 2000 as managing director of Lake International. In 2005, he was appointed to Chemsolve's executive committee and became managing director of Chemsolve Systems. He joined the Chemsolve board in 2007.



SENIOR MANAGERS

GARY CUNDILL (42)

BSc (Chem Eng), BEng Hons (Water), GDE (Civil), Pr Eng

Gary is Group manager: technology, safety, health, environment and quality. He has worked in the chemicals, steel and explosives industries, and joined the Group in 2001. His background lies in technical development, and in project and operations management. Gary manages the corporate citizenship portfolio, and fulfils the role of chief information officer for the AECI Group.



TED REA (41)

Bluris, LLB, LLM

Ted is AECI's acting Company secretary. He is an admitted attorney and worked as an associate in a legal firm before joining AECI's legal department in 1998.



LOUIS VAN DER WALT (55)

Bluris, LLB, CFP

He has been manager of AECI's Retirement Funds since 1999. He joined AECI as a legal advisor in 1991, having worked in similar capacities elsewhere. Louis is an Advocate of the High Court and a Certified Financial Planner.



SHAREHOLDERS' CALENDAR

2009 FINAL ORDINARY CASH DIVIDEND NO. 152

Declaration date	22 February
Last date to trade cum dividend	9 April
Ex dividend trade	12 April
Record date	16 April
Payment date	19 April

5,5% PREFERENCE SHARES DIVIDEND NO. 144

Declaration date	21 May
Last day to trade cum dividend	4 June
Ex dividend trade	7 June
Record date	11 June
Payment date	15 June

86TH ANNUAL GENERAL MEETING

24 May

2010 INTERIM ORDINARY DIVIDEND NO. 153

Declaration date	27 July
Last date to trade cum dividend	3 September
Ex dividend trade	6 September
Record date	10 September
Payment date	13 September

2010 INTERIM REPORT RELEASED

28 July

5,5% PREFERENCE SHARES DIVIDEND NO. 145

Declaration date	19 November
Last day to trade cum dividend	3 December
Ex dividend trade	6 December
Record date	10 December
Payment date	15 December

FINANCIAL YEAR-END

31 December

2010 FINANCIAL RESULTS RELEASED

February 2011

2010 ANNUAL REPORT ISSUED

April 2011

CHAIRMAN'S LETTER TO SHAREHOLDERS



I am pleased to report that, after a very challenging year, the AECI Group as a whole achieved satisfactory financial results in 2009. Our customers in the core business sectors of mining and manufacturing experienced an extremely turbulent trading environment.

Most sectors in the mining industry experienced a significant downturn in activity. In the first half of the year some mines in South Africa and the rest of the continent reduced production or, in some cases, suspended their operations. It was only in the latter part of 2009 that the mining sector improved, as did commodity prices.

Demand from the manufacturing sector in South Africa declined by 13% overall, owing to the global economic crisis and exacerbated by a strong R/US\$ exchange rate which had a negative effect on the country's exports.

Notwithstanding these challenging trading conditions AECI's management, with the Board's support, maintained its focus on completing the strategic capital programme embarked on since 2007. I am pleased to report that all the strategic investments in Chemical Services Limited (Chemserve), as well as AEL Mining Services' (AEL's) Initiating Systems Automation Programme (ISAP), were mechanically complete by the end of the year. Furthermore, cash management was excellent and delivered more than R1 billion in cash by reducing working capital.

TRADING PERFORMANCE

The effects of the global economic crisis and the strong rand/US\$ currency exchange rate, in particular, had a severe effect on AECI's sales volumes and results.

Furthermore, the Group's performance was adversely impacted by the following:

- inventory and foreign exchange revaluations of R125 million, primarily in the first half-year;
- restructuring costs of R51 million;
- the effects of a major bad debt of R163 million in respect of sulphur sales to the mining industry in the Zambian copper belt region; and
- a depressed property development market as demand fell away due to the recession and credit approvals by banks became tighter as a consequence of the banking crisis. Also, Heartland experienced some cancellations of and defaults on prior sales.

Revenue from continuing operations, at R10,7 billion, was 16,8% lower than that achieved in the prior year. Headline earnings were R370 million, 16% lower than the previous year and headline earnings per share of 346 cents were achieved.

AEL

AEL delivered improved results, particularly noteworthy if viewed in the context of the poor start to the year by its mining customers. Revenue was unchanged at R4,1 billion as lower ammonia prices and a stronger R/US\$ exchange rate offset other cost-driven price increases. Profit from operations increased by 20% to R298 million and an improved profit margin of 7,3% was achieved.

The margin improvement is attributable to restructuring of the business, a change in product mix and a shift in focus from merely supplying products to offering customers a performance-enhancing services package. The continued conversion in initiating systems from capped fuse to shocktube technology also contributed to the improvement. An additional 18 million holes a year were switched to the safer shocktube system. By year-end 85% of the conversion programme had been completed, with the balance planned for 2010.

In the South African business, the slow decline in narrow reef mining was offset by the coal sector's growth. Long-term contract renewals for industrial ammonium nitrate sales to non-mining and construction customers lifted prices off a very low base.

The Africa business was negatively affected by the stronger rand and by depressed diamond and copper markets in the first half of the year. Better than expected sales in surface gold and a recovery in the copper markets in Central Africa assisted in offsetting this.

The International business gained pleasing momentum with AEL being awarded four coal on-mine full service tenders in Indonesia. The necessary plant was deployed quickly and efficiently and all start-up targets were met. Additional sales channel partnerships were developed in Europe and South America. AEL's technology and know-how will impact positively on revenue going forward as the international strategy evolves.

The DetNet joint venture's products have proved to be reliable, effective and highly competitive globally. However, the downturn in the US construction sector and in the African diamond and platinum sectors had a serious negative impact on the operation's performance for the year.

With ISAP mechanically complete, the focus in 2010 will be on ramp-up and the completion of peripherals. By end-2009, the plant had already produced more than 65 million detonators and more than 280 million metres of tubing.

AEL invested R439 million in capital projects in the year. R170 million was spent on ISAP, with the balance for the start-up of bulk sites in Indonesia, further support for African mining projects and various replacement-type projects.

CHEMSERVE

Chemserve's results were negatively affected by the recession and the resultant, sharp decline in volumes. Most of Chemserve's customers operate in the mining, manufacturing and automotive sectors where the effects of the crisis were most evident. Revenue declined by 23% to R6,5 billion and profit from operations was 43% lower at R483 million. It is management's view that the automotive sector will take much longer to recover than other sectors and therefore Duco Speciality Coatings and Plastamid, which serve the automotive market, were restructured.

On the positive side Chemserve Perlite, Crest Chemicals, Industrial Oleochemical Products, Lake International and Specialty Minerals SA achieved excellent results and Senmin demonstrated good resilience against the downturn notwithstanding the slowdown in platinum mining in the first half-year.

Strong cash management in a declining revenue environment generated over R1 billion in cash, through reductions in working capital.

The capital expansion programme neared completion. R801 million was invested in capital expenditure, with R567 million of this being spent on the strategic growth projects.

Two acquisitions and the repurchase of TISO Capital's 25,1% shareholding in ImproChem were concluded during the year at a total cost of R96 million. Both acquisitions, namely Cobito and CH Chemicals, were integrated into existing Chemserve businesses and their performances exceeded expectations.

Chemserve's challenging year was exacerbated by a bad debt in Chemical Initiatives. The full impact of this debt was R163 million. Management has fully appreciated the seriousness of the write-off and has implemented the necessary risk management measures to prevent a similar occurrence in future.

HEARTLAND

Heartland manages the Group's property portfolio. The property market remained severely depressed. Furthermore, Heartland reversed R104 million in revenue and R52 million in operating profit recognised in 2008. The reversals were as a result of defaults on deals resulting from banks becoming far more stringent in granting credit to their property development clients, exacerbated by adverse trading conditions in the property market.

As a consequence, Heartland's operating performance was sustained primarily by the leasing and services segments. Operating results, net of environmental management costs, declined by 27% to R33 million. Environmental management expenditure was R13 million.

The business continued preparing land for sale and investing in infrastructure so as to be optimally placed once the market recovers from its current depressed position. R86 million was invested in bulk infrastructure in the year and 57 hectares of land are ready for sale.

SANS TECHNICAL FIBERS

SANS Technical Fibers (STF), based in North Carolina in the USA, had a challenging start to the year as the global automotive market deteriorated sharply. The business relies primarily on the US automotive industry, and incurred a loss from operations in the first six months. However, STF repositioned itself and developed export markets in Asia and Europe, thereby limiting its volume decline. Revenue declined by 25% to US\$27 million and an operating profit of US\$1,1 million was delivered for the year.

The company spent US\$1,4 million on capital projects while a further US\$3 million has been approved for the installation of plant transferred from SANS Fibres' Bellville site, subsequent to the latter's closure. The business remained cash positive and generated cash through the liquidation of working capital. It is AECI's intention to optimise and grow the business going forward.

DISCONTINUED OPERATION: SANS FIBRES

SANS Fibres' operations in Bellville in the Western Cape ceased in March 2009. All the working capital has been liquidated and the remaining plant and equipment not transferred to the US has been sold. 60% of the site has already been sold to a Cape Town-based developer.

REVIEW OF 2009'S FOCUS AREAS

In my letter to shareholders last year, I indicated that the Board had requested AECI's management to focus on some key areas to steer the Company through the economic crisis. Specifically, progress in the year under review in this regard was as follows:

CONTROL WORKING CAPITAL AGGRESSIVELY

The Company reduced its net working capital ratio to sales in all businesses, with each business having been given set cash targets. The success achieved was due to a concerted effort by all members of management and specific mention must be made of the Chemserve team which delivered more than a R1 billion in cash from the reduction in the business' working capital.

PROGRESS KEY PROJECTS, WHILE CAREFULLY REVIEWING ALL OTHER CAPITAL EXPENDITURE

During the year, management reduced its capital budget by R250 million by delaying some replacement and less urgent capital expenditure projects. Of the R1,2 billion spent on capital expenditure, R738 million was invested in the strategic capital programme.

The following Chemserve plants were commissioned:

- the second (and final) xanthate reactor, at Senmin;
- a sulphonation plant for Akulu Marchon;
- Senmin's carbon disulphide plant;
- an oleochemical plant at Resitec.

The polyacrylamide plant at Senmin was mechanically complete by the end of 2009 and is being commissioned. Benefits have already been derived from projects that were brought on line in the year and, in 2010, the focus will be on ramping-up these plants to specified capacities.

AEL's ISAP plant is also mechanically complete and ramp-up will continue in 2010 as ancillary equipment is installed.

APPLY COST LEADERSHIP PRINCIPLES

Where necessary, areas of the business were restructured and, regrettably, this resulted in some retrenchments. Wherever possible, staff were redeployed into other areas. R51 million was spent on restructuring. The Group Office was also restructured across all levels of employees.

MAINTAIN MARKET SHARE AND MARGINS THROUGH CONTINUED EXCELLENT SERVICE

It was most pleasing that Chemserve maintained its market share through the crisis. Although the business' margins were depressed in the first six months, performance in the second half was more in line with that of previous years.

Chemserve's full service model has been replicated by AEL in certain areas of the latter's business. AEL grew market share thanks to its international expansion which included the award of a 50% supply tender from the largest thermal coal miner in the world, based in Indonesia. AEL deployed the necessary plant and equipment for this large contract successfully and all start-up targets were met. The entire project was completed in less than three months, considered to be a world first!

DIRECTORATE

At the end of 2009 André Parker, who served on the AECI Board for two years in the capacity of non-executive director, resigned. I would like to thank André for his contribution over that time. Another non-executive director is being sought.

Frank Baker, managing director of the Chemical Services group since 2003, will retire from this position on 31 March 2010 after a 34-year career with the AECI Group. At the same time, he will also retire as an executive director of AECI Limited, having served on the Board in this capacity since 2007. My fellow directors join me in thanking him for his contribution to the affairs of the Company and the Board over many years.

Mark Dytor, an executive director of Chemserve, has been appointed acting managing director of this company.

ETHICS AND GOVERNANCE

AECI remains committed to maintaining its high standards of corporate citizenship, a high level of ethics and integrity, and proactive management of corporate responsibility issues. Safety, health, and environmental issues are the first item on the agenda of management meetings of every business and of AECI's Executive Committee. Community awareness and support are guided and monitored by the Corporate Citizenship Committee of the Board.

The Group adheres to best practices in corporate governance. The Board has formed a separate Risk Committee which will be active from 2010. Previously, the Risk Committee formed part of the Group's Audit and Risk Committee.

The requirements of the third King Report on Governance for South Africa, 2009, will be implemented during 2010 and the Group will report accordingly from 2011.

BBBEE TRANSACTION

The Group intended to embark on a BBBEE transaction involving employees and communities through structured trusts in 2009. This transaction was put on hold due to economic uncertainties. AECI will review its position in this regard towards the end of 2010.

Management has nonetheless made progress on BBBEE matters on other fronts, with each business having been set specific targets for achievement in specified time frames.

OUTLOOK AND STRATEGIC FOCUS

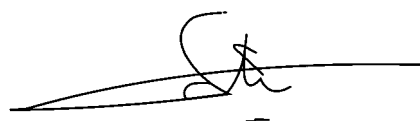
The slow turnaround in manufacturing and continued recovery in the mining sector should assist in improving volumes in 2010. However, a strong local currency could pressurise margins and dampen this improvement.

Delivery and consolidation will be the focus in the next financial year. Specifically, the Group will aim to:

- ramp-up strategic capital projects;
- grow volumes to support the delivery of these projects;
- maintain working capital ratios in a range between 16% and 18%, thus preserving cash;
- enhance its sales focus on opportunities outside South Africa; and
- curtail business risks in a volatile trading environment.

The successful execution of the above should facilitate the delivery of an improved financial performance in 2010.

I would like to thank all our shareholders, employees, business partners and other stakeholders for their continued support. I would also like to express my appreciation to AECI's management for their sustained efforts and to my colleagues on the Board for their wise counsel.



Fani Titi

Chairman
Woodmead, Sandton

30 March 2010