





THE BOARD REQUESTED THAT MANAGEMENT “PROGRESS KEY PROJECTS, WHILE CAREFULLY REVIEWING ALL OTHER CAPITAL EXPENDITURE”. 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.

REVIEW OF OPERATIONS: AEL MINING SERVICES EXECUTIVE TEAM

1 TOBIE LOUW (47)

Managing director and a member of AECI's Executive Committee. See page 21.

2 LIESEL DE VILLIERS (45)

Liesel is the executive director responsible for AEL Southern Africa. She joined the company in 1987 as an engineer-in-training and gained experience in the areas of engineering, IT, supply chain and strategic planning before joining the marketing function and taking up the position of business director in 2005. Liesel also has a BCom degree in economics.

3 WAYNE DU CHENNE (45)

Wayne is executive director – Global Business Services, tasked with establishing and deploying a world class service portfolio across a range of AEL activities. Wayne joined AEL in 1993 as a technical representative and was appointed an explosives engineer in 1995. He played a key role in developing the value-added blasting concept and served as project manager in this area. In 2003, he was appointed managing director: Central Africa, responsible for AEL's businesses in Zambia and the DRC. He took up his current position in 2008. He has completed an MBA degree.



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4 RAFAEL FERNANDES (38)

Rafael was appointed AEL's financial controller in 2007 and financial director in 2008. He is responsible for AEL's company finance and IT functions. He is a registered chartered accountant and joined the company in 1996 as financial manager of a wholly-owned subsidiary. Rafael moved to AEL's head office as finance manager and, thereafter, became business accountant. He left in 2001, returning to AEL two years later and continued to provide financial and management support to sales and marketing business units.

5 CYRIL GAMEDE (46)

Cyril joined AEL in 2002 and is executive director of operations. He has an MSc (Eng) degree, an MBA and a qualification in labour law. Cyril's background and experience are in engineering, projects, operations and industrial relations. He has also worked in the FMCG and infrastructure industries.

6 PIET HALLIDAY (57)

Piet joined the company in 1980 after completing a PhD degree in the synthesis of high energy sensitisers for explosives. As executive group director – technology, he has overall responsibility for the technical aspects of AEL's products worldwide. Piet was recently awarded the prestigious International Society of Explosives Engineers' President's Award in recognition of his contribution to the Society and his profession.

7 STUART WADE (52)

Stuart is executive director – AEL Africa. He started his career in the mining industry and joined AEL in 1984. He worked in several senior positions, including managing an independent subsidiary, before taking on his current role in 2000 and being appointed to AEL's executive committee in 2008. As the executive responsible for the Africa business, Stuart has a portfolio of chairmanships and is tasked with directing strategic growth initiatives in Africa.

8 COLIN WILSON (47)

Colin is executive director - AEL International. He joined the company in 1983 as an engineer-in-training and subsequently gained additional experience in explosives manufacture, research, surface and underground mining operations and business management. Colin was appointed to his current position in July 2009 and is responsible for AEL's international growth strategy outside of the African continent.



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REVIEW OF OPERATIONS: AEL MINING SERVICES



AEL Mining Services (AEL) 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 other chosen markets. In terms of its size and technological capability, AEL is a top five player in the global explosives market. The company comprises 16 businesses in three main business groups, namely Southern Africa, Africa and International. AEL was relaunched as AEL Mining Services, with an updated corporate identity, in February 2010 as part of its targeted international positioning.

The businesses are as follows:

- **AEL Southern Africa:** Coal; Gold and Uranium; Industrial Explosives and Industrial Nitrates; Open Pit and Massive; Platinum and Chrome; Quarry Services;
 - **AEL Africa:** Africa Development; Botswana; Central Africa; East Africa; West Africa; Zimbabwe and Mozambique;
 - **AEL International:** Asia Pacific; International Development; and Latin America Channels.
- grow the Africa business through improved asset productivity and footprint expansion;
 - grow AEL International in selected markets with footprint expansion in Asia Pacific and select partnerships with leading regional players in Europe and South America; and
 - continually improve the group's business platform to facilitate and enable enhanced value and growth.

Each of the 16 businesses has a specific market focus and delivers consistently high levels of fragmentation solutions from a common business platform comprising Global Business Services, Central Operations, Research and Development, and Financial and Information Services.

Global Business Services concentrates on the extensive and complex service needs of all 16 businesses; Central Operations includes the large nitrates and initiating systems complexes at Modderfontein; and Research and Development is tasked with providing ongoing technology and product innovation aligned with AEL's three key customer commitments of mining optimisation, mining safety and security of supply.

AEL's strategy is to:

- enhance the value of the Southern Africa business through improved mining optimisation, safety and innovation offerings to customers in the region;

BUSINESS ENVIRONMENT

A slow recovery from the global commodity crisis late in 2008 became evident in the second half of 2009 but remained commodity-specific. Cutbacks and mothballing in the mining sector slowed as the year progressed and sectors such as surface gold and coal, most notably in Indonesia, Southern Africa and West Africa continued steadily throughout the year. Copper, diamond and platinum mining remained generally suppressed and the slow decline in volumes in the South African narrow reef gold sector continued, exacerbated by safety-related mine closures and notwithstanding greater stability in electricity supply.

The cost of some key input products decreased, most notably ammonia and fuel. Global ammonia prices dropped sharply due to demand and supply corrections as well as the more than 20% strengthening of the rand against the US dollar.



Providing service solutions at KPC, in Indonesia.



Aerial view of ISAP, at Modderfontein.

FINANCIAL PERFORMANCE

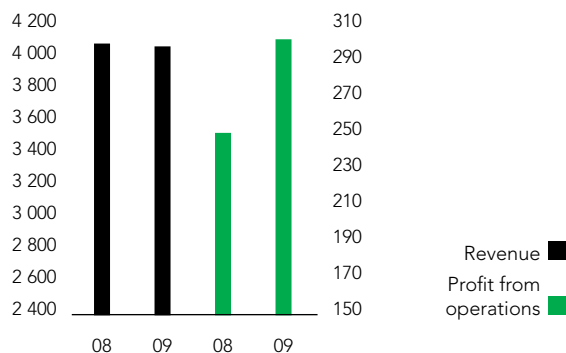
AEL's business restructuring and customer focus programmes initiated in 2008 yielded pleasing results. The business was able to cope well under challenging conditions, working even more closely with customers and responding rapidly to changes in their needs in a volatile business environment.

Costs were cut where appropriate whilst investment in growth and strategic positioning programmes was maintained. The creation, in 2008, of 16 highly responsive, customer-focused businesses with well defined parameters, well supported by services units, enabled AEL to execute streamlining and growth initiatives simultaneously across many of its commodity sectors in the 23 countries in which it operates.

The shift from merely supplying customers with product to providing them with a more comprehensive, performance-enhancing services package gained momentum as customers increasingly recognised the positive impact on mining optimisation of such services. This, coupled with selected price shifts in low value contracts and various product mix changes, contributed to profit growth.

Profit from operations increased by 20% on 2008's R248 million to R298 million, even though volumes softened overall and revenue year-on-year remained essentially unchanged at R4 070 million (2008: R4 079 million). Sales revenues in 2008 were inflated due to a temporary spike in ammonia costs which increased market prices.

Financial performance: AEL Mining Services (Rm)



As expected, and in line with specific market recoveries, AEL's performance in the second half-year was significantly better than that in the first. The annual operating margin at 7,3% improved from 6,1% the previous year and will continue to improve as the capital investment cycle runs its course.

Working capital was well managed. Inventory and debtor levels decreased significantly from the mid-crisis peaks of 2008. Neither significant debtor nor inventory write-offs were required, despite an increase in provisions in 2008.

Company cash flows also improved in the year.

Net capital expenditure was R439 million, which included the deployment of a large on-site plant and operation with an investment of over US\$15 million at Kaltim Prima Coal (KPC), a new customer in Indonesia. Another R170 million was spent on the Initiating Systems Automation Programme (ISAP) shocktube complex at Modderfontein, bringing total spend to date on this project to R570 million.

ISAP was fully installed by end-2009. In 2010 the focus will be on ramping-up individual plants to targeted output levels.

SOUTHERN AFRICA BUSINESS

Continued pressure on narrow reef gold volumes was countered by coal mining to an extent, whilst platinum and diamond volumes remained depressed for most of the year. Specific areas in the Southern African business performed well, however. In addition, long-term contract renewals on industrial ammonium nitrate sales to non-mining and construction customers lifted prices off a very low base. The year was characterised by excellent customer liaison to assist customers in coping with the commodity crisis in the first part of 2009.

The shocktube conversion programme continued, with an additional 18 million holes a year converted to the safer shocktube system from fuse igniter cord. The conversion programme is 85% complete and will be concluded in 2010. The new ISAP product performed well and was well received by the market.

A number of other initiatives were undertaken to improve business performance, including a change in packaged explosives products and sourcing.

AFRICA BUSINESS

The Africa business recorded a fair performance, despite diamond and copper volumes being severely depressed in the first half of the year. Good sales in surface gold and an improved recovery in copper positions in Central Africa aided. Diamond volumes remained low throughout the year with a recovery expected later in 2010.

A number of key contracts were renewed and the new packaged explosives plant in Zambia came on line with excellent product quality, output rates and very low waste levels. It is well positioned for increased regional demand.

The Africa business team took a broader view regarding mine closures and mothballing, working closely with customers to ensure rapid start-up post-crisis. This proved to be highly effective as volumes began their recovery.

INTERNATIONAL BUSINESS

AEL continued to build its capability to establish businesses in selected target markets outside of Africa whilst maintaining a cautious approach to growth.

Four tenders at coal mines in Indonesia were awarded to AEL, the largest being to supply 50% of KPC's annual explosives and related services requirements. On-mine operations at KPC were deployed in a highly effective and efficient manner, with all start-up targets being met when the supply contract took effect in October.

Indonesian sales volumes are now significant and volume targets for the last months of 2009 were met. Further volume growth from these operations is expected in 2010.

Other international opportunities were developed further, most notably in the sale of shocktube products to selected channel partners in Europe and South America. The development of the ISAP shocktube complex and related products and know-how are expected to impact positively on sales initiatives abroad.

Regional channel partnerships for an extended range of products and technologies are being shaped, most notably in underground bulk systems and electronic initiators.

DETNET

DetNet's products have proved to be reliable, effective and highly competitive globally. The DetNet technology platform, and DetNet as a technology development and support entity, is well respected. In 2009 the joint venture partners, AEL Mining Services and Dyno Nobel, assumed all sales responsibilities to enhance the global footprint of DetNet's electronic systems.

The DetNet JV entity's capability as a product and systems development and support centre was also aligned further to enable the JV to retain its global leadership position in this arena in an ever-evolving mining industry.

SUPPORT SERVICE UNITS

AEL's ability to deal with rapid and significant market changes was a credit not only to the business teams but equally the result of the capability of the service units within the company. The deployment of the KPC plant in Indonesia in less than three months, with no recordable injury, was due primarily to the execution capability of the Global Services unit.

Central Operations at Modderfontein continued to cope with ammonium nitrate supply issues and new ISAP plant installations amid the large-scale market conversion to shocktube initiating systems. The research and development unit further progressed ISAP-related leading technology and product development whilst working on broader new generation solutions.

Risk was a central theme in 2009 and leadership from the finance, IT and legal functions ensured effective management thereof.

MAJOR PROJECTS

Major projects in 2009 included the final installation of all new plants for the ISAP shocktube complex. The plastic shocktubing plant in ISAP is complete and running at high efficiency levels. The second and final detonator plant was installed and commissioned, and has produced for trial purposes. The first plant has produced over 65 million detonators, 280 million metres of tubing, 1,8 million auto-assembled units and is being ramped-up further. ISAP's final stage high speed assembly plant progressed; the second robotic assembly unit was also completed and is in production. The focus in 2010 will be on ramping-up all plants and on extending the product range.

A number of other capital projects were also completed, ranging from various plant upgrades, the in-house design and manufacture of five world-first, leading technology mobile manufacturing units deployed at KPC, remote bulk plants, and emission reduction projects.

SAFETY, HEALTH AND ENVIRONMENT

The positive trend in safety and health performance noted in the second half of 2008 was sustained, with a reduction in the Total Recordable Injury Rate for employees from 0,75 in 2008 to 0,58 in 2009. There were no fatalities. Good progress was made in environmental programmes. A culture of care and respect for the environment was encouraged and developed further.

OUTLOOK

The recovery of most mining sectors to pre-crisis levels is expected through 2010 and into 2011. The recovery in copper should lead that in platinum, with diamonds taking the longest to reach firm volume levels. Surface gold is expected to remain steady whilst the South African narrow reef gold sector is expected to continue to focus on reversing current volume declines.

Rand strength will continue to affect AEL's profit performance, given its foreign revenue earnings, imported input costs and rand commodity prices which affect mining customers. It is anticipated that global ammonium nitrate consumption will begin a steady increase in 2010 and concern for ammonium nitrate-related shortages could return from 2011.

A recovery is forecast in sales of electronic detonator systems, used extensively in the diamond and platinum sectors.

AEL will maintain its close liaison with customers in 2010 to facilitate recovery. Effective execution of current strategies and projects will remain a central theme. Investment in operational capability, productivity and growth will continue but overall capital investment should start decreasing with the completion of the ISAP complex. As ISAP volumes ramp-up and old plants are shut, the additional cost of running both the new and old plants will reduce. Cash generation to reduce borrowings and to fund future growth projects will remain an imperative.

Bringing existing and future customers continued benefits in mining safety, mining optimisation and security of supply remains at the core of the company's business model. Delivery in terms of this model, with meticulous care, is the brand essence of AEL.

REVIEW OF OPERATIONS: CHEMICAL SERVICES LIMITED MANAGEMENT TEAM

1 FRANK BAKER (56)

Outgoing managing director and an executive director of AECI. See page 20.

2 MARK DYTOR (48)

Having joined Chemsolve as a sales representative in 1984, and after successfully managing two group companies, Mark was appointed to Chemsolve's executive committee in 1998 and subsequently to its board. He is Chemsolve's acting managing director. In addition to this and his portfolio of chairmanships, he has been tasked with the growth of Chemsolve's mining chemicals business. Within the AECI Group, he is a non-executive director of AEL.

3 OSCAR LORETI (46)

He joined Chemsolve as group technical manager in 2007 and his qualifications include a Masters degree in technology mechanical engineering. Oscar is responsible for driving the group's SHE management system, ensuring that technical standards are set and maintained, and ensuring that expansion projects are completed professionally. Before joining Chemsolve, he had gained experience in engineering-related activities in the steel industry.



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4 CHRIS KOTZE (44)

Chris joined Chemserve's quality assurance department in 1990. He was appointed to his current position as group information technology manager in 1998. His qualifications include a BSc degree and a diploma in Datametrics.

5 EDWIN LUDICK (45)

Edwin joined the Chemserve group as a human resources manager in 1991, was appointed to its executive committee in 2008 and to its board in January 2010. He is currently managing director of Chemserve Systems, having managed other group businesses prior to this. He has a BCom (Hons) degree.

6 JOHN MAHLASE (48)

He is Chemserve's group human resources manager and, formerly, its industrial relations manager. Before joining the group as a human resources consultant in 1997, John had gained extensive experience in the discipline. He has an Honours degree in industrial psychology as well as an Advanced Diploma in labour law.

7 CHRIS POVALL (52)

Chris joined the company 12 years ago as financial manager and was appointed to Chemserve's executive committee and board as financial director in 2006. Prior to his Chemserve career, he had gained experience in the auditing field and had been financial director of a major media company. Chris has a BCom degree and is a qualified chartered accountant.

8 SCHALK VENTER (43)

With a qualification in analytical chemistry, Schalk joined Chemserve Systems in 1991 as a sales representative. He was appointed managing director of this subsidiary in 1997 and moved to AECI Coatings in the same capacity in 2001. He was appointed to the Chemserve executive committee in 2005 and to its board in 2007. He is currently managing director of Akulu Marchon.



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REVIEW OF OPERATIONS: CHEMICAL SERVICES LIMITED

CHEMSERVE

Chemical Services Limited (Chemserve) is the specialty chemicals arm of AECI and manages a portfolio of 20 businesses, each focused on specific markets with common values of innovative customer service and bottom line delivery. Historically, the Chemserve group has grown by acquisition and by organic growth. In 2009 Chemserve mechanically completed the major capital investment programme which commenced in 2007.

Each Chemserve business aspires to be the supplier of choice for customers in its markets, supported by the best technology available, a carefully designed service package, and with the lowest possible cost base. Technology is sourced from international partners and is also developed in-house. Full service package business models provide customers with innovative solutions to their chemistry-driven requirements and differentiate Chemserve from competitors in terms of skills, competencies and value-add for their customers.

Chemserve's strategy is to:

- expand its mining chemicals product and service offering in South Africa, the rest of Africa, and in other geographical areas where the full service model is valued and the mining profile fits the company's capabilities. Senmin, Chemical Initiatives (CI) and ImproChem are driving this strategic thrust;
- expand its water-, oil-, gas- and energy-related product and service offering from Southern Africa to the rest of Africa, and to other geographical areas where the full service model is valued. ImproChem will be the vehicle for the push out of Southern Africa;
- explore the opportunities for sales of specialist products and services offered by the global focus on food production and preservation, and agriculture;
- grow its joint venture business in Brazil, based on oleochemical expertise it shares with its partner, move into other sectors where the partnership has appropriate expertise, and seek other appropriate investment opportunities;

- manage and grow its South African portfolio; and
- expand businesses in its portfolio into Africa, and into other territories where suitable markets exist.

BUSINESS ENVIRONMENT

The start to 2009 was particularly difficult with mines closed or on reduced rates and large manufacturing operations and paper mills on short time or care and maintenance. In the year to October, South African volumes were down 13% overall in manufacturing where capacity utilisation dropped to 79%. The food and beverage sector grew by 2%. General manufacturing declined by 13%, motor vehicles production by 36%, paper and paper products by 13%, petroleum, chemicals and plastics by 10%, and the value of building plans passed fell by 21% (40% from 2007's peak). Mining production volumes dropped 7% from 2008's levels, and 15% from the peak in 2007.

The rand started the year weak at R/US\$9,37, weakened further, and then strengthened, closing the year at R/US\$7,37. This caused additional net realisable value write-downs of inventory and uncovered export debtors. Fortunately the oil price increased early in 2009 and remained firm, keeping base chemical prices up despite a worldwide reduction in demand.

PERFORMANCE

The slowdown in performance experienced by Chemserve in the first half-year continued into the second six months, exacerbated by the currency strength and worsened by a bad debt with a Zambian sulphur distributor which came to light in the latter part of 2009.



Fractionation column at Resitec, in Brazil.



Carbon disulphide plant, at Senmin.

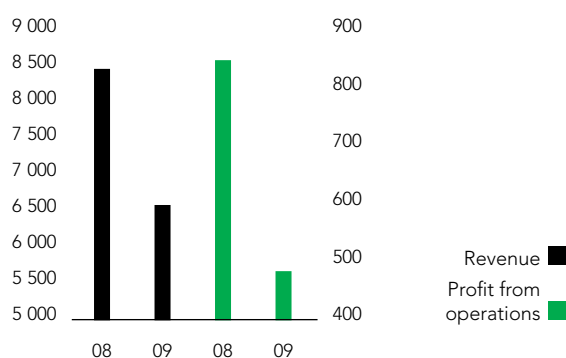
Revenue decreased by 23% to R6 524 million (2008: R8 434 million) and trading profit decreased by 43% to R483 million (2008: R851 million), after provision for the bad debt of R163 million and restructuring costs of R39 million. The trading margin decreased to 7,4% from 10,1% in 2008 (10,5% if the bad debt and restructuring costs are excluded) on volumes which were 27% lower than in the previous year.

Prices held firm for the first half of the year but came under pressure in the second half. Nonetheless, overall prices increased by 5,6%. Given the business environment in 2009, with the mining and manufacturing sectors severely affected by the global economic crisis, Chemserve's businesses did well to limit the decrease in trading profit on dramatically reduced volumes.

On the positive side, significant growth was achieved by Chemserve Perlite (Perlite), Crest Chemicals (Crest), Industrial Oleochemical Products (IOP), Lake International (Lake) and Specialty Minerals SA (SMSA).

Perlite recorded good sales into the glucose and wine industry. Crest maintained its effective distribution model and benefited from the integration of CH Chemicals. IOP enjoyed high demand for phosphate recovery reagents and its plant ran at reasonable rates. Lake benefited from modest growth in the food and beverage industry, the acquisition of Cobito which outperformed expectations, and the pull through of demand from AEL. SMSA's low cost base, good purchasing and high efficiencies resulted in a good performance despite the volume decline in the paper industry.

Financial performance: Chemical Services Limited (Rm)



Chemfit's performance was robust, matching its 2008 earnings despite lower volumes, and considerable efforts to reduce costs and improve margins yielded results. Senmin maintained its revenue and profitability despite the considerable drop in volumes in the first quarter, pressure in the mining industry to reduce chemical consumption, and pricing challenges due to the strong currency and falling commodity prices.

Akulu Marchon (Akulu), Chemsolve Systems (Systems), Chemiphos, ImproChem, Plaaskem, Resinkem and SA Paper Chemicals (SAPCO) were all affected by lower demand from customers and considerable price pressures aggravated by the rand strength.

Akulu noted improved conditions in the last quarter. ImproChem controlled costs and retained market share but volumes, especially toll volumes, dropped significantly and the strong rand impacted on margins and foreign earnings. Resinkem's very low cost base and high efficiencies assisted the business through a period of reduced prices and volumes which were lower, in line with the chipboard industry's performance. SAPCO had to contend with reduced volumes due to mill shutdowns and commercial down time, pricing pressures from a strong rand and global purchasing arrangements, and the disruption caused by the BASF purchase of Ciba.

Simitri, which serves the leather industry, was divisionalised into SAPCO to reduce its overhead costs and its production facility was closed. Leather volumes locally were negatively impacted by the reduction in automotive upholstery demand.

Resitec had a mixed year with a very strong Brazilian real, but demand returned from the synthetic rubber industry in the last quarter to provide a base load with improved prices. The fractionation column looks promising now that operational issues affecting product quality are being resolved. The business has written-down inventory and impaired assets relating to a discontinued food business.

Particularly hard hit in the year were Plastamid and Duco Speciality Coatings (Duco), both of which are exposed to the automotive and railway industries. Industrial Urethanes was also severely affected, owing to demand from the white goods market being at its lowest in many years. Plastamid was impacted further by the loss of SANS Fibres' textile fibre waste which was a very important low cost raw material for its in-house products. Plastamid has been restructured to eliminate as much cost as possible and Duco has been re-engineered to become a logistics and services company with no in-house manufacturing. The company's Struandale site, in Port Elizabeth, has been sold.

CHEMSERVE'S BUSINESSES

Akulu Marchon	supplier of raw materials to the cosmetics, toiletry and detergent industries.
Chemical Initiatives	manufacturer and supplier of sulphur-based chemicals and services to sectors such as agriculture, mining, paper and packaging.
Chemfit	supplies traded and blended specialty chemicals to a wide range of industries, including water treatment, food, detergents, plastics, coatings, adhesives and sealants.
Chemiphos	manufactures poly-phosphoric acid (for catalyst manufacturers) and ortho-phosphoric acid (for, inter alia, beverage manufacturers); trades in pigments, nutraceuticals and construction chemicals.
Chemsolve Perlite	manufactures and markets products derived from the mineral perlite. Customers are in sectors such as agriculture, food and beverages, mining, electroplating, industrial oils and construction.
Chemsolve Systems	serves a diversified customer base in PVC stabilisers, electroplating, specialised lubricants, foundry resins, silicone-based products, industrial cleaning, non-destructive testing, fire protection, marine, metal conversion, coatings and polymer conversion.
Crest Chemicals	imports and supplies ex-stock a wide range of chemicals to all major industries including paint and coatings, oil and gas, food and beverages, pharmaceutical and personal care.
Duco Speciality Coatings	the leading supplier of high technology paint finishes to the South African automotive OEM and refinish markets.
Dusseck Campbell	manufactures and distributes cable saturants, cable filling compounds and accessory products to power and telecommunication cable manufacturers.
ImproChem	provides energy solutions, water treatment, water optimisation and total water management to industry and water authorities in Southern Africa.

DEBT WRITE-OFF

CI exported large quantities of raw sulphur to a distributor in Zambia in 2008, at the peak of the commodity boom. The sulphur sold to the distributor was procured by mines in the copper belt region.

During the latter part of 2008 the price of sulphur declined rapidly and severely. Despite this, the customer continued to make regular payments during the first half of 2009. In the latter part of the year, however, it became apparent to management that the balance of the receivable outstanding could not be recovered from the distributor.

Accordingly, management has provided R125 million in respect of the probable bad debt and has further processed adjustments in respect of pricing adjustments, foreign exchange revaluations and net realisable inventory adjustments of R38 million.

COSTS, MARGINS AND GROWTH

All businesses, including those which performed well in 2009, reduced their costs by reviewing expenditure and by bottom slicing to reduce the effort and resources allocated to less profitable products and markets. The focus on maintaining and improving margins resulted in better purchasing, inventory management and pricing.

Growth was difficult to achieve outside of the acquisitions, but most Chemserve businesses held their market share or improved it as a consequence of maintaining and enhancing service levels.

CASH

It was most pleasing that strict working capital management released over R1 billion in cash.

STRATEGY IMPLEMENTATION

Chemserve has made substantial investments in mining chemicals production capacity to service local and international markets, and on infrastructure at mines to supply the services required. Senmin has built an impressive team of qualified and experienced people to meet the mining industry's needs, including team members based at mining extraction sites. A mining chemicals strategy update follows in this operational review.

ImproChem is no longer restricted geographically by technology agreements and is engaged in expanding its operations beyond Southern Africa. This business will be the main vehicle for implementing Chemserve's water, oil, gas and energy strategy.

CHEMSERVE'S BUSINESSES

Industrial Oleochemical Products	produces fatty acid derivatives and related products, as well as alkyd resins. Customers are in mining, chemicals, coatings, inks and adhesives, and plastics and rubber.
Industrial Urethanes	manufactures and supplies polyurethane raw materials and blended systems. Products are applied in the automotive, mining, white goods, construction, footwear, furniture and other industries.
Lake International Technologies	manufacturer and distributor of products and services for explosives, fertilizers, food ingredients, coatings, and general chemicals.
Plaaskem	manufactures and distributes specialised agricultural chemical products, including insecticides, fungicides, herbicides, plant nutrition and fertigation products.
Plastamid	compounds and distributes engineering polymers and technical compounds for the South African and selected export plastic conversion markets.
Resinkem	manufactures and markets urea formaldehyde resins, formaldehyde solutions, urea, and resins for the board, timber, paper, animal feed and foundry industries.
Resitec (in Brazil)	an international manufacturer and supplier of emulsifiers for synthetic rubber production. It also supplies fatty acid esters for the food industry and has restructured its business to be more market-orientated with the introduction of new food ingredient, lubricant, adhesive, construction, surfacing and coating, mining, rubber processing and printing divisions.
SA Paper Chemicals	a leading supplier of chemicals to the South African pulp, paper and board industries.
Senmin	manufactures and markets purpose chemicals for the froth flotation and tailings treatment segments of the mining sector.
Specialty Minerals SA	produces precipitated calcium carbonate products used primarily as hi-tech, value-added filler and coating materials in paper production.

Through Lake and Plaaskem, in particular, Chemsolve is exploring medium-term opportunities in the food and agricultural chemicals markets in order to focus on the most promising areas.

In Brazil, the focus will be on commercialising Resitec's expanded oleochemical facilities that were brought on line in 2009. Acquisition opportunities have started to reappear in Brazil and will receive attention in 2010.

Two very successful acquisitions were made in 2009: 80% of the shares in Cobito, which services the poultry industry, were purchased. The business was integrated into Lake and the business of CH Chemicals was bought and integrated into Crest. Both acquisitions are operating well.

More Chemsolve companies are expanding their footprints in Africa. As expected, the lead has been taken by the businesses involved in mining chemicals and water treatment, but others are also identifying opportunities.

MINING CHEMICALS STRATEGY UPDATE

The global economic crisis had a major negative impact on the mining industry in 2009, especially in the first half when diamond and copper mines in Southern Africa ceased operations abruptly. Closures, care and maintenance programmes and chemical cuts had a significant impact on volumes sold into this sector. In addition commodity chemical prices fell to record lows. Chemsolve's sales to the mining sector were R1 679 million, 35% less than comparative 2008 sales revenues.

The sulphur trading business was hard hit, with sales into the mining sector at R184 million compared to almost R1 200 million in 2008. The outlook for 2010 is optimistic with copper and diamond mines re-opening and commodity prices strengthening. Some large capital projects are coming on line and these are expected to have a significant impact on volumes and margins over the next 12 months.

The continued focus on mining chemicals is critical to Chemsolve's long-term growth. The group's vendor service model is unique and innovative and its value at mines in South Africa and Africa continues to gain acceptance. Akulu, CI, ImproChem, IOP, Senmin and Systems provide customers with tailored account management solutions which include on-site production and process management, dosing control, storage, logistics, maintenance, training and environmental compliance. Together with proven expertise in ore beneficiation, this model has resulted in improved yields, more effective use of scarce water resources and the streamlined use of systems that improve customers' profits.

Offices and storage facilities have been opened in Botswana, Kenya, Mozambique and Zambia and new facilities are planned for Namibia and Tanzania later in 2010. As Chemsolve's new production facilities ramp-up production, opportunities are being explored for exports to regions in Australasia and South America.

As mining projects in Southern and Central Africa come on line, opportunities in these territories will continue to be pursued.

CAPITAL PROGRAMME

By the end of 2009, Chemsolve's R1 200 million major capital programme was drawing to an end. Projects included a fractionation plant at Resitec, Akulu's sulphonation plant, additional capacity for Senmin's guar plant, and Senmin's pelletised xanthate plant, carbon disulphide (CS₂) plant and its acrylamide and polyacrylamide plants.

All projects are mechanically complete and commissioned with the exception of the acrylamide and polyacrylamide plants. Their three-stage commissioning process commenced in January 2010 and will be concluded in the second quarter.

Resitec's fractionation plant experienced some quality issues which are being resolved with the assistance of IOP and MeadWestvaco, the joint venture partner in Resitec. The plant is operating well at current market rates.

The guar plant runs well and has capacity to meet growing demand in Southern Africa. The xanthate reactors have been commissioned and are operating at design capacity. Production of pelletised product is being hampered by performance of a dryer downstream of the reactors. The resolution of this issue is receiving focused attention. The CS₂ plant has been run at design capacity. This project will have a significant impact on Senmin's profitability due to its considerably reduced cost base compared to that of the old plant and imports.

SAFETY

Chemserve achieved its safety targets, with a Total Recordable Injury Rate (TRIR) for employees of 0,96. This reflects the continued focus by executive and senior management on safety systems, structures and training. Most importantly, there is increased safety awareness among employees and a commitment from them to take responsibility for their own and others' safety.

The focus on safety will continue in 2010 and will be steered by the outcome of a safety attitude survey among 1 500 employees.

OUTLOOK

The outlook for 2010 and beyond is underpinned by the strength of the rand, the recovery of the South African economy, and the resurgence of the African mining industry which seems well underway.

The capital programme, which has required considerable resource for two years, is close to completion and all indications are that the markets served by the investments in oleochemicals, surfactants and mining have recovered sufficiently to load the plants adequately.

Akulu, Resitec and Senmin will focus on growth on the back of their new capacities and improved efficiencies. The other Chemserve companies have trimmed costs and shed unprofitable business in 2009, and they are well set up to take advantage of any upturn.

REVIEW OF OPERATIONS: HEARTLAND EXECUTIVE TEAM

1 ANTHONY DIEPENBROEK (53)

Managing director and a member of AECI's Executive Committee. See page 21.

2 REG BHIKUM (50)

With the consolidation of AECI's property activities into a single entity, Reg was appointed managing director of operation services at the end of 2009. Since joining AECI in 1981, Reg has held positions in administration, sales, logistics and management. Prior to taking up his current portfolio, he was managing director of Heartland Leasing. Reg is a BCom graduate, has a diploma in Datametrics and has completed the University of Cape Town's Executive Management Programme.

3 NEIL HAYES (31)

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

4 LETICIA POTTS (34)

Leticia was appointed national development director in 2008. She joined the AECI Group as a civil planner in 1997 and moved to Heartland as a project planner in 2000. Leticia has completed an MSc degree in real estate.



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5 JACO STRYDOM (32)

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

6 NICK TSOUROS (45)

Nick was appointed leasing director of Heartland Leasing in 2005. He retains this position in the consolidated Heartland. Nick joined AECL as an apprentice in 1984 and subsequently worked in engineering, contracts, procurement and supply. He moved to Heartland in 2000 as procurement manager and became increasingly involved in leasing activities.

7 MIKE WALSH (41)

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



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REVIEW OF OPERATIONS: HEARTLAND



AECI's property activities have been restructured so that they are all managed through one entity which comprises three components: land development, property investment and facilities management.

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

The **property investment** activities relate to letting 342 000m² of available space and managing about 500 tenants. The vision is to define the portfolio into investment-grade buildings and opportunities for redevelopment, with the objective of achieving a critical mass for the portfolio.

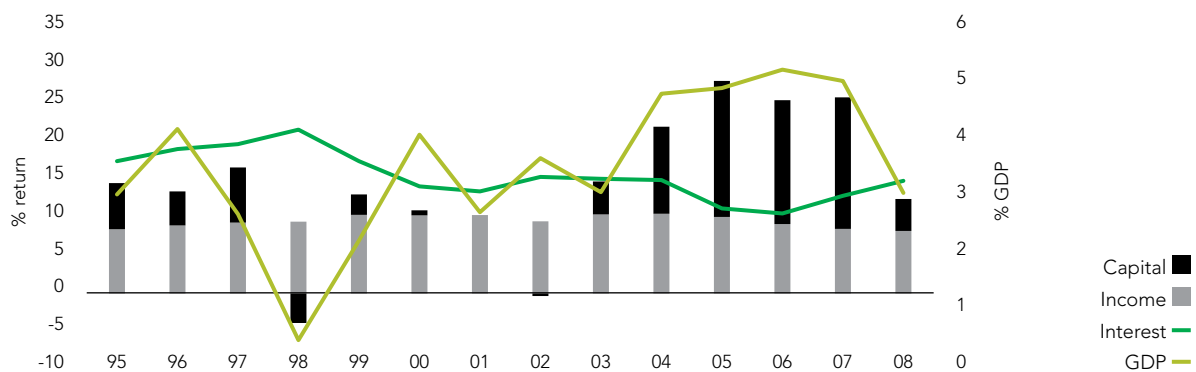
Facilities management activities relate to the provision of a range of services to mainly chemical-based manufacturers at the AECI-owned Umbogintwini Industrial Complex (UIC), south of Durban.

MARKET CONDITIONS

The year provided many challenges for the South African property industry in general and for Heartland in particular. Independent research shows that the average annual total return from real estate over the last 40 years has been 14%, with total return being the sum of income return and capital growth. The investment property database (IPD), which comprises property investment data collated from participating property portfolios valued at some R80 billion, indicates that total returns from 2004 to 2007 were in excess of 22%. By the end of 2008, total returns had declined to about 12% – a level last seen in 2002 as shown in the graph below. The trend did not reverse in 2009.

During the same 2004 to 2007 period new rental stock, where construction had commenced prior to the market decline, came onto the market and created a surplus of lettable space.

Total IPD returns vs GDP growth



Sources: IPD and BER



Longmeadow Business Estate: well-located and easily accessible.



Aerial view: Longmeadow Business Estate.

Simultaneously, infrastructure and building costs increased by 60%. New development is difficult to finance while existing space remains vacant and the return from property is below the cost of capital.

Higher infrastructure costs and the scarcity of appropriately zoned land have resulted in an increase in the value of land of about 150%. Land input costs also impact on rental; rental rates are declining and vacancies are escalating both in South Africa and globally. A reversal of this is required to create any meaningful prospects of another property boom.

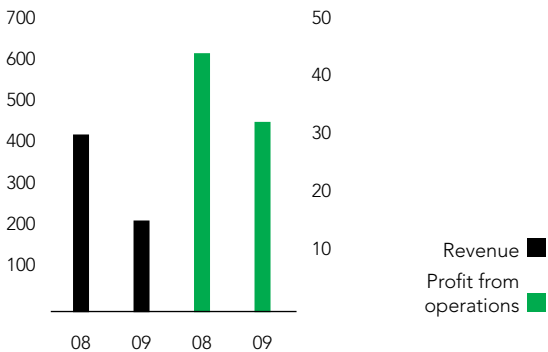
PERFORMANCE

Revenue for the combined property activities for the year was R211 million (2008: R432 million), net income was R33 million (2008: R45 million) and a trading cash outflow of R57 million was incurred.

The global financial crisis caused South African banks to re-evaluate their exposure to property risk. When assessing credit applications by developers, banks are seeking to reduce the development risk and, therefore, are applying rigorous credit criteria and are stringently enforcing pre-loan conditions where facilities are approved. These pre-loan conditions are a function of covenants to which potential tenants are prepared to commit and, in the prevailing economic conditions, tenants are re-evaluating the risks associated with commitments to lease agreements. Developers in turn are unable to satisfy the banks’ stipulated pre-loan conditions, resulting in credit facilities being withdrawn.

As a consequence of this environment, two transactions which had been recognised in 2008 were adversely affected and resulted in a profit reversal of R52 million in 2009.

Financial performance: Heartland (Rm)



Included in the trading cash flow is R86 million spent on infrastructure development. A large portion of this was invested in three bulk infrastructure projects, in line with Heartland's strategy of creating a sustainable pipeline of land available for sale and development.

These projects included the London Link Road construction and the Westfield substation upgrade, at Modderfontein, and the Helderberg Coastal Sewer construction in association with the City of Cape Town, at Somerset West. R13 million was spent on remediation and environmental projects.

FULFILLING A GROUP ROLE

In line with the AECI Group's objectives for 2009, Heartland focused aggressively on working capital management.

Specifically:

CONTROLLING TOWN PLANNING

The conversion of a portion of agricultural land to a proclaimed, serviced and zoned township stand is the essence of Heartland's business. This requires the identification of the quantum and sequence of land to be planned as well as its zoning. The process is a function of supply and demand and the cost of services. Heartland aims to plan the correct portions of land and to service them for sale on a just-in-time basis. In addition, compliance with the National Environmental Management Act, No. 107 of 1998, is a critical success factor in the conversion process. The challenge in 2009 was implementing rigid controls on a process that typically takes in excess of three years.

A Gate Review process was established to formalise decision making at key intervals in the land development process. This review includes adherence to a system that improves understanding of the quantum of capital exposure and its measurement. The greatest expenditure in township development is infrastructure installation. The Gate Review has enabled Heartland to adopt a more flexible yet disciplined planning regime. It has also allowed planning to proceed or be stopped at any key interval. In this way, the town planning approval process can be delayed for a period without incurring expenditure on infrastructure. Gate Reviews are conducted regularly and are now standard practice in the business.

CONTROLLING INFRASTRUCTURE DESIGN

Bulk infrastructure design includes identifying input costs and designing to local authority standards. Most often, the local authority provides bulk infrastructure services and receives bulk services contributions from developers as part of the granting of land use rights.

Since the objectives of local authorities and those of Heartland sometimes differ, and given the lack of capacity in some local authority structures, it has always been in Heartland's interest to install services and offset their cost against bulk service obligations. This gives the business an advantage in terms of the allocation and timing of expenditure.

The company has established a track record in terms of its ability to deliver bulk services consistently and to the standards required. Capital costs are managed aggressively to achieve maximum efficiencies in terms of land use rights received per rand of infrastructure spend.

Failure to meet project timelines is a major reason for capital over-runs. Although the business has succeeded in controlling services installation costs, it has been less successful in controlling timelines for project approvals by metropolitan authorities and obtaining timely decisions on environmental approvals from provincial authorities. Fortunately, these delays did not result in financial loss, owing to prevailing market conditions, but could become a real risk in a more buoyant environment. To offset this risk Heartland is building up an inventory of zoned land which will be ready for sale when market conditions improve.

From the second quarter of 2010, continuous real time communication of Heartland's development intentions for its entire landholding will become available to all interested and affected parties via the Heartland website (www.heartland.co.za) and an exhibition centre at Modderfontein, Gauteng.

CONTROLLING THE TIMING OF REVENUE WITH INFRASTRUCTURE COST

The immediate benefit of having implemented a formal Gate Review process is that matching revenue from the sale of a portion of land with expenditure incurred in bringing it to a saleable state has become more predictable. It has also allowed land release to be planned further into the future without incurring excessive costs. The fact remains, however, that the sale of land is subject to the vagaries of the market and a small customer base. Accordingly, flexibility in planning will remain key.

REDEFINING THE PROPERTY STRATEGY

Research conducted by independent consultants in the year confirmed that unbundling Heartland in its current form and in current market conditions is not in the interests of AECl's shareholders. Typically, property companies concentrate primarily on revenue-producing assets and restrict their exposure to non-revenue producing land holdings. Only 20% of Heartland's assets consist of a revenue-producing property portfolio.

A cash purchaser is unlikely to be found and the criteria and implications of a non-cash transaction and the final price would be a critical issue.

Historically, Heartland's business plan focused primarily on township development and the systematic disposal of proclaimed and serviced parcels of undeveloped land to developers. This approach is fairly low risk but also yields low returns. Scope exists for the business to move further up the real estate value chain and to act as a developer for re-sale or for retention, or both, resulting in a business model more in line with that of development companies but with the advantage of already owning well located land, the holding cost of which is negligible.

Heartland has thus adopted a new vision as follows: to optimise the value of the property holdings surplus to AECl's operational requirements by selling land and by selectively investing in revenue-producing buildings in order to grow a portfolio of properties.

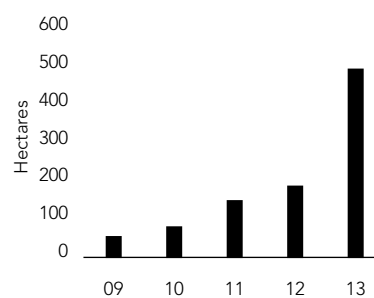
INVESTMENT IN TOP STRUCTURES

This will be done selectively to act as a catalyst for further land sales and should have the additional benefit of accelerating the rate of sales. At the same time, it will help to identify potential joint venture partners or merger opportunities with other portfolios to mutual advantage.

FILLING THE PIPELINE

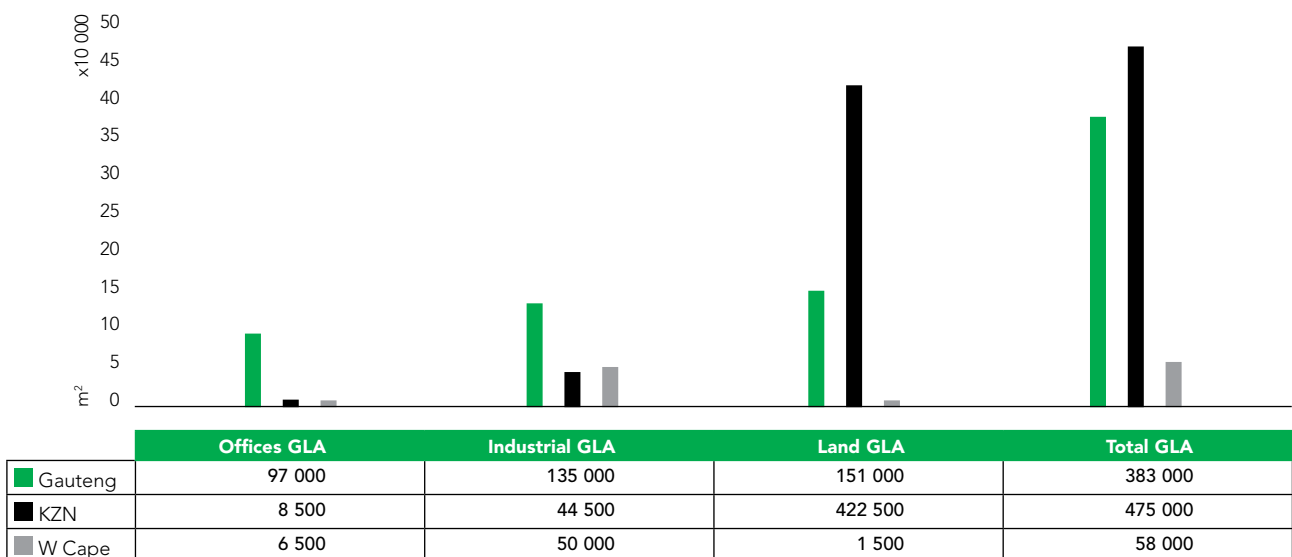
The table below indicates that a total of about 500 hectares of land will be made available for sale over the next few years, for residential, commercial and industrial uses.

Filling the pipeline (cumulative)

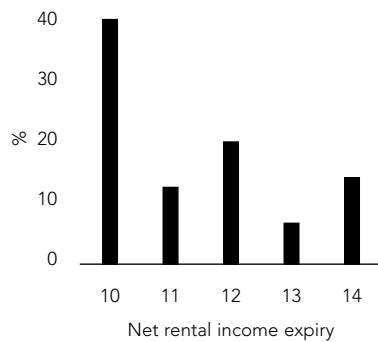


Prior to the economic crisis, Heartland sold all its available zoned serviced land and in 2009 it concentrated on strategic planning, or filling the pipeline of serviced and zoned land, in anticipation of the next property up cycle. In the year, 57 hectares of zoned land were prepared and made ready for sale.

Gross lettable area (GLA)



5 year lease expiry profile (%)



Regional monthly net rental income: occupied GLA



Regional monthly net rental income: vacancy loss



MAINTAINING AND ENHANCING THE PORTFOLIO'S REVENUE STREAM

The leasing component of the portfolio is in the following geographical areas:

- Modderfontein, in Gauteng, where tenants are involved in a broad range of mixed use activities. Among the advantages of Modderfontein are the site's excellent access control owing to its status as an Industrial National Key Point, and a reliable power supply. Leasing activities at Potchefstroom, Heartland's fourth site and located in the North West, are managed by the Modderfontein office;
- Somerset West, in the Western Cape, is a site suitable for tenants requiring commercial and light industrial space;
- Umbogintwini, in KwaZulu-Natal. This site is characterised by users in heavy industry and, like Modderfontein, it is an Industrial National Key Point with appropriate access control. Also like Modderfontein, the supply of power has experienced minimal interruptions. Tenants benefit further from the on-site provision of steam, water, effluent management, rail services and bulk electricity.

Rental income is generated from three sectors: offices, industrial and land. Net income of R62 million was achieved in 2009.

The lease expiry profile shown above illustrates that the mean length of leases is three years and, with annual lease escalations of between 8% and 10%, indicates stable income for that period with the opportunity to increase rentals as the market improves.

The graph above illustrates the regional monthly net rental achieved from the portfolio. It also indicates the opportunity cost of the space not let at average achieved rentals. The bulk of this space could be classified as unlettable without capital expenditure on refurbishment. This expenditure would only be incurred for a specific tenant requirement.

The portfolio of revenue-producing properties incurred minimal capital expenditure in 2009 and focused on maintaining occupancy levels in difficult market conditions, with small tenants being challenged by liquidations and insolvencies.

The office vacancy is mainly B and C Grade space (the South African Property Owners Association's classification for C grade is buildings that are 20 to 30 years old but are well-located and are generally in good condition although the finishes do not meet modern standards). Of this, 6 000m² in Gauteng was let in January 2010. Almost all of the remaining balance would require substantial capital expenditure and structural alterations to render it lettable in current market conditions.

Vacancies in the industrial portfolio are due to two main reasons: firstly, an 11 000m² portion of warehousing at Potchefstroom is currently unlettable owing to adjacent demolition activities; and secondly, at Modderfontein, an additional 5 000m² of space has been brought into the portfolio.

VALUATION

As part of a strategy to identify a consistent value for the entire property holding managed by Heartland, a valuation of the UIC was commissioned in 2009. The Valuation Division of Old Mutual Investment Group Property Investments determined a valuation of R461 million for the portfolio of buildings, inclusive of leased and vacant land. This valuation is conservative since it is based on the mainly short-term leases in place.

In July 2008, the same division of Old Mutual valued that portion of surplus AECI Group-owned property located at Modderfontein and Somerset West at R2,5 billion. With the completion of the UIC valuation, the total value of land at Modderfontein, Somerset West and Umbogintwini is R2,9 billion.

Utilities and services such as steam, water, electricity and effluent treatment are provided and controlled by Heartland's facilities management activities at the UIC. This allows the site's manufacturing companies to focus on their core businesses.

OUTLOOK

The current business environment is characterised by onerous lending conditions, an oversupply of rental space and risk-averse capital financing models. While this environment prevails Heartland is concentrating on filling the pipeline of land available for sale to developers and maintaining net income from its investment activities through tenant retention and strict debtor control. In this manner Heartland will be well placed to take advantage of any upturn in the property cycle.

REVIEW OF OPERATIONS: SANS TECHNICAL FIBERS MANAGEMENT TEAM

1 ZACH ZACHARIAS (50)

Zach is president of STF and has 29 years' experience in the fibers business. Previous roles have been in engineering project management, energy management, industrial engineering and international sales and marketing. Zach was business manager of the heavy denier fibre plants at SANS Fibres at Bellville before moving to the USA. In 2007, he joined the board of SANS Fibres as sales and marketing executive. Zach was chairman of the American Fiber Manufacturers Association in 2007. He has a BSc (Mech Eng) degree from the University of Cape Town.

2 TIM COLE (48)

Tim is operation manager of the Stoneville facility. Tim has extensive manufacturing experience in roles such as corporate environmental affairs manager, fiber plant engineering manager and as a director of engineering services at Unifi, formerly a partner in STF. Tim also spent seven years working in the area of polymer products. He has a BSc (Chem Eng) degree from Purdue University and is a Professional Engineer.



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3 KIM CRENSHAW (43)

Kim joined STF as chief financial officer in 2008, and has 23 years' experience in accounting in the primary manufacturing industry. Her qualifications include a BSc degree from the University of North Carolina and in terms of professional associations she is a Member of, among others, the American Institute of Certified Public Accountants.

4 JOHN NAGLE (60)

John is responsible for sales in North America and has a career of 39 years in the textile industry, starting as a dyehouse laboratory manager and then moving into the commercial arena as trade manager. John's responsibilities include ensuring that the demanding requirements of the North American technical fibers market are fully met, and introducing and implementing new developments.

5 SHARON SCHMID (47)

Sharon is STF's technology manager responsible for quality control and assurance as well as new process and product development. She joined the company in 2003 and her background is in nylon technical yarn production and polymer manufacture. Her qualifications include a BChE degree from the Georgia Institute of Technology and she has completed an MBA at the University of South Carolina.



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REVIEW OF OPERATIONS: SANS TECHNICAL FIBERS

STF

SANS Technical Fibers (STF) is a North Carolina-based nylon fiber manufacturer which serves the North American market with specialty yarn solutions. Following the closure of SANS Fibres at Bellville, Cape Town, STF is expanding its business to supply selected global markets with its specific range of products. The fibers are used in automotive end uses, including under-the-hood applications, in end-use fabrics including specific types of parachutes as well as in a wide range of industrial applications. STF is the global leader in nylon 66 sewing threads and is the main supplier of yarn to the largest international sewing thread producers.

The business' manufacturing facility in Stoneville, North Carolina, was commissioned in 2002 initially to serve the North American Free Trade Agreement region. Following the Bellville shutdown, STF transitioned selected global customers to US production.

STF's strategy is to:

- maintain its position as the largest and most diverse global supplier of nylon 66 sewing threads, setting the global benchmark;
- continue to specialise its offerings to the automotive industry;
- produce nylon 66 products fulfilling specific North American market needs;
- constantly reduce the cost of manufacture to provide customers with an ever-improving value proposition;
- grow the business and innovate products to meet customers' future needs; and
- provide the best in industry service levels to customers.

BUSINESS ENVIRONMENT

The US recession's effect on the automotive industry was particularly severe as the unit sales rate almost halved at the start of 2009. All suppliers to automotive manufacturers saw a severe reduction in demand as car companies depleted the inventory pipeline. Other industrial sales dropped, albeit to a lesser degree. The "cash for clunkers" programme introduced later in the year coincided with the bottoming out of inventory cycles and local US business revived to some degree. Increased exports gained momentum in the second half-year and helped STF run at good capacity utilisation rates.

Polymer raw material costs continued to increase in line with oil price trends. Because of depressed demand there was a surplus in light denier nylon 66 capacity, especially in Asia. This, combined with very high inventory levels at customers, made margin recovery a challenge. Towards year-end, supply and demand moved partially to a more balanced position.



Through an expansion project currently underway, STF's capacity will increase by 30%.



STF will continue its innovative approach to providing products that meet customers' needs.

FINANCIAL PERFORMANCE

Compared to 2008, sales volumes were down 12% and revenue decreased by 25%, a creditable performance in the context of a depressed global market. STF increased its market share in these most unfavourable conditions. Overall, North American sales volumes declined by 20% with automotive and industrial markets faring worse than others. Increased exports in the second half of the year contributed positively. Revenue fell to US\$27 million, compared to US\$36 million in the prior year.

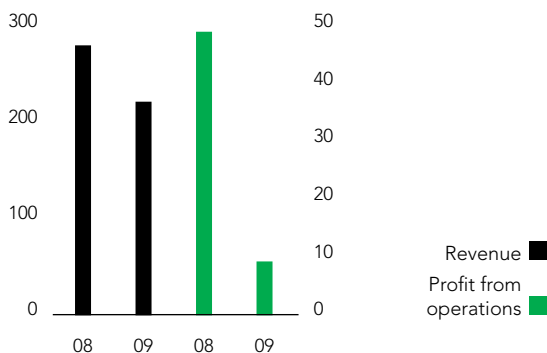
Working capital was managed aggressively to strengthen the balance sheet. Non-cash working capital as a ratio of revenue decreased from 24% in 2008 to 13%. Cash working capital increased to 26% of revenue at year-end, from 5% at the end of 2008.

Capital expenditure was contained at US\$1,4 million, the majority of which was spent within the AECI Group and related to the transfer of plant and equipment from Bellville. It is expected that capital expenditure for 2010 will be about US\$3 million, primarily for the installation and commissioning of new capacity.

REVIEW OF OPERATIONS

2009 saw depressed demand in the first third of the year followed by full plant rates in the final third. This presented challenges opposite labour, inventory and the control of manufacturing processes. The sharp escalations in raw material prices made it difficult for the business to pass on increases to customers in a depressed environment.

Financial performance: SANS Technical Fibers (Rm)



NORTH AMERICA

Sales into automotive end uses declined markedly, but started recovering again at year-end. A slow deterioration has been noted in this sector over the past few years. However, a reversal of the trend is expected in 2010.

Other industrial end uses also reflected the slowing of the economy. Across all North American suppliers of technical nylon fibers, volumes declined by about 20% year-on-year.

INTERNATIONAL

STF continue to supply an extensive and diverse set of international customers in Asia, Europe and South America.

With the introduction of new polymer types at Stoneville, STF enhanced its offering into applications such as under-the-hood automotive products, sewing threads, and narrow and broad woven fabrics. Superior white, low shrink yarn for the shoe and leather manufacturing industries continues to be offered.

The company expects to grow its business in Asia and Europe from its current base as the new capacity expansion comes on line later in 2010. It is expected that more than 40% of sales will be to customers outside of North America by the end of 2010.

PROJECTS, PRODUCTS AND TECHNOLOGY

An expansion project currently underway will increase capacity by 30%. This expansion is extremely cost effective as it entailed moving modern machinery from SANS Fibres at Bellville and relocating it to an existing facility in the USA. Additional service and ancillary equipment is also being moved which will further enhance product quality and reduce manufacturing costs. US\$3 million has been approved for this and project completion is expected in the fourth quarter of 2010.

The product range has been expanded to include heavier and lighter denier specialty nylon products. Capability now includes the manufacture of parachute yarns.

SAFETY, HEALTH AND ENVIRONMENT

On 1 October 2009, STF achieved 1 million employee hours worked with no lost-time injury or illness. As a result a "Million-Hour" safety award is expected from the North Carolina Department of Labor.

During the year, STF rolled out its new "Commitment to Environmental Sustainability". The programme focuses on reducing waste and inefficiencies. This includes fiber waste recycling, returnable packaging, and co-operative waste reduction work with customers.

OUTLOOK

STF is poised to benefit from the recovery in the global automotive business and from expansion of its export business. Indications are that excess capacity will wind down and, therefore, some tightness in the market is expected. Capacity utilisation should be high and this will be more conducive to margin recovery.

Margins suffered in 2009 as Asian suppliers were eager to gain sales volume at low prices. Asian manufacturers also cancelled some planned light denier expansions as the economic crisis took hold.

The shutdown of SANS Fibres at Bellville caused some shortage of supply but this was masked by the severe economic downturn as well as by the high inventory levels supplied to large customers before the plant's closure.

Business in North America is expected to recover in 2010 and 2011 as GDP growth resumes.

Automotive units should increase over the previous year but there will be an added benefit of no crisis pipeline destocking.

STF's capacity expansion will come on stream in the fourth quarter of 2010 and sales will ramp-up through 2011. Although there is evidence of a slow economic recovery, capacity utilisation in the fibers industry is not yet at levels recorded prior to the global crisis.

REVIEW OF OPERATIONS: CONCLUSION

Despite the turbulence in global markets and the severe effects of the economic crisis on financial markets, AECI emerged from 2009 with its strategy intact and with the strength of its balance sheet improved. Pleasing progress was made in implementing the Group's capital expenditure projects and, overall, AECI's businesses succeeded in retaining market share and margins through the crisis. This will provide a firm base for growth in the Group's activities in 2010.

AECI's vision remains to be the chemical and mining services supplier of choice for customers in its chosen markets. The Company aims to provide above average returns to its shareholders by:

- ensuring that it has a globally competitive cost base for all its operations;
- continuing to invest in world class technology;
- maintaining customers as the centre of focus and striving for truly excellent customer service; and
- providing and enabling appropriate governance frameworks for its businesses and ensuring that each business complies with Group standards. At the same time, entrepreneurial flair must be encouraged and enhanced. Accordingly, organisational structures that will enable this philosophy of "freedom in a framework" are being implemented.

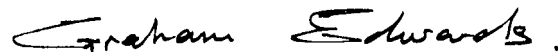
The focus of the executive management team for 2010 will be to maintain the integrity of these strategic pillars, while building on the sound platform established in 2009. Specifically, the ramp-up of new plants will provide AECI with a globally competitive cost base and world class technology, as well as new opportunities for customer service excellence.

The capital investment projects, which were all mechanically complete by the end of 2009, are company-transforming initiatives for AEL and Senmin in particular and they will have a major impact on the Group as a whole.

Throughout 2010 management will continue to focus on cash management, particularly in regard to working capital. Although some improvement in trading conditions is expected in 2010, the Company will nonetheless be extremely careful with its expenditure and risk management since it is also expected that the business environment will remain volatile.

In summary, AECI is well positioned to benefit from any improvement in economic conditions in 2010, and from the ramp-up of its capital projects.

I would like to thank our customers, suppliers, shareholders and employees for supporting AECI in what was a very difficult year and look forward to improved results for the benefit of all our stakeholders in 2010.



Graham Edwards

Chief executive
Woodmead, Sandton

30 March 2010