

# COMMENTARY

## Performance

Headline earnings per ordinary share were 325 cents, 35% higher than in the first six months of 2007. All of the Group's businesses delivered improved results, with Chemical Services Limited (Chemserve) being the largest contributor and recording an outstanding 53% increase in trading profit.

An interim dividend of 90 cents per ordinary share has been declared, compared with 72 cents per share in 2007.

Group revenue increased by 43%, reflecting pleasing growth in the specialty chemicals and mining solutions sectors. The Group's margins have been under pressure over the last two years and high oil prices again impacted on oil-based raw material costs in the period. However, major efforts were made to avoid margins decreasing further. As a result of these efforts and tight cost control, Group operating margin remained at 9,3%, the same level as the first half of 2007.

## AEL

African Explosives Limited (AEL) performed to expectations in the first six months of 2008. Sales increased by more than 25%, buoyed by growth in the South African Surface and Massive division as well as in AEL's African businesses. Operating margins remained under pressure at 5,5%.

The performance of the South African Narrow Reef business mirrored the difficulties, in volume terms, experienced by the gold and platinum sectors. The international business made satisfactory progress at the new assembly plant in South East Asia and, in addition, in setting up distribution partnerships in other regions.

Capital projects supporting growth and cost reduction initiatives progressed as expected, despite material cost escalation pressures. The initiating systems automation project made steady progress on delay powder capacity, shocktubing lines, delay detonators and the first two automated assembly machines. A routine project assessment was done and the strategic and financial case remains sound.

## Chemserve

Chemserve's performance exceeded expectations. Profit from operations was 53% higher than in the first half of 2007 with increased contributions from most businesses, but especially from those supplying the mining and agricultural sectors. Operating margins increased slightly to 10% (2007: 9,7%) due to fixed cost control and diligent attention to pricing in an environment of substantial and frequent price increases, not only in oil-derived products, transport and energy, but also in many commodity products. Supply shortages occurred during the half-year but these were managed. Electricity outages in the first quarter negatively impacted profits, as customers' and Chemserve's volumes and operational efficiencies were affected.

Overall, the capital expenditure programme approved in 2007 is progressing well, although some timing delays have been experienced. These are attributable to design completion, and construction and fabrication resource shortages in South Africa. A further R325 million of capital expenditure has been approved in 2008, R200 million of which relates to scope changes and increased costs in current projects. A review of Chemserve's major investments in mining, sulphonation and oleo-chemicals (Brazil) has shown returns to be maintained under current conditions. The acquisition of Chemfit, a small diverse chemical company, was approved by the competition authorities and took effect from 1 July 2008.

## Heartland

The property activities, managed by Heartland, recorded a trading profit of R88 million net of R37 million of remediation costs. The latter include an additional provision of R30 million in respect of further clean-up at Somerset West. The availability of land ready for release and sale, as well as the unfavourable conditions now prevailing in the market, are likely to result in modest activity in the second half-year. Heartland is continuing to invest in infrastructure that will enhance the value of its assets in the years ahead. A total of R350 million has been earmarked for this over the next 24 months.

The investment property is carried at R410 million in the balance sheet. The Valuation Division of Old Mutual Investment Group Property Investments has completed a full review of Heartland's development plans and has compiled an independent valuation of R2,5 billion as at 1 July 2008 for the AECI-owned property portfolio located in Modderfontein and Somerset West. The value reported was completed on a market valuation basis, which assumes the premise of willing buyer willing seller. The value is an independent professional estimate of what a buyer might be prepared to pay for the land in its current form, discounted at an average, real rate of 25%, being the developer's assumed required rate of return.

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

## Discontinued operations

SANS Fibres (SANS) exited the non-performing nylon and polyester heavy decitex industrial (HDI), as well as the polyester light decitex industrial (LDI) yarn businesses, at the end of 2007. The remaining nylon LDI and the polyethylene terephthalate (PET) businesses at Bellville were adversely affected by power outages in the first quarter of the year, and both had to contend with sharp increases in raw material prices. These challenges notwithstanding, SANS posted a significant increase in trading profit compared with the first half of 2007, as the positive effects of major restructuring in the yarn business begin to be realised.

## Financial

Net capital expenditure of R395 million included R260 million for expansion projects, mainly in respect of the major investments in progress at AEL and Chemserve. Group working capital increased in line with the 43% increase in sales to R2 020 million, representing 19,8% (2007: 17%) of annual sales (excluding businesses sold).

Net income from the pension fund employer surplus account and the plan assets for post-employment medical aid liabilities reduced from R60 million in the first half of 2007 to R3 million in 2008. The reduction is due to poor equity markets performance, particularly in the month of June.

In line with the working capital investment of R282 million in the half-year and the capital spending of R395 million, Group borrowings increased to R1 675 million from R1 001 million at the end of 2007. Cash interest cover remained robust at 7 times. Gearing increased to 42% of shareholder funds (25% at December 2007).

The assets and liabilities classified as held for sale are the carrying value of SANS.

In line with the general authority given by shareholders at the annual general meeting, the Company has repurchased 3,5 million ordinary shares, representing just under 3% of the share capital at a cost of R237 million.

## Portfolio

The Group remains focused on the growth of its core businesses, providing mining solutions and specialty chemicals to the mining and industrial sectors. Significant capital expenditure programmes are underway to support this growth. Whilst SANS performed well in the half-year, the business does not fit with AECI's strategic focus. The sale process for SANS' nylon LDI business should be completed by the end of the third quarter. A tender process for the PET business is underway with indicative offers due in July, whereafter a due diligence process will precede final offers. There is a good level of interest in the PET business and it is expected to be sold before the end of 2008.

## Outlook

Oil prices, inflation and interest rates are expected to remain high for the remainder of the year. However, the trading outlook appears supportive for the Group's businesses. It is anticipated that property sales will be slow in the second half.

Assuming trading conditions remain buoyant, the 2008 year will see much improved results compared to 2007, particularly from Chemserve. Beyond 2008, the capital investments are expected to start delivering substantial benefits in 2010.

**Fani Titi**

*Chairman*

**Graham Edwards**

*Chief executive*

Woodmead, Sandton

28 July 2008

## NOTICE TO SHAREHOLDERS:

### Interim ordinary dividend number 149

NOTICE IS HEREBY GIVEN that on Monday, 28 July 2008 the directors of AECI declared an interim ordinary dividend of 90 cents per share, in respect of the financial year ending 31 December 2008, payable on Monday, 15 September 2008 to ordinary shareholders recorded in the books of the Company at the close of business on Friday, 12 September 2008.

The last day to trade *cum* dividend will be Friday, 5 September 2008 and shares will commence trading *ex* dividend as from Monday, 8 September 2008.

Any change of address or dividend instruction must be received on or before Friday, 5 September 2008.

Share certificates may not be dematerialised or rematerialised from Monday, 8 September 2008 to Friday, 12 September 2008, both days inclusive.

This announcement will be mailed to all recorded shareholders on or about Tuesday, 29 July 2008.

By order of the Board

**A Kennedy**

*Company secretary*

Woodmead, Sandton

28 July 2008

### Transfer secretaries

Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg 2001 and

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### Sponsor

Rand Merchant Bank (A division of FirstRand Bank Limited)

**Directorate:** F Titi (Chairman)<sup>1</sup>, G N Edwards (Chief executive), F P P Baker, R M W Dunne<sup>1\*</sup>, S Engelbrecht<sup>1</sup>, Z Fuphe<sup>1</sup>, M J Leeming<sup>1</sup>, L M Nyhonyha<sup>1</sup>, A C Parker<sup>1</sup>, L C van Vught<sup>1</sup>, R A Williams<sup>\*</sup>

<sup>1</sup>Non-executive <sup>\*</sup>British

**Company secretary:** A Kennedy