

**Performance**

AECI stated in February 2009 that trading conditions in respect of the current financial year would be challenging for the Group's businesses as a consequence of the global recession.

The challenges have been more severe than expected and the magnitude of the recession's impact is reflected in the Company's results for the half-year ended 30 June 2009. Furthermore, R141 million in respect of fair value, net realisable value adjustments and restructuring costs impacted on earnings. Consequently, headline earnings at R112 million were 68% lower than the R352 million achieved in the corresponding period in 2008. Headline earnings per share totalled 105 cents (2008: 325 cents) and profit from continuing operations of R328 million (2008: R552 million) declined by 41%. Net financing costs of R138 million (2008: R83 million) increased by 66% as additional borrowings of R486 million were drawn, primarily to fund the strategic capital expenditure programme.

Revenue from continuing operations decreased by 9% to R5 263 million. The decrease is largely attributable to significant volume declines experienced by the Group's customers in the mining and manufacturing sectors.

The strengthening of the rand in the period required fair value adjustments and recognition of exchange differences of R46 million and lower commodity prices resulted in net realisable value adjustments to inventory of R65 million. The Group has begun restructuring programmes in areas where it believes that markets will remain under pressure in the medium- to long-term. To date, R30 million has been incurred in restructuring costs.

An interim dividend of 28 cents per ordinary share has been declared, compared to 90 cents in 2008. It is proposed that the dividend be declared as scrip with a cash alternative ("the capitalisation award"). Refer to page 1.

**Mining solutions**

Revenue from the mining solutions business increased by 18% on 2008's performance, despite difficult market conditions. This was largely due to AEL's increased footprint in Central Africa, product mix changes in initiating systems as shocktube units replaced capped fuse, and price differentials over the first half of last year.

The South African narrow reef market continued its slow contraction while the Southern African region experienced significant volume declines in platinum, copper and diamonds. Sales to the coal sector in Asia Pacific grew significantly.

AEL's trading margin remained under pressure at 4.7% (2008: 5.6%), due mainly to additional depreciation charges and increased resourcing costs to cover market demand and increased shocktube conversion activities in the South African narrow reef market. The capped fuse plant and the traditional shocktube plants are still being run and will come off line as the Initiating Systems Automation Programme (ISAP) plants ramp-up.

ISAP's detonator and extruded shocktube plants will both be fully installed and commissioned by end-2009. To date, over 40 million ISAP detonators have been produced and sold, the extrusion lines are running at 95% efficiencies and have produced over 180 000km of tubing. Still to be completed is the shocktube auto-assembly plant where the first set of lines has been installed and has successfully started producing for the narrow reef market. The launched Reefmaster product has been well received and market and plant ramp-ups are underway.

In the six months under review AEL spent R245 million on capital investment projects, R125 million of this on ISAP.

**Specialty chemicals**

Chemical Services Limited (Chemserve) recorded a 16% decrease in revenue to R3 233 million and a 38% decrease in trading profit to R241 million (2008: R386 million), with severe declines in demand from the mining, agricultural, manufacturing and automotive sectors. Volumes were 36% lower in the period, particularly in the first quarter, with traded sulphur sales being the worst affected. In response to the changed external environment, Chemserve is restructuring some of its businesses, such as those serving the automotive sector, where adverse trading conditions are expected to persist. Costs associated with restructuring totalled R25 million at end-June.

The strengthening rand and lower commodity prices exacerbated Chemserve's challenges. Fair value, translation and inventory net realisable value adjustments accounted for R78 million of the decline in trading profit.

Chemserve's capital expansion programme made pleasing progress. R416 million was invested in capital projects, R338 million of this in the strategic projects. The oleochemical plant at Resitec, in Brazil, the second xanthate reactor at Senmin, in Sasolburg, and Akulu Marchon's sulphonation plant in Chloorkop have all been commissioned successfully. These plants are being ramped up to optimised production levels. The carbon disulphide plant at Senmin will be commissioned in the third quarter and the acrylamide and polyacrylamide plants, also at Senmin, will be commissioned in the last quarter of 2009. The business case for all these projects remains favourable and, once fully on line, the investments will be earnings-enhancing.

The acquisitions of CH Chemicals and Cobito, at a cost of R70 million, were finalised and successfully integrated into the Chemserve group.

**Property**

Heartland recorded a trading profit of R45 million (2008: R88 million) net of R1 million (2008: R37 million) of remediation costs. Remediation expenditure is being prioritised in line with land sales and legal requirements. The property development sector remains depressed, largely as a result of a shortage in cash

liquidity in the market and market demand. Developers have had difficulty raising debt and financial institutions have imposed more stringent conditions in this regard. The profit achieved to June 2009 was driven largely by the leasing business in the segment.

As indicated in the previous reporting period, Heartland has continued the processes necessary to prepare land for release when the property market shows signs of recovery. Expenditure was limited to R30 million in respect of land development activities in the half-year.

**SANS Fibres**

**Continuing operation**

SANS Technical Fibers (USA) incurred a loss of R7 million (2008: R25 million operating profit) as a result of very poor market conditions in the automotive sector in the USA. Revenue declined by 25% to R100 million, compared to R134 million in 2008. The business has been restructured to cope with these depressed conditions and, in June, already returned a profit. It has remained cash positive and has increased its cash by liquidating working capital over the half-year.

**Discontinued operation**

SANS Fibres at Bellville, Western Cape, ceased manufacturing in March 2009. Working capital has largely been liquidated and had generated R280 million in cash by 30 June 2009. The site is currently being cleared and redundant plant and equipment is being sold. It is anticipated that this process will be completed by March 2010.

**Financial**

The Group invested R675 million in capital expenditure, of which R542 million related to growth projects in AEL and Chemserve. The Group is expecting capital expenditure of R1,2 billion for the full financial year.

Net working capital decreased as revenue declined and R481 million in cash was generated in the period. The working capital ratio to gross revenue improved to 17,2% (2008: 19,8%).

The Pension Fund employer surplus account and the plan assets for post-retirement medical aid liabilities incurred a further loss of R20 million (2008: R3 million profit), due to poor investment market performances and strengthening of the rand. Part of the Group's pension portfolio is invested offshore.

In line with capital expenditure of R675 million, Group borrowings increased to R2 848 million from R2 359 million at December 2008. Cash interest cover was 2,8 times (2008: 4,6 times) largely as a result of lower profits and continued investment in the strategic capital expenditure programme. As a consequence, gearing increased to 75% of shareholder funds (59% at December 2008).

Earlier in the year, the Board decided to postpone the anticipated BBEE transaction, involving Group employees and a community trust, primarily as a result of market volatility.

**Board changes**

Ms A Kennedy resigned as Company secretary, with effect from 31 March 2009. Mr EA Rea was appointed to serve as Acting Company secretary from 1 April 2009.

**Outlook and strategic focus**

Depressed market conditions are expected to continue for the remainder of the year. In the first six months, as outlined above, the Group incurred fair value and exchange difference adjustments of R111 million. Based on current commodity prices and currency exchange rates, it is not expected that these charges will recur. In line with the trading statement published on SENS on 11 June 2009, management expects an improved performance in the second half-year and thus does not expect headline earnings per share for the full financial year, ending 31 December 2009, to be considerably lower than the 412 cents achieved in 2008.

The Group will continue to sustain its strategic focus, and will:

- optimise cash flow by controlling working capital aggressively;
- continue to progress strategic capital projects at AEL and Chemserve;
- reduce costs in line with reduced activity; and
- maintain market share and margins through continued excellent service.

Fani Titi Graham Edwards  
*Chairman* *Chief executive*  
 Woodmead, Sandton  
 27 July 2009

**Directors:** F Titi (Chairman), GN Edwards (Chief executive)†, FPP Baker†, RMW Dunne\*, S Engelbrecht, Z Fuphe, KM Kathan†, MJ Leeming, LM Nyhonyha, AC Parker.  
 †Executive \*British

**Acting Company secretary:** EA Rea

**Transfer secretaries**  
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# 16 Results

## Re

### Condensed consolidated unaudited interim financial results for the half-year ended 30 June 2009

- Revenue from continuing operations at R5 263 million
- Cash of R396 million available from operating activities
- Gross margins and market share maintained in a difficult trading environment
- HEPS down to 105c
- Dividend of 28c declared
- Good progress made in strategic growth projects

#### Declaration of a capitalisation award with a cash dividend alternative

Notice is hereby given that the directors of AECI have resolved to issue fully paid ordinary shares in the Company as a capitalisation award to ordinary shareholders ("the capitalisation award").

Ordinary shareholders will be entitled as an alternative to the capitalisation award, in respect of all or part of their shareholding, to elect to receive a cash dividend of 28 cents per ordinary share ("the cash dividend alternative"), which will be paid only to those ordinary shareholders who elect in respect of all or part of their shareholding, on or before 12:00 on Friday, 2 October 2009, to receive the cash dividend alternative. Shareholders not electing to receive the cash dividend alternative in respect of all or part of their shareholding will, by default, be issued with fully paid ordinary shares in terms of the capitalisation award.

In accordance with the provisions of Strate, the electronic settlement and custody system used by the JSE Limited, the relevant dates for the capitalisation award/cash dividend alternative are as follows:

	2009
Last day to trade to participate in the capitalisation award on	Friday, 25 September
Shares trade "ex" the capitalisation award on	Monday, 28 September
Listing of the maximum number of new ordinary shares that may be taken up in terms of the capitalisation award on	Monday, 28 September
Last day to elect to receive the cash dividend alternative (by 12:00), failing which the capitalisation award will be received on	Friday, 2 October
Record date to participate in the capitalisation award on	Friday, 2 October
Payment of the cash dividend alternative to shareholders who have elected to receive the cash dividend in respect of all or part of their shareholding on	Monday, 5 October
New shares issued and posted or broker accounts credited regarding the shares to be issued to shareholders who have not elected to participate in the cash dividend alternative in respect of all or part of their shareholding on	Monday, 5 October
The maximum number of new shares listed in terms of the capitalisation award, adjusted to reflect the actual number of shares issued in terms of the capitalisation award on or about	Tuesday, 6 October

Shares may not be dematerialised or rematerialised between Monday, 28 September 2009 and Friday, 2 October 2009, both days inclusive.

The above dates and times are subject to change. Any changes will be published on the Securities Exchange News Service (SENS) and in the press.

The number of capitalisation shares to which shareholders are entitled will be determined in the ratio that 28 cents per ordinary share bears to the 30-day volume-weighted average price for the Company's share, to be determined no later than Wednesday, 16 September 2009. Details of the ratio will be published on SENS no later than Thursday, 17 September 2009 and in the press the following business day.

Trading in the Strate environment does not permit fractions and fractional entitlements. Accordingly, where a shareholder's entitlement to new ordinary shares calculated in accordance with the above formula gives rise to a fraction of a new ordinary share, such fraction will be rounded up to the nearest whole number, where the fraction is greater than or equal to 0.5 and rounded down to the nearest whole number, where the fraction is smaller than 0.5.

A circular relating to the capitalisation award and the cash dividend alternative will be posted to certificated shareholders on or about Monday, 31 August 2009.

Note: Dematerialised shareholders are required to notify their duly appointed participant or broker of their alternative in terms of the capitalisation award in the manner and at the time stipulated in the agreement governing the relationship between shareholders and their participant or broker.

By order of the Board

EA Rea  
*Acting Company secretary*  
 Woodmead, Sandton  
 27 July 2009



Specialty product and service solutions

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