CONDENSED CONSOLIDATED UNAUDITED

interim financial results

for the half-year ended 30 June 2012

REVENUE up 17% to **R6 954m**

IMPROVEMENT in **SAFETY** performance

HEPS of **108c** impacted by **B-BBEE** transaction charge

CASH DIVIDEND of **78cps** declared

AECI
good chemistry

INCOME STATEMENT

	% change	2012 First half Unaudited R millions	2011 First half Unaudited R millions	2011 Year Audited R millions
Revenue[2]	**+17**	**6 954**	5 969	13 397
Net operating costs		**(6 423)**	(5 423)	(12 081)
Profit from operations	**-3**	**531**	546	1 316
CST share-based payment[3]		**(138)**	–	–
Net (loss)/income from Pension Fund employer surplus accounts		**(14)**	1	29
Net (loss)/income from plan assets for post-retirement medical aid liabilities		**(2)**	14	5
		377	561	1 350
Interest expense[4]		**(121)**	(106)	(234)
Interest received		**21**	16	27
Share of profit of associate companies		**–**	*	1
Profit before tax		**277**	471	1 144
Income tax expense		**(139)**	(152)	(306)
Profit for the period		**138**	319	838
Profit for the period attributable to:				
– ordinary shareholders		**136**	295	777
– preference shareholders		**1**	1	2
– non-controlling interest		**1**	23	59
		138	319	838
Headline earnings are derived from:				
Profit attributable to ordinary shareholders		**136**	295	777
Impairment of goodwill		**4**	–	–
Profit on disposal of subsidiary		**–**	–	(1)
Profit on disposal of property, plant and equipment		**(23)**	(13)	(7)
Tax effects of the above items		**3**	2	3
Headline earnings		**120**	284	772
Per ordinary share (cents):				
Headline earnings	**-59**	**108**	265	720
Diluted headline earnings		**103**	264	719
Basic earnings		**122**	275	724
Diluted basic earnings		**117**	274	723
Dividends declared		**78**	78	179
Dividends paid		**179**	135	213

* Nominal amount

ORDINARY SHARES IN ISSUE

	2012 First half Unaudited Millions	2011 First half Unaudited Millions	2011 Year Audited Millions
Listed ordinary shares			
At the beginning of the period	**119,1**	119,1	119,1
Issued during the period for CST and KTH transactions[3] [6]	**9,1**	–	–
At the end of the period	**128,2**	119,1	119,1
Treasury shares held by subsidiary company	**(11,8)**	(11,8)	(11,8)
	116,4	107,3	107,3
Unlisted redeemable convertible ordinary shares			
At the beginning of the period	**–**	–	–
Issued during the period for EST transaction[3]	**10,1**	–	–
At the end of the period	**10,1**	–	–
Treasury shares held by consolidated EST[3]	**(10,1)**	–	–
	–	–	–
Ordinary shares in issue	**116,4**	107,3	107,3

RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF SHARES

	2012 First half Unaudited Millions	2011 First half Unaudited Millions	2011 Year Audited Millions
Weighted average number of ordinary shares at the beginning of the period	**119,1**	119,1	119,1
Weighted average number of ordinary shares issued during the period	**15,5**	–	–
Weighted average number of ordinary shares held by consolidated EST	**(7,9)**	–	–
Weighted average number of contingent returnable ordinary shares held by the CST	**(3,4)**	–	–
Weighted average number of shares held by consolidated subsidiary	**(11,8)**	(11,8)	(11,8)
Weighted average number of ordinary shares for basic earnings per share	**111,5**	107,3	107,3
Dilutive adjustment for potential ordinary shares	**4,5**	–	–
Dilutive adjustment for share options under the AECI share option scheme[5]	**0,1**	0,2	0,1
Weighted average number of ordinary shares for diluted earnings per share	**116,1**	107,5	107,4

STATEMENT OF COMPREHENSIVE INCOME

	2012 First half Unaudited R millions	2011 First half Unaudited R millions	2011 Year Audited R millions
Profit for the period	**138**	319	838
Other comprehensive income net of tax:			
Revaluation of derivative instruments	*****	*	*
Foreign currency translation differences net of deferred tax	**(1)**	23	182
Other	**1**	*	*
Total comprehensive income for the period	**138**	342	1 020
Total comprehensive income attributable to:			
– ordinary shareholders	**136**	320	954
– preference shareholders	**1**	1	2
– non-controlling interest	**1**	21	64
	138	342	1 020

* Nominal amount

STATEMENT OF CASH FLOWS

	2012 First half Unaudited R millions	2011 First half Unaudited R millions	2011 Year Audited R millions
Cash generated by operations	**819**	807	1 883
Interest paid	**(121)**	(119)	(253)
Interest received	**21**	16	27
Income tax paid	**(168)**	(88)	(319)
Changes in working capital	**(702)**	(731)	(598)
Expenditure relating to non-current provisions	**(47)**	(25)	(78)
Cash (utilised by)/available from operating activities	**(198)**	(140)	662
Dividends paid	**(206)**	(146)	(237)
Cash flows from operating activities	**(404)**	(286)	425
Cash flows from investing activities	**(360)**	(256)	(615)
Investments	**(1)**	(57)	(88)
Pre-payment for business combination[7]	**(135)**	–	–
Net capital expenditure	**(224)**	(199)	(527)
Net cash utilised	**(764)**	(542)	(190)
Cash flows from financing activities	**593**	662	424
Non-current loans receivable	**(1)**	2	(3)
Borrowings	**594**	660	427
(Decrease)/increase in cash	**(171)**	120	234
Cash at the beginning of the period	**1 061**	732	732
Translation gain on cash	**3**	8	95
Cash at the end of the period	**893**	860	1 061

STATEMENT OF CHANGES IN EQUITY

	2012 First half Unaudited R millions	2011 First half Unaudited R millions	2011 Year Audited R millions
Total comprehensive income for the period	**138**	342	1 020
Dividends paid	**(206)**	(146)	(274)
Issue of ordinary shares:			
– at par value[3]	**4**	–	–
– at market value[6]	**393**	–	–
Net effect of acquisition of non-controlling interest to equity[6]	**(393)**	–	–
Share-based payment reserve	**148**	–	–
Equity at the beginning of the period	**5 214**	4 468	4 468
Equity at the end of the period	**5 298**	4 664	5 214
Made up as follows:			
Ordinary share capital	**116**	107	107
Share premium[6]	**496**	108	108
Reserves	**492**	189	344
Property revaluation surplus	**237**	237	237
Foreign currency translation reserve	**100**	(56)	101
Share-based payment reserve	**148**	–	–
Other	**7**	8	6
Retained earnings[6]	**4 149**	4 085	4 439
Preference share capital	**6**	6	6
Non-controlling interest[6]	**39**	169	210
	5 298	4 664	5 214

STATEMENT OF FINANCIAL POSITION

	2012 30 June Unaudited R millions	2011 30 June Unaudited R millions	2011 31 Dec Audited R millions
Assets			
Non-current assets	**6 030**	5 756	6 024
Property, plant and equipment	**3 754**	3 615	3 721
Investment property	**437**	446	436
Intangible assets	**78**	7	77
Goodwill	**1 075**	1 074	1 078
Pension Fund employer surplus accounts	**245**	231	259
Investments	**26**	26	22
Loans receivable	**25**	20	24
Deferred tax	**390**	337	407
Current assets	**6 295**	5 461	6 433
Inventories	**2 613**	2 180	2 584
Accounts receivable	**2 654**	2 421	2 772
Pre-payment for business combination[7]	**135**	–	–
Assets classified as held for sale	**–**	–	16
Cash	**893**	860	1 061
Total assets	**12 325**	11 217	12 457
Equity and liabilities			
Ordinary capital and reserves	**5 253**	4 489	4 998
Non-controlling interest	**39**	169	210
Preference share capital	**6**	6	6
Total equity	**5 298**	4 664	5 214
Non-current liabilities	**2 786**	1 817	2 702
Deferred tax	**165**	117	179
Non-current borrowings	**1 575**	709	1 507
Non-current provisions	**1 046**	991	1 016
Current liabilities	**4 241**	4 736	4 541
Accounts payable	**2 183**	2 158	2 987
Current borrowings	**1 947**	2 452	1 421
Tax payable	**111**	126	133
Total equity and liabilities	**12 325**	11 217	12 457

OTHER SALIENT FEATURES

	2012 First half Unaudited R millions	2011 First half Unaudited R millions	2011 Year Audited R millions
Capital expenditure[4]	**280**	229	475
– expansion	**145**	109	182
– replacement	**135**	120	293
Capital commitments[7]	**335**	142	360
– contracted for	**95**	117	116
– not contracted for	**240**	25	244
Future rentals on property, plant and equipment leased	**180**	141	173
– payable within one year	**51**	30	43
– payable thereafter	**129**	111	130
Contingent liabilities	**–**	48	–
Net borrowings	**2 629**	2 301	1 867
Gearing (%)	**50**	49	36
Current assets to current liabilities	**1,5**	1,2	1,4
Net asset value per ordinary share (cents)	**4 513**	4 186	4 660
Depreciation and amortisation	**223**	191	395
ZAR/US$ closing exchange rate (rand)	**8,19**	6,79	8,15
ZAR/US$ average exchange rate (rand)	**7,92**	6,88	7,25
Per ordinary share (cents) (excluding B-BBEE transaction):			
– headline earnings	**240**	265	720
– diluted headline earnings	**240**	264	719

INDUSTRY SEGMENT ANALYSIS

	Revenue First half Unaudited R millions		Profit from operations First half Unaudited R millions		Net assets 30 June Unaudited R millions	
	2012	2011	**2012**	2011	**2012**	2011
Explosives	**2 907**	2 542	**183**	200	**3 087**	2 685
Specialty chemicals	**3 949**	3 280	**411**	386	**4 508**	4 055
Property	**176**	194	**21**	36	**781**	751
Specialty fibres (USA)	**175**	165	**24**	27	**192**	160
Group services and intersegment	**(253)**	(212)	**(98)**	(103)	**(5)**	(66)
EST share-based payment[3]			**(10)**	–		
	6 954	5 969	**531**	546	**8 563**	7 585

Net assets consist of property, plant, equipment, intangibles, investment property, goodwill, inventory, accounts receivable and pre-payment for business combination less accounts payable.

NOTES

(1) **Basis of preparation and accounting policies**
The condensed consolidated unaudited interim financial results are prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards, the requirements of IAS 34 – Interim Financial Reporting, the AC500 series issued by the Accounting Practices Board and by the South African Companies Act, No. 71 of 2008. Accounting policies have been applied consistently by all entities in the Group and are consistent with those applied in the previous reporting period. This interim report has not been audited or reviewed by the Company's auditor, KPMG Inc. This interim report for the six months ended 30 June 2012 is being published on 25 July 2012. The preparation of these condensed consolidated unaudited interim financial results for the period ended 30 June 2012 was supervised by the Financial Director, Mr KM Kathan CA(SA) AMP (Harvard).

(2) Includes foreign and export revenue of R2 073 million (2011 first half: R1 665 million).

(3) The 3,5% AECI Community Education and Development Trust ('CST') transaction became effective on 13 February 2012. The CST subscribed for 4 426 604 ordinary shares in the Company. The shares vested immediately and the share-based payment of R138 million was recognised in full in the income statement and allocated to a separate reserve. These shares are contingently returnable and, as a result, are excluded from EPS and HEPS. The 8% AECI Employees Share Trust ('EST') transaction took effect on 9 February 2012, with the EST subscribing for 10 117 951 unlisted B ordinary shares in the Company. The dividend payable on these shares may not exceed that for ordinary shares. Employees of the Group were allocated 7 569 669 of these shares with a grant date of 30 April 2012. The total cost is estimated at R126 million with R10 million recognised in the income statement during the period and the remainder to be recognised over the respective vesting periods.

(4) There was no interest capitalised in the period (2011 first half: R14 million).

(5) Calculated in accordance with IAS 33. The Company has purchased call options over AECI shares which will obviate the need for the Company to issue new shares in terms of the AECI share option scheme. In practice, therefore, there will be no future dilution.

(6) The Kagiso Tiso Holdings Proprietary Limited (RF) ('KTH') transaction took effect on 18 January 2012 and involved the purchase by AECI of KTH's 25,1% interest in AEL Holdco Limited in exchange for 4 678 667 ordinary shares in AECI. The transaction is recognised as a change in ownership interest in terms of IAS 27, and the carrying amounts of controlling and non-controlling interests have been adjusted. The transaction has been measured at the fair value of the consideration paid and is based on the closing price of R83,98 of the Company's shares on 17 January 2012. The shares issued have been recognised in equity, with R5 million in share capital and R388 million in share premium. The non-controlling interest has been reduced by the carrying amount of R172 million, with the balance of R221 million recognised directly in retained earnings.

(7) The Board approved the acquisition of General Electric's Chemical and Monitoring Solutions business in Africa for a consideration of R168 million. R135 million of this was recognised as a pre-payment for the business combination which became effective on 1 July 2012.

(8) The preparation of the condensed consolidated unaudited interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies involving particular complex or subjective judgements or assessments are deferred tax assets, environmental remediation, asset lives and residual values and post-retirement benefit obligations.

COMMENTARY

Performance

Trading conditions were volatile in the first six months of 2012 owing to the prevailing macroeconomic environment. In addition, the Group's performance was adversely affected by operational issues in some of its key businesses.

Notwithstanding these challenges, revenue increased by 17% to R6 954 million (2011: R5 969 million) owing to an increase in ammonia and chemical commodity prices in the first quarter, a weaker ZAR/US$ exchange rate and volume growth of 8,2%. Volume growth was aided by the 2011 acquisitions where high volumes were traded at lower operating margins.

Headline earnings declined by 58% to R120 million (2011: R284 million), mainly due to IFRS charges of R148 million pursuant to the B-BBEE transaction concluded earlier in the year. This also affected headline earnings per share (HEPS), which declined by 59% to 108 cents per share 2011: 265 cents per share).

The Board has declared an interim cash dividend of 78 cents per ordinary share (2011: 78 cents).

Safety

It is pleasing to report that AECI's 12 month moving average Total Recordable Injury Rate (TRIR) improved to 0,58. This is below the rate of 0,60 achieved in 2010 – the lowest year-end figure ever for the Group. The TRIR measures the number of incidents per 200 000 hours worked.

Explosives

Revenue from AEL Mining Services ("AEL") was 14% higher at R2 907 million (2011: R2 542 million) as ammonia prices increased by an average of 14% and AEL's overall volumes improved by 4,2%. However, profit from operations declined by 8,5% to R183 million (2011: R200 million) while the operating margin deteriorated to 6,3% (2011: 7,9%). AEL had to respond to ammonia supply constraints from its key supplier and, to ensure that customers' requirements would be met, imported ammonia and ammonium nitrate at an additional cost of R35 million. A planned shutdown of No.11 Nitric Acid plant, at Modderfontein, caused further buy-ins at an additional cost of R15 million. Due to these supply chain events, working capital increased. The focus for the rest of 2012 will be on returning working capital to normal levels.

ISAP

The Initiating Systems Automated Plant (ISAP) is technically complete and the technology has been proved. Owing to production and quality underperformance issues, however, ramp-up targets were not met. To address this, a focused intervention has commenced to enhance efficiencies. While cost savings of R32 million were achieved, the full rate of savings associated with ISAP and ramp-down of the traditional plants is expected to be achieved by the end of the first half of 2013.

Regional performance

AEL gained market share in South Africa and this, combined with growth in the Surface and Massive mining sector, resulted in a 2% volume increase. In Narrow Reef mining, volumes continued to decline and customers were again affected by safety-related stoppages and industrial action.

Good volume growth of 11% was achieved in the rest of Africa. The International business maintained its growth trend and gained another three contracts in Indonesia. Indonesian volumes grew by 13%, notwithstanding poor weather conditions and industrial action at a key mining contractor's pit.

Capital expenditure of R189 million was incurred, with R91 million of this invested in growth projects mainly at customer sites.

Specialty chemicals

Revenue increased by 20% to R3 949 million (2011: R3 280 million). This significant improvement was due to volume growth, the weakening of the rand and higher chemical commodity prices. The volume growth of 12,1% was boosted by the performance of acquisitions concluded in 2011. Profit from operations was 6% higher at R411 million (2011: R386 million) and the operating margin was 10,4% (2011: 11,8%). The decline in the operating margin was due to changes in the product mix, with higher volumes at lower margins being sold.

Akulu Marchon, Chemical Initiatives, Crest Chemicals, Lake International Technologies and Nulandis performed extremely well in difficult market conditions.

Senmin delivered another solid result, notwithstanding labour strikes at key customers for mining chemicals. This company's results were also affected by product substitution, due to higher prices of guar from Asia. The cumulative impact of these factors was R25 million. The downturn in platinum mining will continue to affect Senmin for the remainder of the year.

All Senmin's capital projects are complete and fully operational.

Weak market conditions had an adverse effect on Chemisphere (paper industry), Industrial Urethanes (white goods) and Resitec (Brazilian automotive).

The acquisition of General Electric's Chemical and Monitoring Solutions business in Africa was completed at the end of June, for a consideration of R168 million. Like ImproChem, this business has an established African footprint and will enhance ImproChem's technology and service offering to the market.

The specialty chemicals cluster invested R78 million in capital projects, with R48 million of this related to expansion expenditure.

Property

Operating profit decreased by 42% to R21 million (2011: R36 million). There were no property sales finalised in the period and thus income from the leasing and services businesses sustained Heartland's results. The property development market remained muted except for specific, well located areas. Improvement in the overall market is expected to be slow. Once Longlake Extension 1 and Westlake at Modderfontein are proclaimed, some land sales for industrial use could be forthcoming.

Property development expenditure of R43 million was incurred, primarily for the M60/Marlboro Road extension and infrastructure for Longlake and Westlake.

Specialty fibres

In rand terms, revenue increased by 6% to R175 million (2011: R165 million) but in US$ terms it declined by 9% to US$21 million (2011: US$23 million) owing to softer market conditions for exports to Europe, Asia and South America. As a result, volumes declined by 12%. Profit from operations decreased by 11% to R24 million (2011: R27 million).

It was pleasing that the US automotive market, where the business has a strong position, remained stable throughout the period.

Financial

The Group invested R280 million (2011: R229 million) in capital expenditure, with R145 million of this related to expansion projects at customer sites for explosives and mining chemicals. Gearing was at 50% from 49% in June 2011 (December 2011: 36%) due to an increase in working capital, mainly at AEL. In the specialty chemicals cluster, working capital was well managed. Net working capital as a percentage of revenue was 22,4% (2011: 20,2%) and net interest cover was at 7,1 times (2011: 7,3 times).

Income tax expense related to taxable income before the B-BBEE transaction IFRS 2 charge.

The net loss of R14 million (2011: profit of R1 million) incurred from the Pension Fund employer surplus accounts relates to a provision for a higher contribution rate required by the Pension Fund for active members.

Directorate

Fani Titi retired as Non-executive Director and Chairman at the Annual General Meeting in May and he was succeeded as Chairman by Schalk Engelbrecht. The Board thanks Fani for his service and leadership and welcomes Schalk in his new role.

Graham Edwards, Chief Executive, has advised the Board that he intends retiring during the first quarter of 2013. The process of appointing a suitable successor is underway and further announcements in this regard will be made in due course.

Outlook and strategic focus

Volumes in mining are expected to be stable, supported by AECI's extensive geographic footprint. AECI's mining revenue is affected by volumes mined, not directly by mineral prices. Accordingly, the outlook for explosives and mining chemicals remains promising.

In manufacturing, indications are that growth will continue to be pedestrian owing to the prevailing economic environment.

Management's focus for the rest of the year will be on improving internal efficiencies, including working capital, and on optimising operating platforms. Some further ISAP-related savings will be realised in 2012 but AEL's intervention initiative is only expected to yield results during 2013.

AECI will continue to pursue its growth strategy in the rest of Africa and further afield.

Schalk Engelbrecht
Chairman

Graham Edwards
Chief Executive

Woodmead, Sandton
24 July 2012

Directors: S Engelbrecht (Chairman), GN Edwards (Chief Executive)†, RMW Dunne*, Z Fuphe, KM Kathan (Financial Director)†, MJ Leeming, LL Mda, AJ Morgan, LM Nyhonyha, R Ramashia.

†Executive *British

Company Secretary: EN Rapoo

NOTICE TO SHAREHOLDERS

Interim ordinary cash dividend no. 157

Notice is hereby given that on Tuesday, 24 July 2012 the Directors of AECI declared a gross interim cash dividend of 78 cents per share, in respect of the six month period ended 30 June 2012, payable on Monday, 10 September 2012 to ordinary shareholders recorded in the books of the Company at the close of business on Friday, 7 September 2012.

The last day to trade cum dividend will be Friday, 31 August 2012 and shares will commence trading ex dividend as from Monday, 3 September 2012.

A South African dividend withholding tax of 15% will be applicable to all shareholders who are not either exempt or entitled to a reduction of the withholding tax rate in terms of a relevant Double Taxation Agreement resulting in a net dividend of 66,3 cents per share to those shareholders who are not exempt or not entitled to a reduction. No Secondary Tax on Companies' credits are available to be used. Application forms for exemption or reduction may be obtained from the Transfer Secretaries and must be returned to them on or before Friday, 31 August 2012.

The issued share capital at the declaration date is 128 241 140 ordinary shares, 3 000 000 cumulative preference shares and 10 117 951 redeemable convertible B ordinary shares. The dividend has been declared from the income reserves of the Company.

Any change of address or dividend instruction must be received on or before Friday, 31 August 2012.

Share certificates may not be dematerialised or rematerialised from Monday, 3 September 2012 to Friday, 7 September 2012, both days inclusive.

By order of the Board

EN Rapoo
Company Secretary

Woodmead, Sandton
24 July 2012

Transfer secretaries
Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001; and Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS 99 7NH, England

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Sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

AECI LIMITED
(Incorporated in the Republic of South Africa)
(Registration No 1924/002590/06)
Tax Reference No 9000008608
Share code: AFE ISIN No: ZAE000000220
("AECI" or "the Company")