

# financial results

for the year ended 31 December 2011

**HEPS**  
up 25% to  
**720c**

**PROFIT**  
from  
operations  
up 24% to  
**R1 315m**

**FINAL**  
cash dividend  
up 33% to  
**179cps**

**R2bn**  
capital  
phase  
of strategic  
investment  
programme  
complete

**B-BBEE**  
transactions  
concluded

## INCOME STATEMENT

	% change	2011 R millions	2010 R millions
<b>Revenue<sup>(2)</sup></b>	<b>+16</b>	<b>13 397</b>	11 569
Net operating costs		<b>(12 082)</b>	(10 507)
<b>Profit from operations</b>	<b>+24</b>	<b>1 315</b>	1 062
Net income/(loss) from Pension Fund employer surplus accounts		<b>29</b>	(6)
Net income/(loss) from plan assets for post-retirement medical aid liabilities		<b>5</b>	(5)
		<b>1 349</b>	1 051
Interest expense <sup>(3)</sup>		<b>(234)</b>	(173)
Interest received		<b>27</b>	21
Share of profit of associate companies		<b>1</b>	2
		<b>1 143</b>	901
Impairment of goodwill		<b>-</b>	(28)
Impairments of property, plant and equipment		<b>-</b>	(4)
Profit on disposal of subsidiary		<b>1</b>	-
Profit on acquisition of subsidiary		<b>-</b>	4
Profit before tax		<b>1 144</b>	873
Income tax expense		<b>(306)</b>	(233)
<b>Profit for the year</b>		<b>838</b>	640
Profit for the year attributable to:			
- ordinary shareholders		<b>777</b>	600
- preference shareholders		<b>2</b>	2
- non-controlling interest		<b>59</b>	38
		<b>838</b>	640
<b>Headline earnings are derived from:</b>			
Profit attributable to ordinary shareholders		<b>777</b>	600
Impairment of goodwill		<b>-</b>	28
Impairments of property, plant and equipment		<b>-</b>	4
(Profit)/loss on disposal of subsidiaries		<b>(1)</b>	20
Profit on acquisition of subsidiary		<b>-</b>	(4)
Profit on disposal of property, plant and equipment		<b>(7)</b>	(5)
Profit on disposal of associates and investments		<b>-</b>	(22)
Tax effects of the above items		<b>3</b>	2
Non-controlling interest effect of the above items		<b>-</b>	(4)
<b>Headline earnings</b>		<b>772</b>	619
<b>Per ordinary share (cents):</b>			
<b>Headline earnings</b>	<b>+25</b>	<b>720</b>	577
Diluted headline earnings <sup>(4)</sup>		<b>719</b>	575
Basic earnings	<b>+30</b>	<b>724</b>	559
Diluted basic earnings <sup>(4)</sup>		<b>723</b>	558
Dividends declared	<b>+25</b>	<b>257</b>	205
Dividends paid		<b>213</b>	132
Ordinary shares (millions) <sup>(5)</sup>			
- in issue		<b>107,3</b>	107,3
- weighted average number of shares		<b>107,3</b>	107,3
- diluted weighted average number of shares <sup>(4)</sup>		<b>107,4</b>	107,6

## STATEMENT OF COMPREHENSIVE INCOME

	2011 R millions	2010 R millions
<b>Profit for the year</b>	<b>838</b>	640
<b>Other comprehensive income net of tax:</b>		
Foreign currency translation differences net of deferred tax	<b>182</b>	(84)
<b>Total comprehensive income for the year</b>	<b>1 020</b>	556
Total comprehensive income attributable to:		
- ordinary shareholders	<b>955</b>	516
- preference shareholders	<b>2</b>	2
- non-controlling interest	<b>63</b>	38
	<b>1 020</b>	556

## STATEMENT OF FINANCIAL POSITION

	2011 R millions	2010 R millions
<b>Assets</b>		
<b>Non-current assets</b>	<b>5 992</b>	5 667
Property, plant and equipment	3 721	3 564
Investment property	436	440
Goodwill and intangibles	1 155	1 035
Pension Fund employer surplus accounts	258	230
Investments	22	20
Loan receivables	24	22
Deferred tax	376	356
<b>Current assets</b>	<b>6 433</b>	4 647
Inventories	2 584	1 892
Accounts receivable	2 772	2 023
Assets classified as held for sale	16	-
Cash and cash equivalents	1 061	732
<b>Total assets</b>	<b>12 425</b>	10 314
<b>Equity and liabilities</b>		
Ordinary capital and reserves	4 998	4 314
Non-controlling interest	210	148
Preference share capital	6	6
<b>Total shareholders' interest</b>	<b>5 214</b>	4 468
<b>Non-current liabilities</b>	<b>2 671</b>	2 200
Deferred tax	148	121
Non-current borrowings	1 507	1 133
Non-current provisions	1 016	946
<b>Current liabilities</b>	<b>4 540</b>	3 646
Accounts payable	2 986	2 176
Current borrowings	1 421	1 368
Tax payable	133	102
<b>Total equity and liabilities</b>	<b>12 425</b>	10 314

## STATEMENT OF CASH FLOWS

	2011 R millions	2010 R millions
<b>Cash generated by operations</b>	<b>1 883</b>	1 654
Dividends received	-	2
Interest paid	(253)	(268)
Interest received	27	21
Income tax paid	(319)	(209)
Changes in working capital	(597)	*
Expenditure relating to non-current provisions	(78)	(37)
Expenditure relating to retrenchments and restructuring	-	(33)
<b>Cash available from operating activities</b>	<b>663</b>	1 130
Dividends paid	(237)	(146)
<b>Cash retained from operating activities</b>	<b>426</b>	984
<b>Cash utilised in investment activities</b>	<b>(615)</b>	(581)
Proceeds from disposal of investments and businesses	-	35
Investments	(173)	(7)
Net capital expenditure	(442)	(609)
<b>Net cash (utilised)/generated</b>	<b>(189)</b>	403
<b>Cash effects of financing activities</b>	<b>423</b>	(299)
Non-current loans receivable	(3)	11
Borrowings	426	(310)
<b>Increase in cash and cash equivalents</b>	<b>234</b>	104
Cash and cash equivalents at the beginning of the year	732	668
Translation gain/(loss) on cash and cash equivalents	95	(40)
<b>Cash and cash equivalents at the end of the year</b>	<b>1 061</b>	732

\* nominal amount

## STATEMENT OF CHANGES IN EQUITY

	2011 R millions	2010 R millions
Total comprehensive income for the year	1 020	556
Dividends paid	(237)	(146)
Acquisition of subsidiary	(37)	-
Equity at the beginning of the year	4 468	4 058
<b>Equity at the end of the year</b>	<b>5 214</b>	<b>4 468</b>
Made up as follows:		
Ordinary share capital	107	107
Share premium	108	108
Reserves	344	164
Property revaluation surplus	237	237
Foreign currency translation reserve net of deferred tax	99	(81)
Other	8	8
Retained earnings	4 439	3 935
Preference share capital	6	6
Non-controlling interest	210	148
	<b>5 214</b>	<b>4 468</b>

## OTHER SALIENT FEATURES

	2011 R millions	2010 R millions
Capital expenditure	475	633
- expansion	182	397
- replacement	293	236
Capital commitments	360	88
- contracted for	116	49
- not contracted for	244	39
Future rentals on property, plant and equipment leased	173	196
- payable within one year	43	96
- payable thereafter	130	100
Contingent liabilities	-	87
Net borrowings	1 867	1 769
Gearing (%)	36	40
Current assets to current liabilities	1,4	1,3
Net asset value per ordinary share (cents)	4 660	4 022
Depreciation - continuing operations	395	332
Rand/US\$ closing exchange rate (rand)	8,15	6,65
Rand/US\$ average exchange rate (rand)	7,25	7,32

## INDUSTRY SEGMENT ANALYSIS

	Revenue		Profit from operations		Net assets	
	2011 R millions	2010	2011 R millions	2010	2011 R millions	2010
Explosives	5 494	4 832	510	378	2 569	2 294
Specialty chemicals	7 558	6 453	881	811	4 049	3 717
Property	476	370	99	66	762	726
Specialty fibres	333	294	53	33	175	143
Group services and intersegment	(464)	(380)	(228)	(226)	143	(102)
	<b>13 397</b>	<b>11 569</b>	<b>1 315</b>	<b>1 062</b>	<b>7 698</b>	<b>6 778</b>

Net assets consist of property, plant, equipment, investment property, goodwill and intangibles, inventory, accounts receivable, assets classified as held for sale less accounts payable.

## NOTES

### (1) Basis of preparation and accounting policies

The reviewed condensed consolidated financial results are prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards, the presentation and disclosure requirements of IAS 34 - Interim Financial Reporting, the AC500 series issued by the Accounting Practices Board, the Listings Requirements of the JSE Limited, and in the manner required 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 financial year. The preparation of these reviewed condensed consolidated financial results for the year ended 31 December 2011 was supervised by the Financial Director, Mr KM Kathan CA(SA).

(2) Includes foreign and export revenue of R 3 859 million (2010: R 3 111 million).

(3) Interest capitalised in the period amounting to R17 million (2010: R93 million).

(4) Calculated in accordance with IAS33. 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.

(5) Net of 11 884 669 (2010: 11 884 669) treasury shares held by a subsidiary company.

(6) The auditors, KPMG Inc, have reviewed these condensed consolidated financial results. The auditors' unqualified review report is available for inspection at the Company's registered office.

(7) The reviewed condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2010.

(8) The preparation of the 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.

# COMMENTARY

## Performance

The Group delivered excellent results in a challenging trading environment characterised by currency and commodity volatility, labour strikes and heavy rainfall which impacted open cast mining operations in some geographies.

Revenue grew by 16% to R13 397 million (2010: R11 569 million). Volumes showed good growth of 7% while the weaker rand against the US dollar and rising chemical prices in the fourth quarter assisted in this revenue growth. Headline earnings of R772 million were 25% higher (2010: R619 million) and profit from operations recorded a 24% increase to R1 315 million (2010: R1 062 million). The trading margin improved to 9,8% (2010: 9,2%).

The Board has declared a final cash dividend of 179 cents per ordinary share (2010: 135 cents).

## Safety

Tragically, an accident in August at the Group's joint venture business, Resitec, in Brazil, resulted in a fatality. It is disappointing that the Total Recordable Incident Rate (TRIR) weakened to 0,70 (2010: 0,60). The TRIR measures the number of incidents per 200 000 hours worked. Our target remains no injury to anyone, ever, and safety continues to be a key performance indicator for management.

## Explosives

AEL Mining Services ("AEL") increased its revenue by 14% to R5 494 million (2010: R4 832 million) on the back of higher ammonia prices, volume growth of 1,2% and the weaker ZAR/US\$ exchange rate in the last three months of 2011. Profit from operations was 35% higher at R510 million (2010: R378 million), with a trading profit to revenue ratio of 9,3% (2010: 7,8%).

In the Southern African business, narrow reef markets for gold and platinum declined but growth was recorded in the coal and open pit mining sectors. In the declining narrow reef sector, market share changes due to ammonia shortages subsequent to a supplier force majeure and nitrate plant interruptions resulted in a 3% reduction in South African volumes.

Pleasing growth was achieved in Africa, primarily in West Africa's gold mining sector. The business in Central Africa grew steadily as a result of good demand for copper. The performance in East Africa, where some market share was lost, was less buoyant.

AEL's international business maintained its growth trend as new contracts were secured in Indonesia. Notwithstanding the disruption to coal mining in the region by heavy rainfall in the first and fourth quarters, solid volume growth continued. There was also a further increase in sales to Europe and South America, through AEL's channel partners.

Output of shock tube from the Initiating Systems Automation Plant (ISAP) ramped up from 60 million detonators in 2010 to 90 million in 2011. The capital expenditure component of the ISAP project was concluded. Ramp-up to ISAP's full capacity and closure of conventional plants will be completed in 2012. This is expected to deliver future annualised costs savings in excess of R100 million.

Of the R277 million capital expenditure for the year (2010: R344 million), R51 million was spent on ISAP. The balance was invested in further expansion in Indonesia and for smaller capital replacement projects in Africa and South Africa.

## Specialty chemicals

The specialty chemicals cluster's revenue increased by 17% to R7 558 million (2010: R6 453 million), due to volume growth of 10,9% and increases in commodity prices as the ZAR/US\$ exchange rate weakened in the last quarter of 2011. Volume growth came mainly from high demand for sulphur from the copper mining sector in Africa. Profit from operations improved by 8,6% to R881 million (2010: R811 million). As a result of the higher revenue value of sulphur at lower margins, the overall trading margin declined to 11,7% (2010: 12,6%).

Excellent performances were delivered by Chemical Initiatives, Industrial Oleochemical Products, ImproChem, Lake International Technologies ("Lake") and Resitec. Senmin delivered a solid result notwithstanding the effects of the strong rand for most of the year, margin pressures and some raw material supply chain issues.

The cluster's capital expenditure totalled R150 million (2010: R241 million), most of which was invested in Senmin's operations. The new xanthates dryer was installed and is being ramped up. The strategic capital programme is complete.

Local acquisitions for a total consideration of R174 million were concluded. The business of T&C Chemicals was integrated into ImproChem and Chemisphere; Qwemico Distributors was consolidated with Nulandis (formerly Plaaskem); and Croxton Chemicals was merged into Crest Chemicals. Lake now owns 100% of Cobito, its subsidiary which operates in the food and beverage sector. Chemfit acquired Instavet Import and Export.

ImproChem concluded a strategically advantageous distribution agreement with GE Betz, a global leader in its field, to supply water treatment products and process technologies in African markets.

## Property

Heartland's operating profit increased by 50% to R99 million (2010: R66 million), with the leasing business continuing to be the primary contributor. Six property sales were achieved. These included Longlake Extension 1 as an undivided share transaction where costs, risks and rewards will be shared with a partner. Cash development expenditure of R25 million was incurred in the year.

The South African property market continued to lag the recovery of the overall economy. This environment is not expected to improve in the medium term and makes it challenging for AECI to realise appropriate value from its property holdings. Alternative models to facilitate the release of value from land surplus to operational requirements continue to be sought and assessed.

## Specialty fibres

SANS Technical Fibers (STF), in the USA, increased its revenue by 13% to R333 million (2010: R294 million) owing to higher demand from the global automotive sector and higher raw material prices. Overall sales volumes grew by 1%, with the North American market softening in the second six months.

Profit from operations increased by 61% to R53m (2010: R33 million) and the trading margin improved to 15,9% (2010: 11,2%) as a result of good cost control, changes in the sales mix and higher demand.

AECI continues to evaluate STF's strategic fit in the Group.

## Finance

Gearing reduced to 36% of shareholders' interest (2010: 40%) as the investment phase of the Group's strategic capital expenditure programme was concluded. Capital of R475 million (2010: R633 million) was spent predominantly on the completion of Senmin's polyacrylamide plant and the xanthates dryer, ISAP and the deployment of plant and equipment at customer sites in South Africa and the rest of Africa.

Net working capital was at 17,7% of revenue (2010: 15%) and was impacted by longer working capital trade cycles in operations outside South Africa, increased commodity prices exacerbated by the weaker rand, acquisitions, and Group businesses taking control of certain raw material supply chains to secure continuous supply.

Cash interest cover improved to 7,7 times (2010: 5,6 times). Net interest paid, before capitalising borrowing costs of R17 million (2010: R93 million), decreased to R226 million (2010: R247 million) as a result of sustained lower interest rates which offset the longer working capital trade cycle.

## B-BBEE transactions

In December 2011 and January 2012, AECI shareholders approved both the B-BBEE transactions proposed by the Company:

- the acquisition of the KTH consortium's shareholding in AEL in exchange for new ordinary shares in the Company; and
- the issue of new shares to facilitate the establishment of the AECI Employees Share Trust and the AECI Community Education and Development Trust.

## Outlook and strategic focus

The restructuring of the Group over the past two years has repositioned its cost base. While manufacturing and mining production appear to be recovering, recent volatility suggests that the recovery remains fragile. However, AECI is confident in its ability to respond appropriately.

Management's focus for 2012 will be on:

- completing the ISAP ramp-up and continuing AEL's expansion in markets beyond South Africa, particularly the rest of Africa, Asia Pacific and South America;
- actively pursuing opportunities for the expansion of the specialty chemicals cluster into other geographies; and
- continuing to pursue the realisation of value from the property portfolio, with current or new business models.

Fani Titi  
*Chairman*

Graham Edwards  
*Chief Executive*

Woodmead, Sandton 20 February 2012

**Directors:** F Titi (Chairman), GN Edwards (Chief Executive) †, RMW Dunne \*, S Engelbrecht, 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

---

## Final ordinary cash dividend no. 156

Notice is hereby given that on Monday, 20 February 2012 the Directors of AECI declared a final cash dividend of 179 cents per share, in respect of the financial year ended 31 December 2011, payable on Monday, 16 April 2012 to ordinary shareholders recorded in the books of the Company at the close of business on Friday, 13 April 2012.

The last day to trade cum dividend will be Wednesday, 4 April 2012 and shares will commence trading ex dividend as from Thursday, 5 April 2012.

Any change of address or dividend instruction must be received on or before Wednesday, 4 April 2012.

Share certificates may not be dematerialised or rematerialised from Thursday, 5 April 2012 to Friday, 13 April 2012, both days inclusive.

This announcement will be distributed to all recorded shareholders on or about Tuesday, 21 February 2012.

By order of the Board

EN Rapoo  
*Company Secretary*

Woodmead, Sandton  
20 February 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

## Registered office

1st Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton

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

## AECI LIMITED

(Incorporated in the Republic of South Africa)  
(Registration No 1924/002590/06)  
SHARE CODE: AFE ISIN NO: ZAE000000220  
("AECI" or "the Company")

