# REVIEWED CONDENSED CONSOLIDATED FINANCIAL RESULTS AND FINAL CASH DIVIDEND DECLARATION

REVENUE +9%
TO R18,4BN

PROFIT FROM
OPERATIONS +7%
TO R1 703M

HEPS +6%
TO 894C

STRONG VOLUME
GROWTH FROM
OPERATING BUSINESSES

R400M BULK
LAND SALE AT
SOMERSET WEST

R563M FOR
SHARE REPURCHASE
PROGRAMME

CASH OF R1,4BN
RETURNED TO
SHAREHOLDERS

FINAL ORDINARY
CASH DIVIDEND OF
260CPS DECLARED

**FOR THE YEAR ENDED
31 DECEMBER 2015**

# INCOME STATEMENT

| R millions | % change | 2015 Reviewed | 2014 Audited |
|---|---|---|---|
| REVENUE [2] | +9 | **18 446** | 16 903 |
| Net operating costs | | **(16 743)** | (15 307) |
| **PROFIT FROM OPERATIONS** | +7 | **1 703** | 1 596 |
| Interest expense | | **(253)** | (204) |
| Interest received | | **66** | 54 |
| Share of profit of equity-accounted investees, net of tax | | **28** | 31 |
| Impairment of equity-accounted investees [3] | | **(51)** | — |
| Profit before tax | | **1 493** | 1 477 |
| Tax expense | | **(464)** | (368) |
| **PROFIT FOR THE YEAR** | | **1 029** | **1 109** |
| Profit for the year attributable to: | | | |
| — Ordinary shareholders | | **1 007** | 1 096 |
| — Preference shareholders | | **3** | 3 |
| — Non-controlling interest | | **19** | 10 |
| | | **1 029** | **1 109** |
| **HEADLINE EARNINGS ARE DERIVED FROM:** | | | |
| Profit attributable to ordinary shareholders | | **1 007** | 1 096 |
| Impairment of goodwill | | **4** | * |
| Impairment of property, plant and equipment | | **19** | 3 |
| Impairment of assets classified as held for sale | | **—** | 21 |
| Impairment of equity-accounted investees [3] | | **51** | — |
| Gain on bargain purchase [4] | | **(23)** | — |
| Surplus on disposal of property, plant and equipment | | **(26)** | (3) |
| Surplus on disposal of assets classified as held for sale [11] | | **(48)** | (202) |
| Tax effects of the above items | | **4** | 28 |
| **HEADLINE EARNINGS** | | **988** | **943** |
| **PER ORDINARY SHARE (CENTS):** | | | |
| Headline earnings | +6 | **894** | 842 |
| Diluted headline earnings | | **870** | 800 |
| Basic earnings | -7 | **911** | 979 |
| Diluted basic earnings | | **886** | 929 |
| Ordinary dividends declared | +16 | **260** | 225 |
| Ordinary dividends paid | | **350** | 325 |
| Special dividend paid | | **375** | — |

* *Nominal amount.*

# STATEMENT OF COMPREHENSIVE INCOME

| R millions | 2015 Reviewed | 2014 Audited |
|---|---|---|
| **PROFIT FOR THE YEAR** | **1 029** | 1 109 |
| **OTHER COMPREHENSIVE INCOME NET OF TAX:** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Foreign currency translation differences | **808** | 164 |
| Items that may not be reclassified subsequently to profit or loss: | | |
| Remeasurement of defined-benefit obligations | **820** | (65) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **2 657** | 1 208 |
| Total comprehensive income attributable to: | | |
| — Ordinary shareholders | **2 619** | 1 194 |
| — Preference shareholders | **3** | 3 |
| — Non-controlling interest | **35** | 11 |
| | **2 657** | **1 208** |

# STATEMENT OF CHANGES IN EQUITY

| R millions | 2015 Reviewed | 2014 Audited |
|---|---|---|
| Total comprehensive income for the year | **2 657** | 1 208 |
| Dividends paid | **(838)** | (378) |
| Business combinations and change in ownership percentage | **—** | 5 |
| Share-based payment reserve | **(17)** | 91 |
| Shares repurchased | **(563)** | — |
| Equity at the beginning of the year | **7 803** | 6 877 |
| **EQUITY AT THE END OF THE YEAR** | **9 042** | **7 803** |
| Made up as follows: | | |
| Ordinary share capital | **110** | 116 |
| Share premium | **—** | 496 |
| Reserves | **1 606** | 830 |
| Foreign currency translation reserve | **1 456** | 663 |
| Share-based payment reserve | **150** | 167 |
| Retained earnings | **7 216** | 6 284 |
| Non-controlling interest | **104** | 71 |
| Preference share capital | **6** | 6 |
| | **9 042** | **7 803** |

# RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF SHARES

| Millions | 2015 Reviewed | 2014 Audited |
|---|---|---|
| **WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES AT THE BEGINNING OF THE YEAR** | **138,3** | 138,3 |
| Weighted average number of unlisted ordinary shares held by consolidated EST | **(10,1)** | (10,1) |
| Weighted average number of contingently returnable ordinary shares held by CST | **(4,4)** | (4,4) |
| Weighted average number of shares held by consolidated subsidiary | **(11,9)** | (11,9) |
| Weighted average number of shares repurchased during the year | **(1,4)** | — |
| **WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC EARNINGS PER SHARE** | **110,5** | 111,9 |
| Dilutive adjustment for potential ordinary shares | **3,1** | 6,0 |
| **WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE** | **113,6** | **117,9** |

# INDUSTRY SEGMENT ANALYSIS

| | REVENUE | | PROFIT FROM OPERATIONS | | NET ASSETS | |
|---|---|---|---|---|---|---|
| | Reviewed | Audited | Reviewed | Audited | Reviewed | Audited |
| R millions | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Explosives | **8 236** | 7 256 | **418** | 372 | **3 821** | 3 409 |
| Specialty chemicals | **9 886** | 9 368 | **1 121** | 1 000 | **5 156** | 4 931 |
| Property [11] | **922** | 871 | **527** | 490 | **273** | 241 |
| Group services and inter-segment | **(598)** | (592) | **(363)** | (266) | **210** | (131) |
| | **18 446** | **16 903** | **1 703** | **1 596** | **9 460** | **8 450** |

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

# STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

| | 2015 | 2014 |
|---|---|---|
| **R millions** | **Reviewed** | Audited |
| ASSETS | | |
| **NON-CURRENT ASSETS** | **8 374** | 7 161 |
| Property, plant and equipment | **4 296** | 4 046 |
| Investment property | **137** | 172 |
| Intangible assets | **257** | 247 |
| Goodwill [(5)(6)(7)] | **1 590** | 1 291 |
| Pension fund employer surplus accounts [(9)] | **982** | 179 |
| Investments in associates [(3)] | **250** | 260 |
| Investments in joint arrangements [(4)] | **313** | 308 |
| Other investments | **27** | 99 |
| Deferred tax | **522** | 555 |
| Loans receivable | **—** | 4 |
| **CURRENT ASSETS** | **9 420** | 7 626 |
| Inventories | **3 358** | 2 879 |
| Accounts receivable | **3 825** | 3 243 |
| Other investments | **67** | — |
| Assets classified as held for sale [(11)] | **—** | 85 |
| Tax receivable | **56** | 43 |
| Cash | **2 114** | 1 376 |
| **TOTAL ASSETS** | **17 794** | **14 787** |
| EQUITY AND LIABILITIES | | |
| Ordinary capital and reserves | **8 932** | 7 726 |
| Non-controlling interest | **104** | 71 |
| Preference share capital | **6** | 6 |
| **TOTAL EQUITY** | **9 042** | 7 803 |
| **NON-CURRENT LIABILITIES** | **1 871** | 2 691 |
| Deferred tax | **427** | 189 |
| Non-current borrowings | **672** | 1 459 |
| Contingent consideration [(6)(7)] | **70** | — |
| Non-current provisions and employee benefits [(9)] | **702** | 1 043 |
| **CURRENT LIABILITIES** | **6 881** | 4 293 |
| Accounts payable [(11)] | **4 003** | 3 513 |
| Current borrowings | **2 620** | 583 |
| Contingent consideration [(5)] | **15** | — |
| Loans from joint arrangements | **36** | 49 |
| Tax payable | **207** | 148 |
| **TOTAL EQUITY AND LIABILITIES** | **17 794** | **14 787** |

## STATEMENT OF CASH FLOWS

| R millions | 2015 Reviewed | 2014 Audited |
|---|---|---|
| **CASH GENERATED BY OPERATIONS** | **2 607** | 2 318 |
| Dividends received | **30** | 43 |
| Interest paid | **(253)** | (204) |
| Interest received | **66** | 54 |
| Tax paid | **(532)** | (488) |
| Changes in working capital | **(215)** | 547 |
| Cash flows relating to defined-benefit costs | **(284)** | (94) |
| Cash flows relating to non-current provisions and employee benefits | **(64)** | (59) |
| Cash flows relating to share-based payments | **(94)** | — |
| **CASH AVAILABLE FROM OPERATING ACTIVITIES** | **1 261** | 2 117 |
| Dividends paid | **(838)** | (378) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **423** | 1 739 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(844)** | (704) |
| Net investment expenditure | **(298)** | 131 |
| Net capital expenditure | **(546)** | (835) |
| **NET CASH (UTILISED)/GENERATED BEFORE FINANCING ACTIVITIES** | **(421)** | 1 035 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **691** | (912) |
| Non-current loans receivable | **4** | 6 |
| Shares repurchased | **(563)** | — |
| Borrowings | **1 250** | (918) |
| **INCREASE IN CASH** | **270** | 123 |
| Cash at the beginning of the year | **1 376** | 1 219 |
| Translation gain on cash | **468** | 34 |
| **CASH AT THE END OF THE YEAR** | **2 114** | **1 376** |

## OTHER SALIENT FEATURES

| R millions | 2015 Reviewed | 2014 Audited |
|---|---|---|
| Capital expenditure | **583** | 745 |
| — expansion | **275** | 335 |
| — replacement | **308** | 410 |
| Capital commitments | **436** | 342 |
| — contracted for | **71** | 161 |
| — not contracted for | **365** | 181 |
| Future rentals on property, plant and equipment leased | **331** | 358 |
| — payable within one year | **112** | 91 |
| — payable thereafter | **219** | 267 |
| Net borrowings | **1 178** | 666 |
| Gearing (%)* | **13** | 9 |
| Current assets to current liabilities | **1,4** | 1,7 |
| Net asset value per ordinary share (cents) | **8 096** | 6 644 |
| Depreciation and amortisation | **590** | 547 |
| ZAR/US$ closing exchange rate (rand) | **15,47** | 11,57 |
| ZAR/US$ average exchange rate (rand) | **12,76** | 10,85 |

* *Borrowings less cash as a percentage of total equity.*

# NOTES

(1) Basis of preparation and accounting policies

The condensed consolidated financial results are prepared in accordance with the requirements of the JSE Limited's Listings Requirements ("Listings Requirements") for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"); the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practice Committee; Financial Pronouncements as issued by the Financial Reporting Standards Council; and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial results are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements. The preparation of these condensed consolidated financial results for the year ended 31 December 2015 was supervised by the Financial Director, Mr KM Kathan CA(SA)AMP (Harvard). The condensed consolidated financial results have been reviewed by the Company's auditors, KPMG Inc., who have issued an unmodified review conclusion. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from AECI's registered office.

(2) Includes foreign and export revenue of R6 361 million (2014: R5 417 million).

(3) During the year, the Group's investment in BBRI was impaired by US$4,2 million (R51 million at the date of recognition) as reported in the interim financial results for the six months to 30 June 2015. BBRI is an equity-accounted associate company. The value-in-use was re-assessed at 31 December 2015 by discounting the expected future cash flows to be generated from the investment over the useful life of the underlying plant using a discount rate of 11,0%. At 31 December 2015 the recoverable amount for the investment in BBRI was US$15 million (R233 million translated at that date), unchanged from the original assessment, and the impairment recognised at 30 June 2015 was unchanged.

(4) On 30 June 2015 AECI, through its wholly-owned subsidiary Chemical Services Limited, acquired the remaining 50% share in Resinkem Proprietary Limited from its joint venture partner, GP Chemicals International Holdings S.A.R.L., for R1,00. AECI acquired 100% of the shares in Resinkem for a fair value consideration of R22,5 million. The fair value of the assets acquired and liabilities assumed amounted to R45 million, resulting in a bargain purchase gain of R22,5 million being recognised in net operating costs.

*Acquirees' net assets at acquisition date*

| | R millions |
|---|---|
| Property, plant and equipment | 17,0 |
| Working capital | 10,0 |
| Provisions | (8,0) |
| Cash | 26,0 |
| Deferred and current tax | * |
| Net identifiable assets and liabilities | 45,0 |
| Gain on bargain purchase | 22,5 |
| Net consideration (non-cash) | 22,5 |

* *Nominal amount.*

(5) On 1 June 2015 AECI's wholly-owned subsidiary AECI (Mauritius) Limited acquired 100% of the shares of Farmers Organisation Limited ("FOL"), a Malawian company which distributes agrochemicals, seeds and spraying equipment. The acquisition grows AECI's agrochemicals footprint and affords Nulandis, AECI's existing agrochemicals business, the opportunity to expand sales of its manufactured products to Malawi. The acquisition was initially recognised and accounted for on a provisional basis as at 30 June 2015. The Purchase Price Allocation ("PPA") and the final acquistion accounting was completed and this resulted in a change to the net identifiable assets and goodwill initially recognised. The PPA was unchanged but the working capital was R18 million lower, and the deferred and current tax reduced from R11 million to nil. Goodwill increased from R54 million to R88 million as a result.

The initial purchase price of US$10,2 million (R124 million) was settled with a payment of US$9,3 million (R113 million) on 1 July 2015 and an additional payment of US$0,9 million (R11 million) on 14 August 2015, based on FOL's approved working capital. A contingent consideration of US$1 million (R12 million), being the fair value of the contingent consideration on acquisition, was recognised based on FOL achieving an EBITDA target in the 12 months after acquisition.

FOL contributed revenue of R140 million and profit from operations of R27 million since acquisition.

*Acquirees' net assets at acquisition date*

| | R millions |
|---|---|
| Property, plant and equipment | 3 |
| Working capital | 45 |
| Net identifiable assets and liabilities | 48 |
| Goodwill on acquisition | 88 |
| Net consideration | 136 |

(6) During the year AECI acquired 100% of the shares of Southern Canned Products Proprietary Limited ("SCP"), a manufacturer and distributor of ingredients for juice-based drinks and products, from Gerber Goldschmidt South Africa, a private equity investment company, and the management of SCP. All the conditions precedent in the agreement were met in July 2015 and the effective date of the acquisition was 1 August 2015.

The initial purchase price of R175 million was paid on 3 August 2015 with a further payment of R6 million, which was dependent on audited financial statements and working capital levels, paid on 22 October 2015. AECI will pay the selling shareholders an additional consideration in 2019, dependent on the achievement of an EBITDA target. A contingent consideration of R44 million was included in the purchase consideration in respect of this additional consideration which is the fair value of the contingent consideration at the date of acquisition. A further R20 million (fair value of R16 million) is payable three years after the effective date and is contingent on there being no breach of the warranties, as set out in the agreement of sale, at that date.

SCP contributed revenue of R388 million and profit from operations of R27 million since acquisition.

*Acquirees' net assets at acquisition date*

| | R millions |
|---|---|
| Property, plant and equipment | 36 |
| Intangible assets | 35 |
| Working capital | 58 |
| Current loans | (31) |
| Non-current loans | (16) |
| Deferred and current tax | (16) |
| Net identifiable assets and liabilities | 66 |
| Goodwill on acquisition | 175 |
| Net consideration | 241 |

(7) During the year AECI, through its division Nulandis, acquired 100% of the shares of Biocult Proprietary Limited ("Biocult"), a South African research and development-based company that develops and produces a range of soil-enhancing biological products. All the conditions precedent were met in October and the acquisition's effective date was 2 November 2015.

The acquisition has been recognised on a provisional basis as the PPA has not yet been completed. Accordingly, the contingent consideration and goodwill recognised may be adjusted.

The initial purchase price of R7 million was paid on 2 November 2015. There is a contingent consideration of R16 million which is dependent on Biocult's future earnings and is payable five years after the effective date. The contingent consideration has been estimated with a fair value of R10 million and will be assessed as part of the PPA to determine the appropriate liability to be included in the purchase consideration at acquisition date.

Biocult contributed revenue of R1 million and profit from operations of R0,1 million since acquisition.

*Acquirees' net assets at acquisition date (provisional)*

| | R millions |
|---|---|
| Property, plant and equipment | * |
| Working capital | 1 |
| Net identifiable assets and liabilities | 1 |
| Goodwill on acquisition | 16 |
| Net consideration (provisional) | 17 |

* *Nominal amount.*

(8) If the business combinations referred to above had occurred on 1 January 2015, management estimates that AECI's consolidated revenue and consolidated profit from operations would have been impacted as follows:

| R millions | Revenue | Profit from operations |
|---|---|---|
| Reported | 18 446 | 1 703 |
| *Less:* business combinations contribution | 529 | 54 |
| | 17 917 | 1 649 |
| Estimated impact of business combination (if acquired on 1 January 2015) | 888 | 68 |
| | 18 805 | 1 717 |

(9) Settlement of defined-benefit obligations

It was stated in AECI's 2014 integrated report that offers had been made to all members of the AECI Pension Fund ("APF"), the AECI Supplementary Pension Fund ("ASPF") and retired employees eligible for a post-retirement medical aid subsidy, to settle their defined-benefit entitlements. The APF's applications to transfer the obligations for pensioners to Sanlam Life Insurance Limited, whereby annuities were offered in place of their defined-benefit entitlements, and to transfer active members to the AECI Defined Contribution Pension Fund, were approved by the Registrar of Pension Funds ("Registrar") on 14 August 2015. On that date, the Registrar also approved the transfer of an additional pension, made available from the employer surplus account ("ESA") of the APF, to MMI Group Limited ("MMI") to purchase annuities for eligible APF pensioners who accepted AECI's settlement offer. On 4 December 2015 approvals were obtained from the Registrar for similar transfers of active members, deferred pensioners and pensioners of the ASPF.

The APF had a surplus over and above the present value of the defined-benefit obligations and the solvency reserve. AECI applied the asset limitation requirements of IAS 19 in the past, recognising only the amounts allocated to the ESA as an asset in its statement of financial position. The settlement involved the allocation of the fund surplus on an equitable basis to all stakeholders in the fund, which included AECI. As a result, there was no cost to AECI for settling the obligations as none of AECI's assets were utilised in settling these obligations. Instead, the settlement resulted in additional amounts being allocated to the ESA.

The ASPF also had a surplus but not to the same extent as the APF. AECI agreed to utilise its ESA to enable the ASPF to offer an equivalent proportionate enhancement to members of this fund. This resulted in AECI utilising its recognised asset to settle part of the obligation, with a settlement cost of R103 million being recognised in the income statement.

AECI used part of the ESA allocated to it by the APF to offer an enhanced pension to eligible pensioners in settlement of their post-retirement medical aid ("PRMA") benefit. Accordingly, individual annuities for all pensioners who accepted the offer were purchased with MMI utilising the ESA. The pensioners agreed to accept the annuity as an alternative benefit to the existing AECI subsidy.

AECI also made the PRMA settlement offer to eligible former employees who were not pensioners of any Group fund. AECI paid R222 million to MMI, in cash, to assume the risks. MMI granted individual annuities to all members as an alternative benefit to the existing AECI subsidy.

The PRMA settlements took effect on 31 August 2015. The difference between the cost of the annuities (cash and ESA) and the present value of the defined-benefit obligation was accounted for as a loss on settlement and was recognised in the income statement.

A similar process has commenced to offer settlements in respect of AECI's two other defined-benefit pension funds.

An alternative offer was made to active employees eligible for the PRMA subsidy to settle their defined-benefit entitlement. Offers were made in December 2015 and, for those who accept, settlement will take place in the first half of 2016.

| R millions | APF | ASPF | PRMA |
|---|---|---|---|
| The effects of the settlements were as follows: | | | |
| Fund assets transferred | 13 556 | 509 | 652 |
| Purchase price for annuities | — | — | 222 |
| Effect of the asset limitation | (6 394) | (134) | — |
| Liabilities settled | (7 162) | (272) | (799) |
| Defined-benefit settlement costs included in net operating costs | — | 103 | 75 |
| Remaining fund net assets | 1 721 | — | — |
| Effect of the asset ceiling | (627) | — | — |
| Defined-benefit liabilities | (185) | — | (479) |
| Pension fund employer surplus account | 909 | — | — |

(10) Share repurchase

During the year AECI undertook a general share repurchase in terms of the general authority to repurchase shares approved by shareholders at the Annual General Meeting of the Company held on 1 June 2015. 5 969 845 shares, or 4,66% of AECI's issued share capital, were repurchased at a cost of R563 million.

(11) The AECI Group transferred the remaining two properties at Modderfontein to Shanghai Zendai during the year. Proceeds of R122 million, previously recognised in income received in advance, and the carrying amount of R74 million, previously classified as held for sale, were recognised in the income statement. The profit of R48 million was included in the property segment but excluded from HEPS as it was capital in nature.

(12) Contingent liabilities

There were no further developments in the investigation by the Competition Commission of South Africa in respect of Akulu Marchon, as disclosed in AECI's 2014 integrated report. Accordingly, no provision for any potential liability has been made.

The Group is currently involved in various legal proceedings and has, in consultation with its legal counsel, assessed the outcome of these proceedings. Following this assessment, the Group's management has determined that no provision is required in respect of these legal proceedings. Litigations, current or pending, are not likely to have a material adverse effect on the Group.

(13) The Group entered into various sale and purchase transactions with related parties in the Group in the ordinary course of business, on an arm's length basis, the nature of which was consistent with those previously reported. All transactions and balances with these related parties have been eliminated appropriately in the consolidated results.

(14) The Group measures forward exchange contracts at fair value using inputs as described in level 2 of the fair value hierarchy. The fair values for forward exchange contracts are based on quotes from brokers. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments. All other financial assets or liabilities' carrying values approximate their fair values based on the nature or maturity period of the financial instrument. There were no transfers between levels 1, 2 or 3 of the fair value hierarchy during the year.

(15) The reviewed condensed consolidated financial results do not include all of the disclosures required for full financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2014.

# COMMENTARY

## Financial performance

AECI delivered a pleasing financial performance due to the significant contribution from land sales at Somerset West, market share gains, the benefits of acquisitions and enhanced efficiencies through strategic portfolio management. Volumes in businesses servicing the mining sector improved and this also assisted the Group in achieving its 2015 results.

Revenue increased by 9% to R18 446 million (2014: R16 903 million), of which 34% was generated outside South Africa (2014: 32%). Profit from operations was R1 703 million, 7% higher than the R1 596 million achieved in 2014, and the trading margin was 9,2% (2014: 9,4%).

Headline earnings increased by 5% from R943 million in 2014 to R988 million. HEPS was 894 cents (2014: 842 cents), with the bulk sale of property surplus to operational requirements in Somerset West contributing 230 cents. However, HEPS was negatively impacted by bad debt provisions of about R104 million (2014: R14 million). The provisions were a consequence of long cycles for input VAT refunds in Indonesia and poor trading conditions in the coal mining sector in South Africa. In addition, an abnormal negative adjustment of R178 million (before tax) relating to the de-risking of the Company's defined-benefit post-retirement obligations was required. Processes regarding changes to post-retirement obligations are largely complete and annual savings of about R120 million are anticipated in 2016 and future years. EPS was 911 cents (2014: 979 cents).

The Board has declared a final cash dividend of 260 cents per ordinary share, a 16% increase on 2014's 225 cents, bringing the total dividend for the 2015 financial year to 385 cents, 13% higher than last year's 340 cents. A special cash dividend of 375 cents per ordinary share was also paid, on 1 June 2015.

## Business environment

AECI achieved improved results in a difficult environment, particularly for the global mining industry and for the local manufacturing sector. The effects of severe drought conditions in most parts of South Africa and in other Southern African countries had an adverse effect on the water treatment, agricultural and general industrial sectors in particular. Owing to the geographic diversification of Group businesses, the weaker rand exchange rate had a positive effect overall although managing the volatility in exchange rate movements posed challenges.

Commodity prices continued to decline as a result of lower demand from China. This trend, which is expected to persist in the medium term, added further pressure to the global mining sector. Some mines have closed, others have undertaken operational restructuring and all mining houses are strongly focused on cost containment processes in their supply chain.

## Safety

Tragically, there were two fatalities in the year. In January Mr Zingisile Reginald Mkhosi, a Group employee, died in a traffic accident while travelling on a public road to a customer's site. In October Mr Vincent Mahema, also a Group employee, sustained fatal injuries in a forklift accident.

AECI's Total Recordable Injury Rate ("TRIR") was 0,35 (0,50 in December 2014), with a marked improvement in the specialty chemicals segment's performance. The TRIR measures the number of incidents per 200 000 hours worked.

## Explosives

Revenue increased by 14% to R8 236 million (2014: R7 256 million). Profit from operations was R418 million, 12% up on that for the prior year. The operating margin of 5,1% was unchanged year-on-year. Overall explosives volumes grew by 13%.

In South Africa, AEL benefited from the recovery of the platinum mining sector after 2014's strikes, and new business gained in the gold mining sector. AEL retained the majority of business in the rigorous retendering processes undertaken by major customers in the first six months of the year, albeit that it was necessary to sacrifice margin. Explosives volumes were 6% higher year-on-year and those for initiating systems 34% higher. The latter increase had a positive effect on the ISAP plant, where output was at capacity. In addition to the effects of the commodity cycle, which resulted in lower stripping ratios, other factors that restricted demand growth were business rescue processes, safety-related stoppages and operational problems at some customer sites.

There were pleasing results from businesses in the rest of the continent and overall explosives volumes increased by 14% year-on-year. Growth in Central Africa's copper mining sector continued and a more favourable product mix assisted AEL's performance in West Africa. There were also pleasing results in East Africa.

The business in Indonesia stabilised in the second half-year but remained constrained as a result of very weak thermal coal prices. Mines have closed, customers have reduced their stripping ratios and focused on free digging, all of which reduced the demand for explosives and AEL's volumes declined by 23% in the region.

The entry into Australia in the first quarter was successful and expected volumes were achieved. The approved product range was expanded during the year and this will enable AEL to enter new market sectors.

AEL's capital expenditure for the year was R313 million, of which R136 million was for investments at customer sites to support growth.

## Specialty chemicals

The specialty chemicals segment delivered a notable performance notwithstanding subdued growth in the local manufacturing sector and lower demand from customers in the agricultural and water treatment segments as a consequence of drought conditions. This hampered the results of ImproChem and Nulandis, in particular.

Revenue increased by 6% to R9 886 million (2014: R9 368 million). Profit from operations was 12,1% higher at R1 121 million (2014: R1 000 million) and the operating margin increased to 11,3% from 10,7% last year. This was attributable to the improved profitability of Chemical Initiatives, Experse, Industrial Oleochemical Products, Nulandis and SANS Technical Fibers. Volumes were 4,9% higher overall.

Senmin made a pleasing contribution as platinum mining activities recovered after last year's protracted strikes. The global commodity downturn, resulting in concentrator and mine closures, impacted negatively on exports.

ImproChem's performance, particularly in the public water sector, was boosted by the acquisition and integration of Clariant Southern Africa's water treatment business in Africa. This acquisition, in 2014, was in line with AECI's strategy to become a leading provider of water treatment solutions in Africa. In addition to the drought, the severe decline of South Africa's steel industry also had a negative effect on ImproChem, as did reduced activity in Africa's oil industry as a consequence of low prices for this commodity.

Nulandis, which is leading the Group's agrochemicals strategic thrust into Africa, enhanced its footprint through the acquisition of Farmers Organisation Limited ("FOL"), based in Malawi, for a net consideration of R136 million. The FOL transaction took effect on 1 June 2015 and both its and Nulandis' results were in line with expectations.

Also integrated with Nulandis was Biocult, a South African research and development-based company that develops and produces a range of soil-enhancing biological products. Biocult was acquired for a net consideration of R17 million, with effect from 1 November 2015. This acquisition supports Nulandis' strategy of expanding its product range in holistic plant health.

AECI acquired 100% of Southern Canned Products ("SCP"), a leading manufacturer and distributor of juice-based drinks and additives based in Cape Town, for a net consideration of R241 million. The acquisition took effect on 1 August 2015 and is part of AECI's strategy of growing its food additives and ingredients business in South Africa and ultimately the rest of Africa. SCP has enhanced the offering to the beverage industry, in particular. Its five-month contribution exceeded expectations.

Capital expenditure for the specialty chemicals segment totalled R235 million of which R130 million was for expansion. Key projects completed were Senmin's new Research and Development centre, in Sasolburg, and Lake Foods' new manufacturing facility in Cape Town.

## Property

Revenue of R922 million (2014: R871 million) comprised R554 million related to land sales and the balance to the leasing and facilities management businesses. Profit from operations was R527 million (2014: R490 million).

Transfer processes in terms of the Somerset West bulk land sale, which contributed R294 million to profit from operations, were almost complete by year-end and the remaining transfers will be effected in the first quarter of 2016. Land in Precinct 1, which is 25 hectares in extent and which was excluded from the bulk sale, was also sold in 2015.

The Group still has 216 hectares of land surplus to operations in Modderfontein.

## Cash utilisation

Capital expenditure of R583 million (2014: R745 million) was managed in line with depreciation and amortisation for the year. About half the expenditure related to expansion projects.

Gearing was higher at 13%, from 9% in December 2014. The net working capital to sales ratio was 17,2% (2014: 15,4%). The working capital ratio was affected by longer trade cycles outside South Africa and by cash proceeds not yet received from sales of property in Precinct 1.

Cash interest cover at 10,4 (2014: 14,5 times) was impacted by the special dividend of R431 million and the share repurchase of R563 million. Consequently, the net interest paid increased to R187 million (2014: R150 million).

## Share repurchase

Between August and December 2015, the Company repurchased 5 969 845 (4,66% of the total issued share capital) of its issued ordinary shares, on market, for R563 million. The repurchase was in terms of an authority to this effect granted to the Company by shareholders at the Annual General Meeting held on 1 June 2015. The repurchased shares have all been cancelled.

## De-risking of defined-benefit obligations

AECI has been working closely with the trustees of its defined-benefit retirement funds in order to restructure these in a fair and equitable process. The surplus which was allocated to the Company by the AECI Pension Fund was utilised primarily to offer members of the AECI Supplementary Fund a similar enhancement to that given to members of the AECI Pension Fund, and to settle qualifying pensioner members' post-retirement medical aid ("PRMA") liabilities via a voluntary alternative benefit offer. 65% of qualifying pensioner members accepted the alternative offer. The net non-cash effect of these de-risking projects on operating income was R178 million (before tax).

The employer surplus account at 31 December 2015 was R982 million. Part of this surplus will be utilised to fund a voluntary alternative benefit offer to qualifying employees in respect of their PRMA benefits. This process will be finalised in 2016. The remainder of the surplus will be utilised as a retirement fund contribution holiday.

Two remaining, smaller defined-benefit retirement funds are expected to be restructured during 2016 in consultation with their trustees.

## Governance

On 14 December 2015 the Department of Environmental Affairs ("DEA"), accompanied by representatives from the City of Johannesburg, conducted a Dawn Raid at AEL Modderfontein. Management is co-operating with the DEA and has submitted a response to its allegations, relating to AEL's compliance with certain conditions of its emissions licence. Feedback from the DEA's process is awaited.

## Directorate

Tak Hiemstra resigned as a Non-executive Director of the Company in October. The Board thanks him for his services. On 31 January, the Board welcomed Graham Dempster as a Non-executive Director. Dr Khotso Mokhele will also join the Board in the same capacity on 1 March 2016. AECI looks forward to their contribution to the affairs of the Company and the Board.

## Outlook and strategy

Indications are that conditions in the global and local economic environments will remain difficult, with no step-change improvement expected in the short to medium term. In Southern Africa, the effects of drought conditions are an additional concern. Locally, the weak and volatile rand exchange rate presents challenges but also opportunities.

AECI believes that its diversified products and services portfolio, its geographic footprint, and ongoing innovation to meet customers' changing requirements will sustain performance. The Group will continue to reshape and refocus its business model for the current operating environment, pursue additional acquisitions in South Africa, the rest of Africa and internationally in support of its strategic growth pillars, and expand and leverage its international presence further so as to grow earnings generated in major currencies. Opportunities for exports and import replacements will be rigorously pursued.

The careful management of working capital remains a focus, as does the maintenance of the most effective cost base possible. The objective will be to manage fixed capital spend in line with depreciation and amortisation.

Innovation is key if AECI is to remain at the forefront of adding value to its customers. Accordingly, research and development that enhances current products and services while preparing more effective alternatives for the future will continue.

Collaboration between Group businesses is another focus area. The best current example of this is the mine-to-metal model that brings together the expertise of AEL, Senmin and ImproChem as a single Mining Solutions offering. Similar initiatives will be developed in the Group's other strategic pillars.

**Schalk Engelbrecht**
Chairman

**Mark Dytor**
Chief Executive

Woodmead, Sandton
23 February 2016

**Directors:** S Engelbrecht (Chairman), GW Dempster†, MA Dytor (Chief Executive)*, RMW Dunne**, Z Fuphe, G Gomwe***, KM Kathan (Financial Director)*, LL Mda, AJ Morgan, LM Nyhonyha, R Ramashia.

*† Appointed 31 January 2016* **Executive* ***British* ****Zimbabwean*

**Group Company Secretary:** EN Rapoo

# NOTICE TO SHAREHOLDERS

## Declaration of final ordinary cash dividend no. 164

NOTICE IS HEREBY GIVEN that, on Monday, 22 February 2016, the Directors of AECI declared a gross final cash dividend of 260 cents per share, in respect of the financial year ended 31 December 2015. The dividend is payable on Monday, 11 April 2016 to holders of ordinary shares recorded in the register of the Company at the close of business on the record date, being Friday, 8 April 2016.

The last day to trade "cum" dividend will be Friday, 1 April 2016 and shares will commence trading "ex" dividend as from the commencement of business on Monday, 4 April 2016.

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 221 cents per share payable to those shareholders who are not eligible for exemption or reduction. Application forms for exemption or reduction may be obtained from the Transfer Secretaries and must be returned to them on or before Friday, 1 April 2016.

The issued share capital at the declaration date is 122 271 295 listed ordinary shares, 10 117 951 unlisted redeemable convertible B ordinary shares and 3 000 000 listed cumulative preference 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, 1 April 2016.

Share certificates may not be dematerialised or rematerialised between Monday, 4 April 2016 and Friday, 8 April 2016, both days inclusive.

**By order of the Board**
EN Rapoo
Group Company Secretary

Woodmead, Sandton
23 February 2016

### Transfer Secretaries

COMPUTERSHARE INVESTOR SERVICES (PTY) LTD

70 Marshall Street
Johannesburg
2001

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)
1 Merchant Place, cnr Fredman Drive and Rivonia Road,
Sandton, 2196

### AECI Limited

(Incorporated in the Republic of South Africa)
Registration number 1924/002590/06
Tax reference number 9000008608
("AECI" or "the Company")
Share code: AFE
ISIN: ZAE000000220

SIGIL DESIGN BUREAU