AECI

Specialty product and service solutions





Annual report 2002

79th annual report

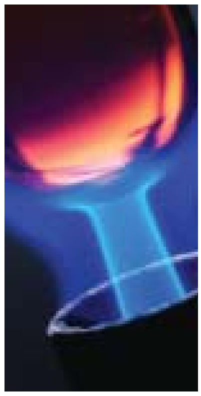
for the year ended 31 December 2002

Our values will continue to underpin our ability to sustain our performance

We will:

- focus intensely on delivering service excellence to our customers
- operate ethically, with integrity and care for others
- operate safely and with care for the environment and the community
- encourage innovation, nimbleness, teamwork and openness amongst our employees
- pursue and reward performance excellence

Contents



AECI

Profile

AECI is a customer-focused specialty product and service solutions organisation, based on chemistry.

Serving both global and regional markets, mining solutions (explosives and initiating systems), specialty fibres, a diverse range of specialty chemicals, and decorative coatings comprise the Group's businesses with an emphasis on application know-how and customer service delivery. The businesses are typically of a low to medium capital nature, operate in niche markets, and are supported by leading international technology alliances. The Group's fifth business is the realisation of surplus land, managed by Heartland Properties. These activities are significant and offer prime land holdings near Johannesburg, Cape Town and Durban for commercial, residential and industrial development and leasing purposes.

The principal manufacturing sites are located in South Africa near Johannesburg (mining solutions), Cape Town (specialty fibres) and Durban (specialty chemicals and decorative coatings). The mining solutions and decorative coatings businesses have expanded their presence throughout sub-Saharan Africa, and specialty fibres has a joint venture manufacturing facility in the USA.

AECI has a total employee complement of 8 000, many of whom are engaged in the Group's extensive sales, technical service and distribution networks.

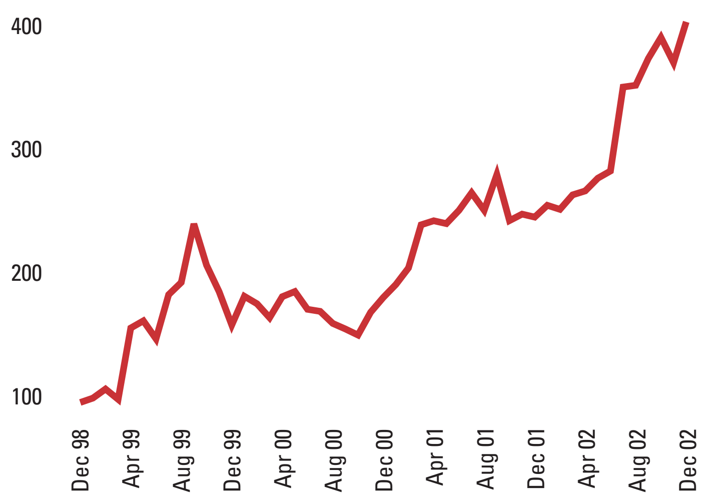
Shareholder information

Group results at a glance

for the year ended 31 December 2002

	2002	2001	% change
Revenue (R millions)	**7 818**	6 745	16
Net trading profit (R millions)	**698**	492	42
Headline earnings (R millions)	**318**	240	33
Net profit/(loss) attributable to ordinary shareholders (R millions)	**240**	(88)	
Headline earnings per ordinary share (cents)	**340**	258	32
Dividends declared per ordinary share (cents)	**112**	87	29
Market capitalisation at 31 December (R millions)	**2 657**	1 780	49
Trading margin (%)	**8.9**	7.3	
Return on net assets (%)	**20.7**	13.7	
Net borrowings as a percentage of shareholders' interest (%)	**35**	40	

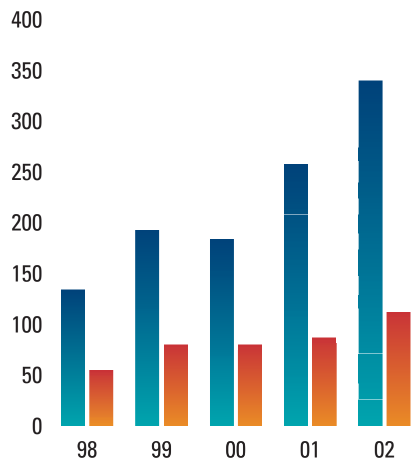
AECI share price* relative to JSE industrial index



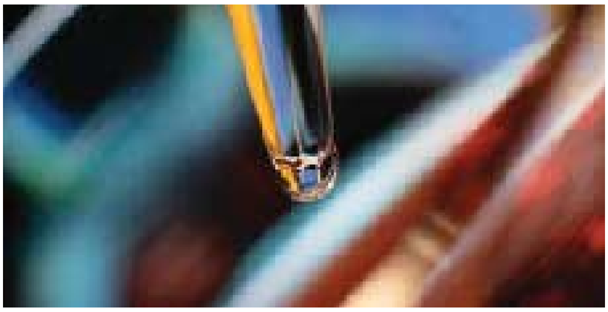
Indexed to December 1998 = 100

** Adjusted for special dividend*

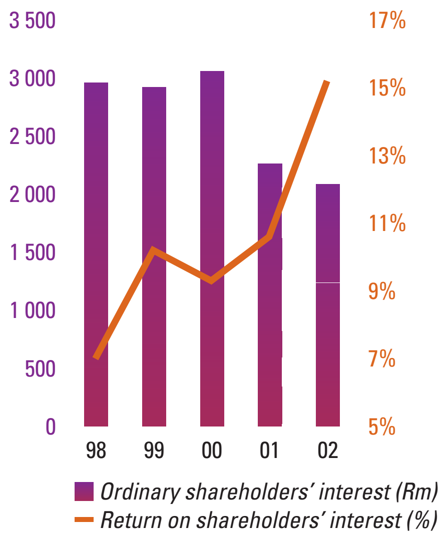
Headline earnings and normal dividends per ordinary share (cents)



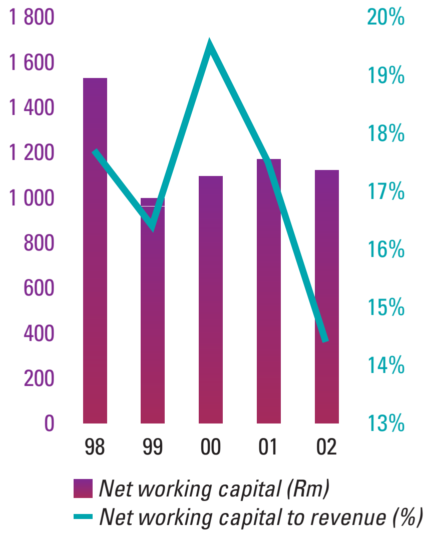
Headline earnings per share
Dividends per share



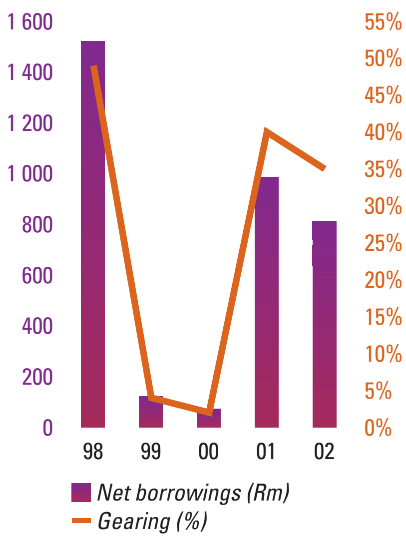
Return on shareholders' interest



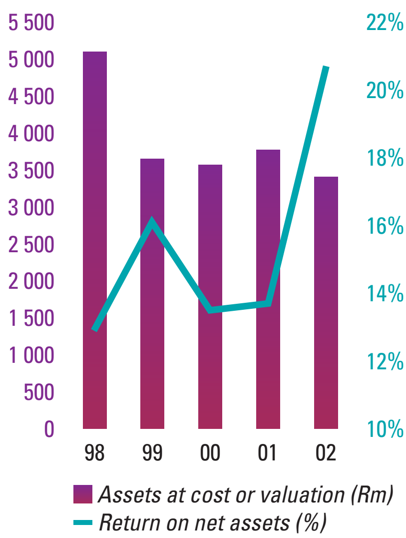
Revenue and net working capital



Net borrowings and gearing



Return on net assets



Analysis of ordinary shareholders

at 27 December 2002

	Number of shareholders	Shares held (thousand)	% of total shares
Shareholder spread			
To the best knowledge of the directors, after reasonable enquiry, the spread of shareholders at the above date was as follows:			
AECI Treasury Holdings (Pty) Limited	1	10 311	9.9
Directors	2	2	0.0
Non-public	3	10 313	9.9
Public	4 886	93 887	90.1
Total	4 889	104 200	100.0
Material shareholders			
According to an analysis of the Company's register of shareholders, the following public shareholders held 5 per cent or more of the issued shares at the above date:			
Investec Asset Management		14 069	13.5
Coronation Asset Management		13 067	12.5
RMB Asset Management		12 210	11.7
Stanlib Limited		9 210	8.8
Bernstein Investment Research Management		7 023	6.7
Old Mutual Asset Management		6 616	6.3

To the best of the directors' knowledge, the percentage of the Company's shares held by non-South African shareholders was 10.3 per cent at the above date.

Beneficial shareholders

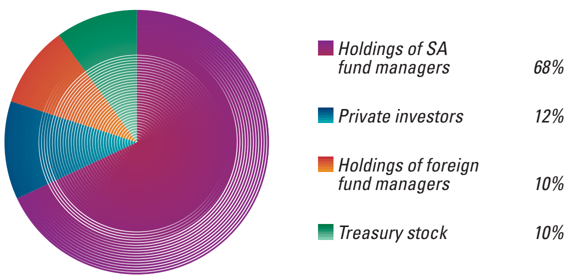
In accordance with the terms of Section 140A of the Companies Act, the Company has conducted investigations into the registered holders of its ordinary shares to establish the extent of beneficial shareholdings in the Company. Only the following public shareholder had a beneficial holding of 5 per cent or more of the issued shares at the above date:

	Shares held (thousand)	% of total shares
Public Investment Commissioner	5 833	5.6

Profile of registered shareholders

Size of shareholding	Number of shareholders	% of total	Shares held (thousand)	% of total shares
1 – 1 000	2 740	56.0	1 153	1.1
1 001 – 10 000	1 637	33.5	5 885	5.7
10 001 – 100 000	381	7.8	12 441	11.9
Over 100 000	131	2.7	84 715	81.3
Total	4 889	100.0	104 200	100.0

Profile of shareholdings



Financial calendar

2002 final ordinary dividend No. 138

Declaration date	24 February
Last date to trade cum dividend	10 April
Ex dividend trade	11 April
Payment date	22 April

5.5% preference shares dividend No. 130

Declaration date	12 May
Last day to trade cum dividend	6 June
Ex dividend trade	9 June
Payment date	17 June

79th annual general meeting

26 May

2003 interim ordinary dividend No. 139

Declaration date	28 July
Last date to trade cum dividend	12 September
Ex dividend trade	15 September
Payment date	22 September

2003 interim report released

29 July

5.5% preference shares dividend No. 131

Declaration date	17 November
Last day to trade cum dividend	5 December
Ex dividend trade	8 December
Payment date	15 December

Financial year-end

31 December

2003 audited results released

February 2004

2003 annual report posted

March 2004

Directorate, executive committee and senior managers

Non-executive directors

From left:

Colin Brayshaw (67)
During a long career in professional accounting, he has served as a managing partner, and then chairman, of Deloitte & Touche. Colin joined the AECI Board in 1996, is chairman of the Company's audit committee and a member of the nominations and remuneration committees. He is also chairman of Coronation Holdings and is on the Boards of several other companies including Anglogold, Anglo Platinum, African Harvest, Highveld Steel, Johnnic and Datatec.

Michael Leeming (59)
After 25 years at Nedcor, he retired as an executive director in 2002 and was appointed to AECI's Board in a non-executive capacity. He is also a member of the audit committee. Other directorships of listed companies include the Imperial group and the Altron group. He was previously chairman of the Banking Council of South Africa and president of the Institute of Bankers in South Africa.

Hixonia Nyasulu (48)
She is the sole proprietor of TH Nyasulu & Associates, a marketing and research company she established in 1984. Her expertise is in the areas of strategic market planning, research and marketing communications. She joined AECI's Board in 2002. Hixonia is chairman of the Development Bank of South Africa's Development Fund and a non-executive director of listed companies that include Anglovaal Industries, Nedcor, Nedbank, the Tongaat-Hulett group and Tongaat-Hulett Sugar.

Alan Pedder (64)
He is AECI's chairman, chairman of the Company's nominations and remuneration committees and also a director of SANS Fibres. He joined the AECI Board in 1994. Outside of the Group, he is chairman of Remploy Limited and ELAM-T Limited (both of the United Kingdom), as well as a director of Baronsmead VCT plc (also in the UK). Alan has a chemicals background, from a long career in ICI plc where his last role was director of technology for the group. Prior to this, he had led three of ICI's international businesses as chief executive.

Cedric Savage (64)
He has been a member of AECI's Board since 1997 and is a member of the Company's audit, nominations and remuneration committees. Formerly chief executive officer and executive chairman of the Tongaat-Hulett group, he retired from executive duties in 2002 and now serves as that group's non-executive chairman. He is also a director of ArmGold, Delta Motor Corporation, Datatec, Hulett Aluminium, Kumba Resources, Nedcor and Nedbank.

Executive committee

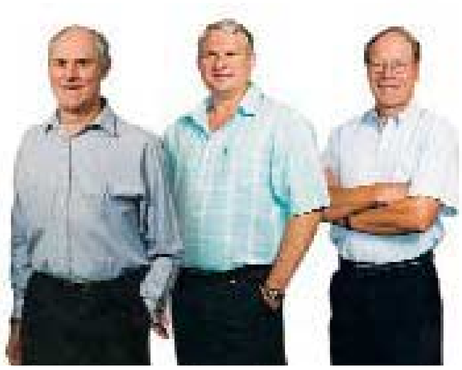
From left:

Neale Axelson (53)
He is an executive director of AECI, its chief financial officer and a non-executive director of Chemical Services. He has been an AECI Board member since 1989 and has more than 30 years' service with the Group. In addition to his overall responsibilities for AECI's accounting and finance, legal and secretarial, and group communications functions, Neale is executive chairman of Heartland Properties and chairman of AECI's Retirement Funds. He has a BSc (Hons) degree in mathematical statistics and operations research.

Graham Edwards (48)
He is managing director of African Explosives and a non-executive member of the Chemical Services Board. Graham joined AECI in 1978 soon after graduating in mechanical engineering from the University of the Witwatersrand. He subsequently obtained BCom, MBA and PhD degrees and is a registered Professional Engineer. After five years on the African Explosives Board, he was appointed managing director in 1999.

Schalk Engelbrecht (56)
He takes over as AECI's chief executive and Chemical Services' chairman on 1 April 2003. Schalk joined Chemical Services in 1980, where he managed a number of subsidiaries before being appointed the group's managing director in 1998. Prior to joining Chemical Services he had gained 10 years' experience in diverse fields, including technical and marketing. He joined AECI's Board as an executive director in 2002 and is also a Board member of South Africa's Chemical and Allied Industries' Association.

Thys Loubser (49)
He is chief executive at SANS Fibres. He was appointed to his current position in 1998, having joined the company as apparel business director the previous year. Prior to this Thys had gained extensive experience in the retail sector where his portfolios covered manufacturing, exports and the establishment of overseas sales opportunities. He is a registered Professional Engineer and has BEng and MEng degrees. He is also a non-executive director of Dulux.



From left:

Lincoln Partridge (60)
He joined AECI in 1964. His career over 38 years has included senior positions in production management, R&D, and project development and implementation. He was appointed Group manager, technology in 1998. Lincoln's portfolio includes overall responsibility for the Group's IT, the safety, health and environment function, site remediation and strategic resources.

Jacques Pienaar (43)
He is general manager, Group human resources. Jacques is a BA graduate of Pretoria University and has an Advanced Labour Law diploma from Unisa. In 1990 he joined Chemical Services as industrial relations manager and he took up his AECI appointment in 1998.

Lex van Vught (59)
From October 1998 chief executive Lex van Vught has led the transformation of the Group of companies he joined in 1968. Before 1998 he was managing director of Chemical Services for five years. With the restructuring of the Group's business portfolio complete, Lex has elected to retire from his current position on 31 March 2003. He will continue to participate in AECI matters as a non-executive director. He will remain a non-executive director of Chemical Services, where he has been chairman since 1998, and has taken up Board positions at other listed companies, including the Altron group and Tiger Brands.

Senior managers

From left:

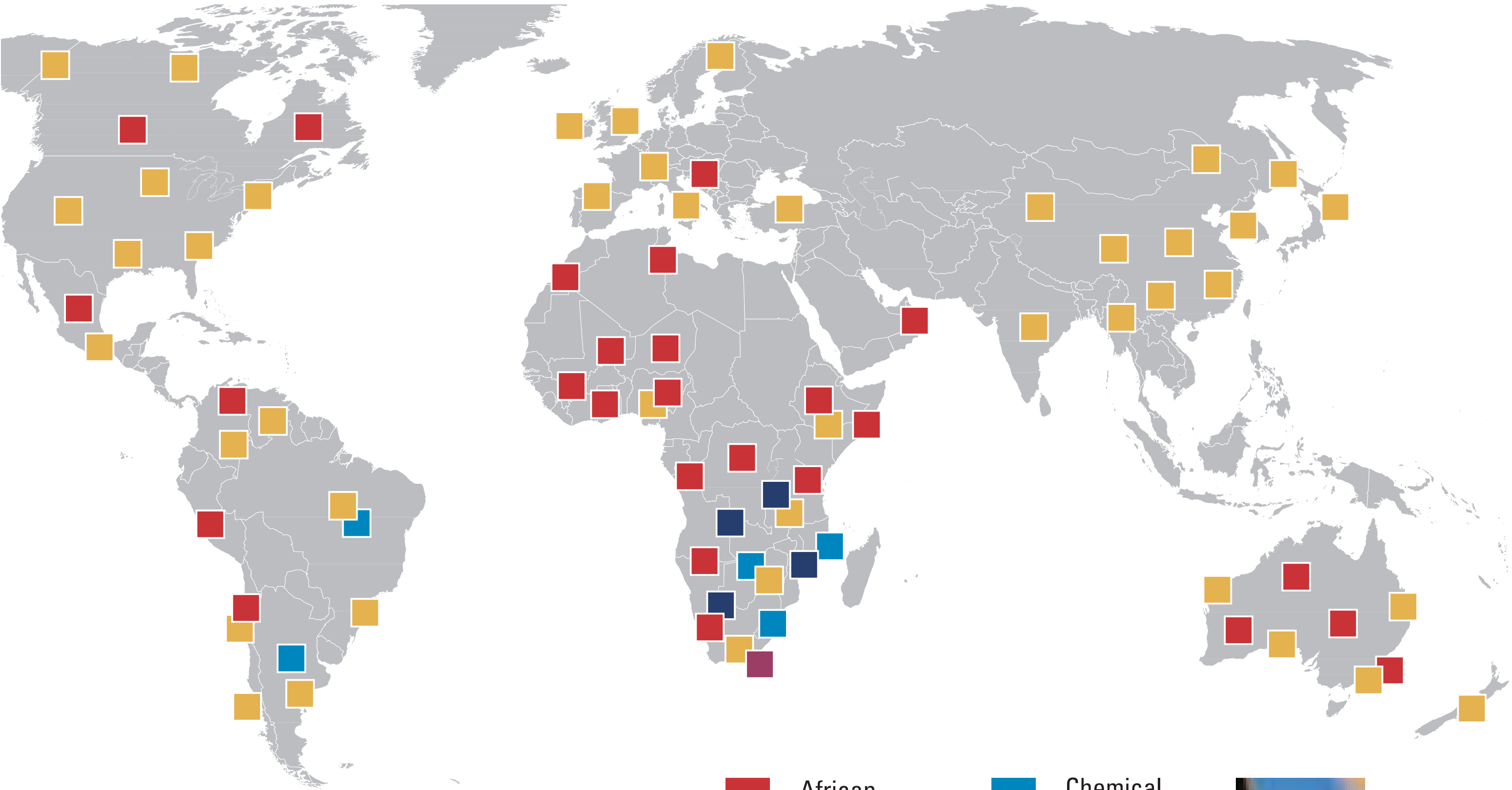
Charles Betts (54)
For three years he has been managing director of Dulux, the company he joined eight years ago. Prior to this he had spent six years at AECI's Group office in what was then the strategic planning function. His first 14 years with AECI were spent in areas of process control at various manufacturing sites, including a secondment to ICI in the UK. Charles will join AECI's executive committee on 1 April 2003.

Martin Potgieter (52)
He joined the Group in 1981 as a junior legal adviser. In 1984 he was appointed assistant legal adviser in Group office and in 1987 to his current position of company secretary and head of the Group's legal department.

Chris Sinclaire (53)
Group treasurer Chris Sinclaire joined AECI in 1973, after qualifying as a Chartered Accountant. He worked in a number of the Company's businesses before returning to Group office in 1989 to take up his current position. His responsibilities include the accounting, finance, insurance and taxation functions.

Louis van der Walt (48)
Before joining AECI as legal adviser in 1991, he had worked in similar capacities elsewhere. Prior to this, he had served as a public prosecutor and magistrate. Louis was appointed to his current position as manager of AECI's Retirement Funds in 1999.

Markets and areas of business



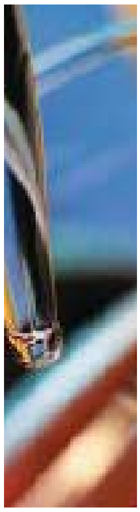
African Explosives

Chemical Services

Dulux

SANS Fibres

Heartland Properties



Group at a glance

African Explosives

African Explosives' primary purpose is to maximise the long-term creation of opportunities and value for its customers, shareholders and employees through the development, manufacture and supply of value-adding services, initiating systems and explosives. Customers are primarily in Africa. The company aims to transform the world's initiating systems market by being the leading supplier of high-value, low-cost electronic detonators and blasting solutions. It will continue working with its customers to release wealth by delivering leading blasting solutions.

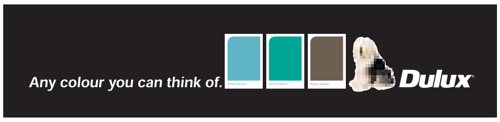
Chemical Services

Chemical Services comprises 18 autonomous, niche-orientated small to medium-sized businesses. They market specialty chemicals to a broad range of industries, mostly in South and southern Africa. Specialty chemicals are "invisible" products used in our daily lives, or as additives to enhance the process efficiencies of almost all manufacturing industries. The economic, environmental and social benefits delivered by specialty chemicals are significant and few products or processes can function effectively without them.

SANS Fibres

SANS Fibres produces quality nylon and polyester yarn. It is the AECI Group's truly global business and delivers thousands of tons of continuous filament yarn to local and export markets. These are used in various apparel, household and industrial products touching on almost every aspect of everyday life. SANS Fibres also produces high-grade polyester polymer for its own yarn process and for diverse packaging applications. It has manufacturing facilities at Bellville, Cape Town, and a joint venture in the USA at Stoneville, North Carolina.

Dulux



Dulux, as conveyed in its highly successful advertising campaign, brings you *Any colour you can think of . . .* The company is a leading player in southern Africa's decorative coatings sector. It enjoys a strong market position as an innovator and supplier of high-performance branded products to a wide variety of customers. Dulux manufactures in South Africa and also in Botswana, Malawi, Mozambique and Zimbabwe. It has a trading business in Zambia.

Heartland Properties

Heartland Properties manages the realisation of land and assets that have become surplus to the Group's requirements. Land and assets are available for a variety of end uses that include residential, commercial, retail and industrial. AECI's three largest and oldest sites are currently the focus of Heartland's activities. In addition to the flexibility of product options available, it is the location of these sites close to South Africa's three largest metropolitan areas that is contributing to the momentum of development.

Letter to shareholders

Alan Pedder

Dear Shareholder

It is a great pleasure to report on another successful year for the AECI Group. Headline earnings per share rose by 32 per cent to 340 cents, the annual dividend was increased by 29 per cent to 112 cents and the balance sheet strengthened significantly. In addition, safety performance improved and much productive attention was devoted to other key corporate citizenship issues such as health, environmental management, black economic empowerment and governance.

Trading conditions

As far as trading conditions were concerned, 2002 was a disconcerting year. The global economic slowdown completed its second year, war threatened in the Middle East, energy costs rose steadily, and the volatility of the rand was as extreme as it was perplexing. On the positive side, the South African economy performed admirably, which favoured the predominantly regional nature of the Group's revenue base.

The behaviour of the rand was the most important macro influence on the domestic economy. The currency's decline (an average devaluation against the US dollar of 18 per cent) greatly benefited the region's exports of manufactured goods. This was particularly evident in important customer sectors of the Group such as mining, automotive, pulp and paper and textiles.

In spite of a sluggish demand for direct sales into depressed global markets, sales volumes increased by 7 per cent in the year, mainly due to the effect of secondary exports.

The weaker rand also led to higher interest rates and inflation-driven fixed costs, both of which had an adverse effect on earnings. Towards the end of the year the rand strengthened dramatically, regaining much of the ground lost against the US dollar in 2001.

Financial performance

Management is to be congratulated on achieving a 32 per cent increase in earnings per share and reducing the gearing to 35 per cent in such volatile market conditions.

The compound increase in earnings per share over the 1998 – 2002 period now exceeds 40 per cent, after adjusting for the effects of the November 1999 special dividend. This is a record that places the Group high amongst its global specialty peers.

All five Group businesses contributed to the 42 per cent increase in net trading profit to R698 million with listed subsidiary Chemical Services posting an impressive gain of 37 per cent. African Explosives, Dulux and the property realisation activities all recorded strong performances, reflecting brisk demand for their products and services.

SANS Fibres, the Group's most global business, was affected not only by lacklustre global markets but also by losses incurred at its newly commissioned joint venture in Stoneville, North Carolina, where progress in technical and market development was slower than expected. Performance at Stoneville is now improving. Good local demand enabled a record year for SANS' South African operation.

Net financing costs increased by 16 per cent to R164 million in line with higher prevailing interest rates. Although the prime rate rose by 400 basis points during the year, the Group mitigated the impact through hedging and interest rate swaps.

A final dividend of 72 cents was declared, making the annual dividend 112 cents, a 29 per cent increase on 2001. The dividend cover ratio was three times, in line with our current objective.

Net borrowings at year-end stood at R814 million after making the final share buy-back payment of R206 million to Anglo American plc. This is equivalent to a gearing ratio of 35 per cent, which compares most favourably with 2001's year-end balance of R987 million (40 per cent). This result was achieved through excellent working capital management and prudent capital expenditure control.

Strategic progress

During 2002 the Group's four-year metamorphosis from a diversified chemical conglomerate to a focused specialty product and service solutions Group was completed successfully. The final touches to this programme were the completion of the disposals of non-core entities Kynoch Feeds, AECI Aroma and Fine Chemicals and a 40 per cent interest in Huntsman Tioxide for a total consideration of R150 million. An exceptional charge of R18 million after tax, associated with these disposals and other restructuring effects, has been recognised in the income statement.

Chemical Services Limited has concluded an agreement to acquire the mining and alkylate chemical businesses of Sentrachem for a cash consideration of approximately R140 million. The purchase remains subject to regulatory approvals.

It is indeed gratifying that AECI's results over the past few years, in poor global conditions, have validated the strategic direction.

The Group's strategic thrusts are:
- to drive the performance of its five businesses
- to achieve world-class competitiveness of its businesses by addressing fixed costs and asset utilisation
- to pursue controlled growth of the businesses
- to leverage Group knowledge and best practices
- to seek appropriate black economic empowerment partnerships

Corporate citizenship

Recent events such as the World Summit on Sustainable Development, the Global Reporting Initiative, and world-wide accounting scandals have placed renewed emphasis on governance and the King II provisions in particular.

The Group is proud of its history of high standards of corporate citizenship, a high level of integrity and pro-active management of corporate responsibility issues. This includes areas such as safety, health and the environment, community awareness and support, financial disclosure, quality of life investments, employment equity and small business development.

Comprehensive chapters on both governance and corporate citizenship are included in this annual report.

Directorate and management

During the year non-executive directors Eric Diack and Zandile Jakavula resigned from the Board of directors. Eric served on the Board for five years with great distinction and made a significant contribution to our transformation programme. We thank them both for their contribution and wish them well in their future careers.

We were fortunate to secure the services of Mike Leeming and Hixonia Nyasulu as independent non-executive directors and look forward to their contribution.

Lex van Vught will leave AECI as chief executive on 31 March and will be succeeded by Schalk Engelbrecht. Lex has played a key role in the Group's transformation since his appointment in 1998 and he will continue to serve on the Board as a non-executive director. Schalk has been with the Group for 22 years, the past five of which as the very successful managing director of Chemical Services.

Outlook

Amid fears of war in the Middle East and rising oil prices, few signs of sustainable recovery in the world's major economies are discernible. In contrast, steady performance of the domestic economy seems in prospect with inflation and interest rates set to abate from recent highs. The stronger rand and the recent unexpected surge in polyester raw material prices, if sustained, will pressure margins at SANS Fibres, particularly in the first half-year. Nonetheless, the Group is well positioned to respond to such challenges and management is targeting a further increase in headline earnings for the full 2003 financial year.

Alan Pedder
Chairman

Sandton, 24 February 2003

Corporate governance

AECI has long espoused high standards of ethical behaviour and corporate governance. In a 1987 review of Group purpose and values, dubbed "Towards 2002", one of the Group's commitments was "honesty and integrity in all our activities". Such a cultural underpin is a prerequisite for effective governance. Refinements to business process and governance practice have been made over the years in response to developing trends in local and international best practice.

Some years ago, the Board subscribed to the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance of November 1994. The Board considers that the Company complies with all provisions of that Code. The Board has noted the set of principles embodied in the amended Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance for South Africa 2002 ("King II"). The Board considers that, as at the date of this report, the Company is in compliance with the principles contained in the amended Code.

Board of directors

In terms of its articles of association, the Company has a unitary Board structure with at least half of all directors being non-executive. Currently the Board is comprised of three executive and five independent non-executive directors. The role and person of the non-executive chairman is separate from that of the chief executive. The Board meets at least four times per year. Directors are appointed or removed by the Board or by the Company's shareholders in general meeting, in each case in accordance with the articles of association. The appointment of new directors by the Board is subject to confirmation by shareholders in general meeting and all directors are subject to retirement by rotation and re-election by shareholders at least once every three years. A balance of skills, gender and demographic representation is taken into account in determining an effective composition of the Board.

The Board has recently adopted a Charter which sets out its mission, role, duties and responsibilities. In terms of the Charter, the Board:

- defines its mission as representing the interests of shareholders in perpetuating a successful business that adheres to the vision and values of the Company and creates long-term value for shareholders;
- is accountable and responsible to shareholders for the performance and affairs of the Company;
- determines the Company's objectives, values and stakeholders relevant to its business and gives strategic direction to management;
- maintains full and effective control of the Company by ensuring that appropriate processes and procedures are in place to monitor and evaluate the implementation by management of its strategies, policies, performance criteria and business plans;
- appoints the chief executive officer and ensures that succession is planned;
- ensures that the Company complies with all relevant laws, regulations and codes of best business practice and that it communicates with its shareholders and relevant stakeholders openly with substance prevailing over form;
- assesses at least annually the key risk areas of the business and determines the policies and processes necessary to ensure the integrity of internal controls and risk management in the Company;
- develops the framework, policies and guidelines for environmental, health and safety management and other aspects of corporate citizenship, and monitors key indicators of performance in this field;
- defines levels of materiality, reserving specific powers to itself and delegating other matters with written authority to management; and
- establishes and sets the terms of reference for sub-committees of the Board.

All directors have access to the services and advice of the company secretary who provides the Board and individual directors with guidance regarding their duties and responsibilities.

The attendance of directors at Board meetings held in 2002 during their tenure as directors is shown in the table below:

	Meetings held	Meetings attended
NC Axelson	4	4
CB Brayshaw	4	4
EK Diack	3	0
S Engelbrecht	1	1
ZM Jakavula	3	1
MJ Leeming	1	1
TH Nyasulu	1	1
AE Pedder	4	4
CML Savage	4	2
LC van Vught	4	4

Board committees

The Board has established four permanent sub-committees to assist in the execution of its responsibilities. Each of these sub-committees has written terms of reference under which authority is delegated by the Board. The composition and responsibility of each sub-committee is summarised below.

Audit committee

The Board established an audit committee several years ago. The committee is comprised of three independent non-executive directors. The committee meets at least three times per year. Meetings are attended by the company secretary as secretary to the committee and by the external auditors, the head of internal audit and the executive director responsible for finance. Current members of the committee are:
CB Brayshaw (Chairman)
MJ Leeming
CML Savage

The responsibility of the committee includes the appointment, oversight and evaluation of the external auditors, including an assessment of their independence and objectivity; the review and assessment of risk identification, measurement and control systems and their implementation; the review and assessment of the internal control environment in the Group, having regard to the findings of both the internal and external auditors; the appointment and evaluation of the head of internal audit; the evaluation of interim and annual financial statements before approval by the Board with particular focus on compliance with accounting standards, statutory and stock exchange requirements and appropriate disclosure of material items.

The external and internal auditors report to the committee at each meeting on the results of their work and they also have unrestricted access to the chairman and other members of the committee.

Nominations committee

The Board established a formal nominations committee during 2002. The committee is comprised of three independent non-executive directors. Meetings of the committee are held at least annually and additional meetings are held when deemed necessary. The Group human resources manager attends all meetings of the committee as secretary to the committee and the chief executive attends by invitation. Current members of the committee are:
AE Pedder (Chairman)
CB Brayshaw
CML Savage

The responsibility of the committee includes reviewing the Board structure, size, composition and balance between executive and non-executive directors and making recommendations to the Board regarding adjustments that are deemed appropriate; identifying and recommending for Board approval executive and non-executive candidates for appointment to the Board; and ensuring that plans for succession are in place, particularly for the chairman and chief executive.

Remuneration committee

The Board established a remuneration committee some years ago. The committee is comprised of three independent non-executive directors. Meetings of the committee are held at least annually and additional meetings are held when deemed necessary. The Group human resources manager attends all meetings of the committee as secretary to the committee and the chief executive attends by invitation when necessary to discuss the remuneration of executive directors and senior management. No attendee may participate in any discussion or decision regarding his or her own remuneration. Current members of the committee are:
AE Pedder (Chairman)
CB Brayshaw
CML Savage

The responsibilities of the committee include reviewing and amending, if appropriate, the Company's remuneration philosophy and policy with particular reference to the remuneration of executive directors and senior management; ensuring that executive directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance, having regard to the interests of shareholders and the financial condition of the Group; approving remuneration packages designed to attract, retain and motivate high-performing executive directors and senior management; establishing appropriate criteria to measure the performance of executive directors and senior management; and approving specific remuneration packages for individual executive directors and members of senior management.

Executive committee

The Board established an executive committee many years ago. The committee is constituted to assist the chief executive in managing the Company. Subject to matters reserved for decision by the Board, the chief executive's authority in managing the Company is unrestricted. The responsibilities of the chief executive include implementation of the strategies and policies of the Company; managing the business and affairs of the Company; prioritising the allocation of capital and technical and human resources; establishing best management practices and standards; senior management appointments and the assessment of senior management performance; and making recommendations to the Board on matters which are reserved for decision by the Board, including the fees payable to non-executive directors.

Remuneration policy

The remuneration philosophy endorsed by the remuneration committee and the Board is to set basic salary and benefits in line with market norms whilst rewarding excellent performance through generous short- and longer-term incentives. For all employees and executives, basic salary is managed in relation to market median having regard to individual performance against defined objectives. Benefits such as travel allowances and contributions to retirement and medical funds are maintained at market competitive levels.

For executives and senior management, an annual incentive bonus is provided with awards dependent partly on strategic delivery and partly on the achievement of defined financial targets. The proportion of basic salary which may be earned as an annual bonus varies according to the position of each individual. In terms of current guidelines, full attainment of financial targets and strategic objectives gives rise to a bonus of 50 per cent for the chief executive and between 40 and 50 per cent for executive directors and the leaders of operating businesses. Outperformance of financial targets yields a higher percentage bonus.

Executives and senior management also participate in a share option scheme as approved by shareholders in 2001. The scheme is intended to align the longer-term interests of executives with that of shareholders. Consideration is being given by the remuneration committee to supplement the existing option scheme with a "phantom" share scheme which links long-term executive wealth accumulation more directly to the actual financial performance of the Company.

Details of the remuneration earned and share options held by executive directors are disclosed in notes 24 and 25 to the financial statements.

Accountability and internal control

The directors are required by the Companies Act to prepare annual financial statements which fairly represent the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period, in conformity with generally accepted accounting practice.

The Company's external auditors are responsible for examining and reporting to shareholders their opinion on the annual financial statements of the Company and its subsidiaries and for performing an audit in accordance with generally accepted accounting and auditing standards in order to determine whether the financial statements are in accordance with generally accepted accounting practice.

Following discussions with the external auditors, the directors consider that, in preparing the financial statements, the Company has consistently used appropriate accounting policies supported by reasonable and prudent judgement and estimates. All applicable international and South African accounting standards have been followed. The directors have formally reviewed the budgets and forecasts of the businesses and have concluded that the Group will continue in business for the foreseeable future and, accordingly, the going concern basis of accounting remains appropriate.

The directors are also responsible for maintaining adequate accounting records and they have general responsibility for ensuring that an effective risk management process is in place to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

To enable the directors to meet these responsibilities, management sets standards and implements systems of risk management and internal control aimed at reducing the risk of error or loss in a cost-effective manner. The Company's internal audit function independently appraises the Group companies' internal controls. In addition, management of each operating business and corporate function submits a Letter of Assurance to the audit committee of the Company affirming that the internal controls in entities for which they have responsibility are adequate for their operations.

The directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that during the period there were no material breakdowns of internal controls and that these controls are adequate so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors believe that assets are protected and used as intended with appropriate authorisation.

The auditors concur with the above statements by the directors.

Ethics

AECI has a written code of ethics with which all directors and employees are required to comply. The code requires all employees to act with honesty and integrity and to maintain the highest ethical standards. The code is available on the Company intranet, given to all new employees and has been distributed as widely as practically possible to all existing employees. Procedures are in place to monitor compliance with the code. The directors believe that the requirements of the code have largely been met by all employees.

Dealing in securities

In accordance with the JSE Securities Exchange SA's guidelines, the Company has adopted a "closed period" policy during which period directors and designated employees are prohibited from dealing in the Company's securities. The closed period endures from the end of a financial reporting period until the publication of financial results for that period. Additional closed periods may be declared from time to time if circumstances so warrant.

Corporate citizenship

Any company that wishes to retain its "licence to operate" and its competitiveness must demonstrate good corporate citizenship. To do so it must prove its commitment to social and environmental issues that are of interest to wider society. It must also demonstrate its track record in these areas and set measurable targets against which future performance and improvements can be evaluated in a meaningful way.

AECI Limited and its businesses have a well-documented history in progressive practices in human resources and related social issues. Not only have major developments and status reports been included in previous annual reports to shareholders but formal policies, and practical guidelines, on a wide range of pertinent issues are also in place. These include labour relations, social responsibility, skills development, employment equity, black economic empowerment, HIV/AIDS and safety, health and environmental matters.

In matters relating to the safety and health of employees and of surrounding communities, AECI's policies, commitments, obligations and achievements are equally well developed and documented. The same is true for the environmental performance, and improvement targets, of all its businesses.

Just as it is responsible for the Group's financial delivery, the AECI executive committee is equally responsible for, and involved in, the corporate citizenship aspects of the Group's current and future performance. It is recognised at the highest level that it is only through a balanced approach to all criteria of the triple bottom line that AECI Limited will ensure the sustainability of its businesses for the mutual benefit of all stakeholders.

Group human resources

The Group's philosophy is to cultivate its people into a highly motivated and productive workforce by empowering individuals to develop their full potential. To this end, leading edge training and skills development programmes are in place, as are policies and practices to enhance the working environment and to reward excellence.

Labour relations

The successful transformation of the Group in the last four years, without any industrial action and no major disputes, illustrates the pragmatic relationship that exists between the Company and employee representative bodies. All Group businesses maintain effective transformation forums that are representative of all employees and/or trade unions and management and meet regularly to deal with pertinent matters.

Skills development

Workplace skills plans were finalised and delivered to the relevant Sectoral Education and Training Authority (SETA). Associated skills levies were paid to Group companies.

Learnerships have become a major focus of the skills levy. Government has identified critical needs and the SETAs have added industry-specific areas for attention. A number of options for participation are available to the Group. Those being investigated include providing learnerships in key areas identified in the paper on National Skills Strategy (for example, training in HIV/AIDS matters and in the establishment of small and medium enterprises) and opportunities for target groups such as the unemployed and those with disabilities.

In the Group, SANS Fibres is especially well advanced in the implementation of the requirements of the Skills Development Act. Learnerships have been developed in-house for the manufactured fibres sector and over 100 employees have signed learnership contracts. These learnerships have been recognised as benchmarks for other industries. SANS has also participated in establishing a certificate course in textile processing that is run by the Peninsula Technikon. Ten of the company's employees are in their second year of this course.

People with disabilities

In terms of the Employment Equity Act, people with disabilities are a designated group. A national study published in 2000 found that 88 per cent of these individuals, or about 6 per cent of South Africa's population, were unemployed and seeking work. AECI intends providing learnerships for people with disabilities on an ongoing basis, in a diverse area of activities.

Social responsibility

The new millennium marked the beginning of a different approach to traditional corporate giving in South Africa and the corporate social investment sector is undergoing significant transformation. Legislation has had a major influence in the formulation of new social responsibility policies. In the legislative framework related to employment equity and skills development, it has become important to focus on educational requirements highlighted by these Acts.

AECI Limited has always focused on **education** in its Quality of Life budget. This focus will remain but projects will be chosen via reputable non-governmental organisations (NGOs) that add value to the formal education sector rather than from the latter sector itself. This includes projects such as READ, PROTECH, Project Literacy, STEP, and early childhood development initiatives, all of which have registered training courses with the South African Qualifications Authority (SAQA).

Skills training and job creation are also receiving AECI's attention. Good examples include St Anthony's and the Sparrow Trust, two NGO-based training centres. Both have registered their programmes with SAQA and they are also registered as service providers, another key factor in determining financial support.

As has already been indicated, **individuals with disabilities** are specifically referred to in the Employment Equity Act. They must be, and are, included in social responsibility projects such as Access College and Societies for the Blind.

Poverty alleviation has become a national government priority. It was a central theme of the World Summit on Sustainable Development held in Johannesburg in 2002 and, furthermore, has received attention via government initiatives such as the creation of the African Union and the launch of NEPAD.

As a matter of policy AECI will identify and support a limited number of poverty alleviation programmes through the Quality of Life budget. The current project to install water tanks in rural areas, initiated by the Department of Water Affairs and Forestry, is an example. Monkeybiz is another community project being supported. It creates employment for about 250 women in the beadwork field.

Also a key national strategy going forward is in the area of partnerships between grant makers and communities, government departments and NGOs.

Whilst the idea of partnerships has merit, related projects are costly, not only in monetary terms but also in terms of resources required. It may be more feasible to continue operating within existing structures that are appropriately resourced. Examples of such structures are the National Business Initiative, the Joint Education Trust and Business Against Crime. Partnerships with communities, such as the Work to Win project, do have direct AECI involvement, as do outreach programmes at tertiary educational institutions.

Black economic empowerment (BEE)

The Group's approach to this important issue has been twofold: the development of small and medium enterprises (SMMEs) and procurement from BEE companies.

Business development

Unemployment is a reality in South Africa. The formal sector is downsizing and is unable to absorb a growing number of job seekers, or to offer employment to the majority of university graduates and school-leavers. AECI's policy is to develop SMMEs by assisting Group employees in compiling business plans, preparing related financial statements, identifying non-core activities in-house that lend themselves to privatisation and mentoring these businesses. At present, no financial assistance is provided to establish the SMMEs, other than the sale of redundant assets at below market-related values and on favourable suspensive sale agreements. It is possible that, in future, similar assistance will be made available to entrepreneurs outside the Group and that the provision of funding through loans will be explored.

Procurement

The main thrust in this regard has been via African Explosives Limited (AEL) at Modderfontein. In 2002, AEL placed orders worth R34 million with small to medium blacked-owned enterprises. Efforts by other Group businesses are being stepped up and a more centralised approach will be adopted in 2003.

The third component of the nation's BEE imperative, that of equity participation in business, will receive increased attention during 2003.

HIV/AIDS strategy

The HIV/AIDS pandemic in southern Africa must be addressed as a long-term strategic issue by business and society. It requires a structured approach and must be managed proactively in the corporate domain. AECI has active AIDS taskforces in its businesses and they have formulated strategies and policies to deal with the disease. The policies incorporate activities that support the creation of awareness through education, and specific action plans to manage the potential negative impacts of the disease.

The "AID for AIDS" programme became available to AECI Medical Aid members in March 2002. It will also be made available to members of the newly-introduced low-cost medical aid option from 2003. "AID for AIDS" is a specialised treatment programme that operates on the premise that HIV/AIDS is a manageable chronic disease that can be treated cost-effectively. The cost of anti-retroviral treatment (ART) is becoming more affordable through bulk purchasing and as a result of efforts by lobby groups.

HIV/AIDS management programme

The company's HIV/AIDS workplace intervention aims to reduce the emotional impact of HIV/AIDS and to meet the medical and lifestyle needs of employees. As part of proactive management, the prevention of new infections is critical. Equally important is finding caring, cost-effective and practical ways to care for and support those already infected.

Anonymous prevalence testing is aimed not only at prevention but is also seen as a crucial tool for identifying suitable future actions. The objective of voluntary seroprevalence assessment is to determine the HIV/AIDS rates in the workplace. It is considered an investment in people and productivity, with the outcomes providing an opportunity to revisit current practices, policies and programmes, thereby ensuring that they remain aligned with global disease management trends. Voluntary counselling and testing usually follow prevalence testing. Through this, employees can establish their HIV/AIDS status.

Via the AECI Medical Aid, infected employees and their registered dependants have access to full disease management programmes, including ART treatment where it is medically advised. Strong emphasis is placed on confidentiality for patients who come forward. They are advised on the benefits available and on optimising their value, and they are counselled and receive holistic patient care.

Employment equity

AECI's larger businesses have submitted their second employment equity reports to the Department of Labour. With the transformation of the Group complete and with employee numbers relatively stable across all businesses, it is now possible to establish a baseline for the Group in order to monitor future progress. Active employment equity committees are in place Group-wide and represent all employees and/or employee representative bodies.

General data reveal that there are still low levels of participation in the workforce by people with disabilities. Opportunities for employment of these individuals will be investigated and created this year.

A number of recent appointments have been made from designated groups across AECI's businesses and support functions at various levels of seniority, including senior management and directorate positions.

The focus on employment equity will start shifting from the quantitative approach in terms of the appointment of a diversified workforce to a qualitative approach which will concentrate more on the development, training and mentoring of employees as well as the retention of employees from designated groups.

Safety, health and environment (SHE)

Policy

The AECI Group is committed to a clean, safe and healthy environment for its employees, contractors, customers and surrounding communities.

The AECI executive committee holds itself responsible for the regular review of the Group safety, health and environmental policy, for the guidance of Group companies in its implementation, and for monitoring performance.

We require each Group company:

- to adopt a safety, health and environmental policy that meets the needs of its businesses
- to hold line management accountable for the implementation of the safety, health and environmental policy
- to develop and maintain appropriate procedures to support the safety, health and environmental policy
- to manage safety, health and environmental risks in a manner that meets the legal requirements of the countries in which it operates and accepted international criteria
- to be prepared for and deal with any foreseeable emergency
- to ensure that employees and contractors are trained effectively
- to maintain a record of safety, health and environmental information and to meet statutory record-keeping requirements
- to audit its performance against its policy, standards and procedures and to report this regularly to the AECI executive committee

SHE standards

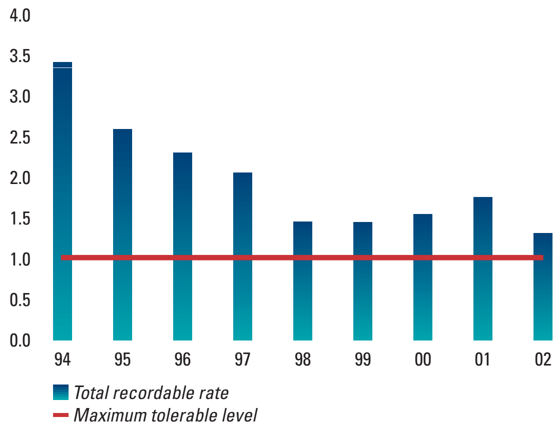
In support of the policy, AECI has developed SHE standards that are mandatory for its businesses. Each business must submit an annual Letter of Assurance to the chief executive detailing compliance with the standards and proposed corrective actions for non-conformances.

Safety and occupational health performance

The guidelines published by the American Occupational Safety and Health Administration (OSHA) form the basis against which the AECI Group records safety and occupational health incidents. In this system any incident requiring more than simple first aid is a recordable incident.

Statistics published by a number of international companies in chemical and similar industries suggest that leading organisations achieve a performance of less than one recordable safety or occupational health incident per 200 000 hours worked. AECI intends to become a world-class performer in SHE and has declared a Total Recordable Incident Rate (TRIR) of 1.0 as a maximum tolerable level against which progress can be measured.

TRIR – AECI employees



Safety and health performance

In the Group there has been a significant improvement in the TRIR for AECI employees during 2002, from 1.76 to 1.32, with a most pleasing trend in the second half of the year. There were no site-based fatalities.

Regrettably, however, a contractor driver died in a road accident. Specifically, the rates per business were:

	AECI Employees	Contractors	Combined
African Explosives	1.06	1.38	1.08
Chemical Services	2.01	0.90	1.88
Dulux	0.75	0.83	0.76
SANS Fibres	1.35	0.18	1.12
AECI Group	**1.32**	**0.95**	**1.27**

Causes of injuries and occupational health incidents

	Lost time	Non-lost time	Total
Burns from powder ignition	1	3	4
Chemical burns	3	10	13
Chemical exposure	11	6	17
Explosions	2	1	3
Injuries from falling	13	10	23
Injuries from moving machinery	2	2	4
Injuries from handling objects	10	16	26
Injuries from handling tools	4	8	12
Injuries from lifting objects	3	2	5
Noise-induced hearing loss	0	1	1
Repetitive strain injuries	2	0	2
Road accidents – company business	2	3	5
Total	**53**	**62**	**115**

Many incidents relate to falls, handling objects and the use of tools. However, some involve exposure to chemicals and workplace noise. These are viewed in a more serious light and receive particular attention. The above analysis forms the basis for corrective actions focused on human behaviour and engineering improvements.

Occupational illnesses

Routine tests indicated nine possible cases of pesticide exposure, and all these occurred during the first quarter of 2002. The production process causing the exposures was stopped until effective protective measures could be initiated. No subsequent incidents of this nature occurred.

There were six cases of dermatitis caused by contact with irritant chemicals, two musculoskeletal conditions induced by work involving repetitive motion and one case of hearing deterioration associated with past exposure to noisy workplace conditions.

Cost of safety and occupational health incidents

Every safety or occupational health incident is costly in terms of its effects on people and business productivity. Direct costs associated with medical treatment are insignificant compared with the indirect costs of loss of time by the employee, work colleagues, management and supervisors who investigate and report on the incident. It is estimated that incidents of injuries and occupational illnesses in 2002 cost AECI R1.6 million in medical treatment and investigation costs alone.

Health promotion

Voluntary, free and confidential basic medical examinations are available to all employees. The service is provided in addition to any work-specific or legal medical requirements and the objective is to promote a healthy lifestyle. Medical staff provide advice and follow-up on health concerns. Fifty eight per cent of employees utilised this opportunity in 2002. Other services available include influenza vaccinations, anti-substance abuse programmes, smoking cessation campaigns, stress awareness campaigns and HIV/AIDS programmes. Benefits include improved employee health and morale and reduced absenteeism and medical claims, a positive impact on productivity, and better safety performances.

Environmental performance

AECI has adopted the guidelines of the Global Reporting Initiative (GRI) for reporting environmental performance. The GRI is an associate agency of the United Nations Environment Programme.

In 2002 all AECI Group businesses made progress in developing benchmarks to determine their impact on the environment and in measuring progress towards sustainable practices. This report is AECI's first attempt at following GRI indicators on environmental performance. The performance data presented here will form a baseline for setting performance targets for individual businesses. AECI will monitor its environmental performance against other leading companies in the chemical industry world-wide.

Energy usage

There has been a 57 per cent reduction in energy usage since 1997 (see graph below). This is mainly attributable to the changed business profile of AECI resulting from the transformation process. The most recent energy usage is representative of the new Group structure and will form a baseline for setting future reduction targets.

Water usage

This marked reduction (see graph below) is also attributable mainly to the transformed business profile of AECI. The most recent water usage data will form the baseline for future reporting.

Waste disposal

The increase in hazardous waste production (see graph below) is due mainly to increased output of products. Hazardous waste arisings will receive increased focus during 2003.

Disposal of non-hazardous waste in 2002 amounted to 42 808 tons, including coal ash from boilers.

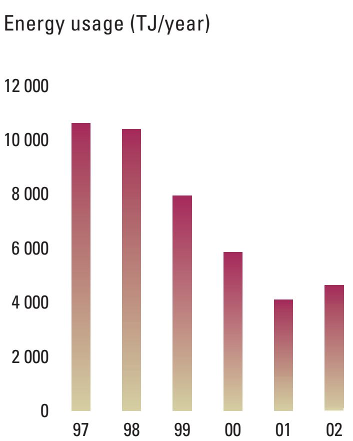
Environmental burden due to emissions to atmosphere

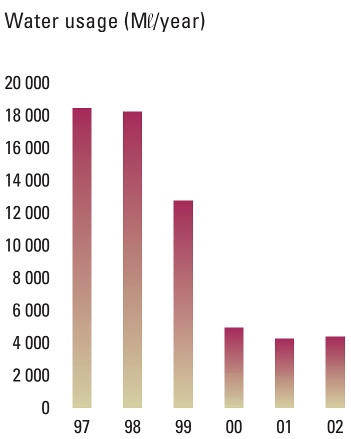
The environmental burden (EB) concept is widely accepted as a meaningful and understandable method for managing and reporting on environmental emissions. EB provides a basis for combining the environmental impact of different substances in a specific impact category by employing accepted factors and weightings and expressing the impact in terms of a proxy substance for that category.

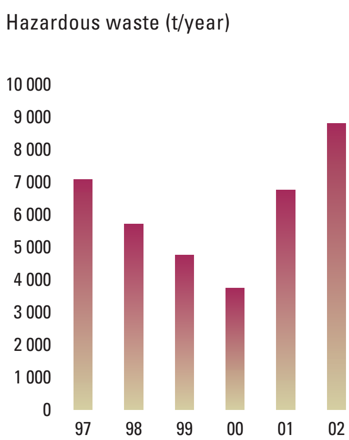
Atmospheric acidification is defined as the potential for certain released gases to form acid rain and to acidify water. The EB for acidification for the Group for 2002 has been calculated at 2 050 tons of sulphur dioxide equivalent. This will be employed as a baseline for managing future trends.

It is widely accepted that progressive global warming threatens to alter climate and habitat conditions. **Global warming potential** is expressed as an EB in tons/year of carbon dioxide equivalent. The global warming EB for the Group for 2002 has been calculated at 368 700 tons of carbon dioxide equivalent. This baseline figure will be used for tracking and managing future trends.

The AECI Group makes no impact on **stratospheric ozone depletion**. The AECI Group contributes to **photochemical smog** EB to the extent of 98 tons per year of ethylene equivalent, owing to the emission of sulphur dioxide.







Environmental burden for emissions to water

The EB for **aquatic ecotoxicity** refers to the release of substances that may lead to adverse effects on aquatic plants and animals. In 2002 the Group contributed an EB for ecotoxicity to aquatic life equivalent to 69 kg copper equivalent, which is negligible.

The AECI Group does not contribute any impact to the EB for **aquatic acidification**.

Marine effluent pipeline at Umbogintwini

Umbogintwini Operations Services (UOS), a wholly-owned subsidiary of AECI, operates a marine pipeline that discharges into the sea off Umbogintwini, in KwaZulu-Natal. Huntsman Tioxide operates a second pipeline that discharges close to the UOS outlet. In recent years the two companies have co-operated closely in identifying and implementing ways of minimising, as far as possible, the impact of these pipelines on the marine environment. An annual ecological survey to determine the impacts of effluent discharge is undertaken by a team of international consultants. The most recent survey indicated "significant improvements in the ecology of the seabed communities and yielded the highest diversity of marine invertebrates recorded at the site since monitoring surveys began". This is a very encouraging finding. Further improvements are anticipated as the benefits of the continuing factory improvement programmes are felt.

Environmental incidents

There were 15 environmental incidents that impacted on the public domain. Seven involved contractor vehicles and five of these were as a result of road incidents. The other eight incidents resulted from production plant upsets, typically through mal-operation. The most serious of these occurred as a result of an explosion in a storage tank.

Land remediation

Land remediation activities focused on the release of land for redevelopment and on bringing old production sites into line with current environmental legislation. Demolition of redundant explosives buildings at Somerset West, better quantification of remediation needed at Modderfontein and definition of necessary rehabilitation at Milnerton were all aimed at releasing land for redevelopment.

Remediation work addressed legal requirements at a number of sites. A start was made on capping the gypsum dams at Potchefstroom, required of AECI in terms of the sale of the Kynoch Fertilizer business. Other significant achievements included contouring of historical waste sites at Umbogintwini and establishing indigenous vegetation. In addition, considerable demolition of derelict buildings was carried out at Somerset West and land rehabilitation plans were formulated.

Expenditure on land remediation for 2002 amounted to R17 million. At the end of 2002, the provision for future remediation of soil and groundwater in the AECI Group was estimated to be R177 million. This amount is regarded as adequate to carry out all remediation required of AECI in terms of legislation.

ISO 14001

ISO 14001 is an internationally accepted standard aimed at ensuring that companies are managing their production plants in line with their stated policies to minimise environmental impacts. The AECI Group has set a deadline for all its businesses that have potential environmental impacts to implement ISO 14001 before the end of 2004.

Risk assessment

All Major Hazard Installations in the Group have been notified to the appropriate authorities in accordance with the requirements of the Occupational Health and Safety Act (Act 85 of 1993). Risk assessment is fundamental to all activities and has been integrated into the business culture. All businesses undertook a review of the engineering standards being applied and corrective action plans were developed as appropriate. To guide responsible developments on sites the Group has adopted the planning guidelines of the Health and Safety Executive in the UK.

"Responsible Care"

"Responsible Care" is a public commitment to continuous improvement in SHE areas. In 1994, at the first Responsible Care charter signing in South Africa, AECI committed its businesses to the process. AECI continues to support this initiative and is working with the Chemical and Allied Industries' Association to find ways to streamline information flow. As part of the commitment to Responsible Care each business must have current emergency response plans in place.

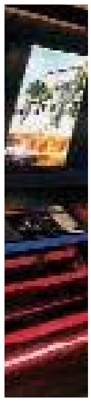
Review of operations

As conveyed in the chairman's letter to shareholders, 2002 was characterised by a buoyant South African manufacturing sector and extreme movements in the value of the rand. Both these external conditions, which were not unrelated, had a beneficial impact on demand for the Group's products. All five businesses availed themselves of these factors, as well as of some turnaround and rationalisation opportunities, to deliver improved trading profits.

The Group's five businesses are reviewed as follows:

Mining solutions



African Explosives

2002 was a pleasing year for African Explosives Limited (AEL), both from the perspective of financial performance and that of operational strategies. A strong platform for future growth and profitability has been consolidated.

On the back of increased volumes and the weaker rand, sales at R1 904 million were 29 per cent up on 2001. Sales into the Narrow Reef markets exceeded expectations with strong demand in the platinum sector and growth in gold sector volumes for the first time in many years. Year-on-year sales increased in Surface mining, Botswana, Ghana and Tanzania whilst the businesses in Mali, Nigeria and Zimbabwe (the Ngezi opencast platinum mine commissioned in 2001) were included in AEL's results for the first time. Volumes were down in Zambia and sales were again affected by the loss of the copper mining business.

AEL's contribution margin was unchanged from 2001, with product price increases negated by those for raw materials, some product mix changes and a negative ammonium price variance. Trading profit, at 9.5 per cent of sales, totalled R176 million, 24 per cent better than in 2001.

In its drive to supply leading blasting solutions for the mining, quarrying and construction industries, AEL focused on technical innovation to tailor-make solutions to customers' needs. This and a number of other factors combined to yield the improved performance achieved in the year under review.

African growth

The company continued to pursue growth in Africa and this strategy will be carried forward into 2003. The focus on attracting new business in specific markets, introducing latest technology to these and committing to selected African economies through direct investment, will be sustained. Existing operations in Botswana, Ghana, Guinea, Mali, Tanzania, Zambia and Zimbabwe were consolidated and a new, R10 million bulk emulsion plant was commissioned in Ethiopia.

Electronic detonators

Already established as the leading producer of electronic detonators, AEL has also emerged as the world's frontrunner in the development and supply of blast control networks and associated services. As a step in the growth strategy for electronic detonators a dedicated subsidiary, Detnet Solutions, has been

Gys Landman (42) is business director – Narrow reef. He joined AEL in 1994 from the University of the Witwatersrand where he was a lecturer. Prior to this he had worked in the mining industry. His qualifications include a PhD (Eng) as well as degrees in business management and economics.

Graham Edwards (48), managing director. See page 6.

Research and technology director **Piet Halliday** (50) has overall responsibility for the technical aspects of the company's products world-wide. He joined AEL in 1980 after he had completed a PhD in the synthesis of high energy sensitisers for explosives.

Financial controller is **Danie Richards** (40). He has an Honours degree in accounting and is a Chartered Accountant. He joined AECI as Group accountant in 1992 before moving to AEL and then spending four years overseas in ICI's businesses. He returned to assume his current position in 2001.

Colin Rilley (51) started his Group career as a laboratory assistant in 1969. He is an executive director of AEL, responsible for overseeing the Surface and African business activities, and he participates in the team tasked with globalising AEL's electronic detonators. Colin's qualifications include a BCom and a Masters degree in business leadership.

Cyril Gamede (39) joined AEL as operations director in 2002. His background and experience are in engineering, projects, manufacture and operations and, in addition to an MSc (Eng) degree, he also has a qualification in labour law.

Managing director of DetNet Solutions, and an AEL director, is **Christopher "Tiff" Whitehouse** (38). With degrees in engineering and commerce, Tiff joined AECI as a process engineer in 1988. Prior to moving to AEL in 2000 he was managing director of Nitrogen Products, tasked with shutting Modderfontein's chemicals business as part of AECI's transformation.

AEL's general management team. From left: Gys Landman, Graham Edwards, Piet Halliday, Danie Richards, Colin Rilley, Cyril Gamede, Tiff Whitehouse.

established. Via this company, the globalisation drive for AEL's new generation high-value, low-cost detonators will be intensified in 2003.

Narrow reef

In 2002, the gold sector's performance was outstripped by growth in the platinum sector for the first time. AEL benefited from this thanks to its ability to offer customers new, integrated and flexible products and systems. These include blasting on customers' behalf, customer training on site and network blasting systems that enable mines to centralise blasting control.

Underground bulk systems

New and improved emulsion formulations, pumping systems and value-adding services were supplied to the South African underground mining sector. Specialised technologies optimise safety whilst improving blasting efficiencies to world-class standards. The emphasis in 2003 will remain on improving customer training and service and opportunities in African markets will be explored.

Internal efficiency

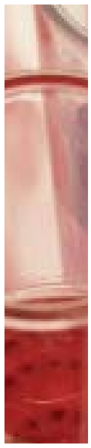
Progress was sustained in procuring technically advanced plant; improving processes, products and services; higher quality; and greater industrial rationalisation. Product quality improvements were most evident in, but not exclusive to, shock tube. The previous year's excellent levels of on-time, in-full delivery to customers were maintained.

AEL's prime objective remains to create wealth by developing and delivering blasting solutions in partnership with its customers. Its strategies for this are well established and will continue to be sustained in the year ahead in pursuit of ever-improving performance.

Financial performance (Rm)

Specialty chemicals



Chemical Services

Chemical Services Limited (Chemserve) sustained its excellent long-term growth pattern in 2002 by posting a 30 per cent increase in headline earnings. This elevated the 10-year compound growth rate per annum in headline earnings per share to 22 per cent, demonstrating the company's ability to sustain earnings growth notwithstanding volatile conditions in the external environment.

The specialty chemical activities of AECI are consolidated in Chemserve, the Group's listed subsidiary that comprises 18 autonomous business units.

Sales for the year exceeded R3 billion for the first time as a result of strong demand from the local manufacturing sector, a key driver for this business. Export-focused businesses such as mining, paper and automotive performed particularly strongly as they benefited from the weaker rand.

The specialised nature of products and services offered, and value added to customers, enabled Chemserve's gross margins to be maintained in a period of fluctuating input costs. The dramatic turnaround of AECI Coatings, the significant improvements in Crest Chemicals and Chemserve Technical Products, and excellent results in the other operations resulted in an improved trading margin.

Ongoing attention to optimise the Chemserve group structure of market-focused niche businesses, with sufficient critical mass to sustain a viable operation, led to the closure of Chemserve Trio and the incorporation of Chemserve Polymer Sciences into Chemserve Systems. In October, in terms of a previous commitment, Chemical Services sold a further 20 per cent of its shareholding in Crest Chemicals to Germany's Brenntag, one of the world's largest chemical distributors. Brenntag and Chemserve are now equal shareholders in Crest.

Stringent working capital management and prudent capital expenditure, in both the maintenance and expansion areas, contributed to positive cash flow.

Specialty chemicals are "invisible" products used in our daily lives, or as additives to enhance the process efficiencies of almost all manufacturing industries. The economic, environmental and social benefits delivered by specialty chemicals are significant and few products or processes can function effectively without them. Growing demands from an increasing population, sophistication and pressures on areas such as nutrition, water, health, clothing, housing, transport and communications provide unique challenges and opportunities for the specialty chemicals industry.

The move to a solutions-based business model is a consequence of this important role of specialty chemicals. The focus on value added to customers through service, technology transfers, applications know-how and partnerships, instead of a products and manufacturing bias, is a key thrust for this cluster of operations.

To stay abreast of technology trends, Chemserve has aligned itself with major global players in the specialty

Trevor Street (55) has more than 26 years' service in the group, starting as a sales representative. Several management positions followed and he was appointed to the Chemical Services Board in an executive capacity in 1991. He has served as chairman of a number of subsidiaries since 1997.

Group financial manager is **Chris Povall** (45). Before joining the company five years ago he had gained experience in the auditing field and had also worked as financial director for a major media company. Chris has a BCom degree and is a qualified Chartered Accountant.

Mark Dytor (41) joined the group as a sales representative in 1984. He was appointed to the group's executive committee in 1998 and subsequently to the Board in an executive capacity. He became managing director of Chemserve Water Sciences in 1993 (subsequently known as ONDEO Nalco) and then of S.A. Paper Chemicals in 1996, which position he still holds.

Managing director, **Schalk Engelbrecht**. See page 6.

Group information technology manager **Chris Kotze** (37) has been with Chemserve since 1990 when he joined the group's quality assurance department. He has held his current position since 1998 and his qualifications include a BSc degree and a diploma in Datametrics.

Group secretary **Stuart Hughes** (36) is an admitted attorney. He has a BA LLB and a Constitutional Litigation Certificate. He practised as an attorney before joining AECI's legal department in 1994. He took up his current position in 2001.

Alan Roth (59) joined the group in 1968. He has held a number of portfolios in the chemistry, technical and production fields. He is currently general manager, technology. Alan has an MSc degree in chemistry and is an alternate director on Chemserve's Board.

Rick Cameron (54) took up his position as human resources manager in 1979. Prior to joining the company he was deputy registrar (staffing) at the University of the Witwatersrand, from where he has a BA degree. He also has an MA degree from London University.

From 1 April 2003, **Frank Baker** (49) will become managing director of Chemserve. He has a BSc (Chem Eng) degree and joined AECI's technical department in 1976. He moved to Chemserve in a management position in 1993. He joined Chemserve's executive committee in 1998 and its Board in 1999. From 1998 to 2002 he managed a number of group subsidiaries.

Chemserve's management team. From left: Trevor Street, Chris Povall, Mark Dytor, Schalk Engelbrecht, Chris Kotze, Stuart Hughes, Alan Roth, Rick Cameron, Frank Baker.

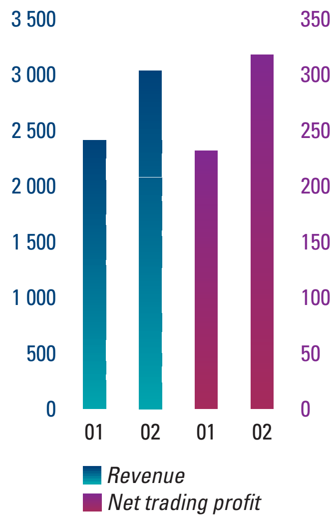
chemicals sphere through long-term licence agreements or joint ventures.

Chemserve's progressive employment practices, under-scored by one of the highest ratings in the annual "Best company to work for" survey, run by Deloitte & Touche, ensures stability in its human capital, a key component of a service-orientated enterprise.

The cluster started 2003 in a strong position and it is expected that the momentum built up in recent years will be carried forward. The diversity of the products and services offered tends to diminish the impact of reduced demand from any particular sector of the manufacturing industry. This diversity will be enhanced further by the acquisition of the mining chemicals and alkylates business of Sentrachem, which is subject to approval by the Competition Commission. The expected conclusion date of this transaction is 1 April 2003.

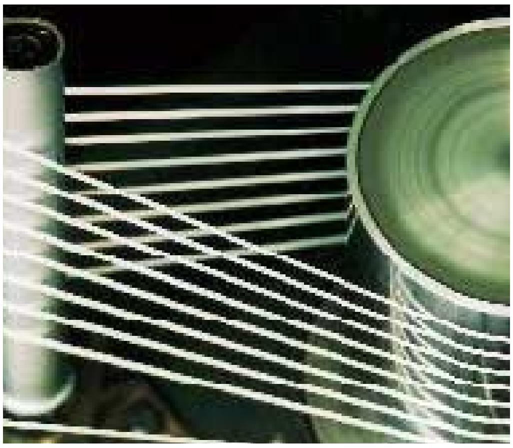
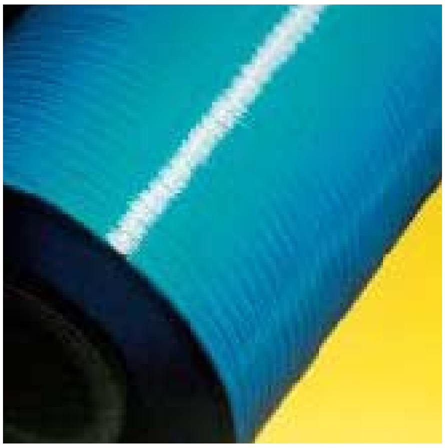
The impact of the recent strengthening of the rand on the level of activity in the South African manufacturing sector, and consequent demand for the specialty chemicals cluster's products, is uncertain. However, the outlook remains positive since Chemical Services has the skills and resolve to manage its businesses during uncertain times.

Financial performance (Rm)



Chemical Services Limited

Specialty fibres


SANS Fibres

Continuing the consistent growth trend established since 1997, trading profit for SANS Fibres (Pty) Limited (SANS) grew by 7 per cent to R173 million in 2002. This was the result of impressive growth in the company's South African operations, offset in part by losses incurred at the joint venture in the United States.

SANS' core strategy of strengthening its presence in both the light decitex industrial (LDI) and selected heavy decitex industrial (HDI) yarn markets yielded significant results, particularly in the LDI market. Domestic sales and international contracts with major world players delivered pleasing volumes. Investments and efforts to become the world's largest supplier of light industrial nylon yarns for the sewing thread industry have proved successful and, notwithstanding the impact of the downturn in the US economy, the LDI market achieved an acceptable performance.

The anticipated growth in the polyester sewing thread specialty market, particularly in the Far East, produced results above expectations. However, competition from manufacturers in that region resulted in significant pressure on the South African HDI market and this presents a significant challenge to SANS' South African, export-driven customers in this sector. Following the launch and acceptance of Colorcord* for luggage and cordage manufacture in 2001, these high tenacity polyester yarns continue to grow as a key specialty niche. Further progress is expected in 2003.

The overall performance of PET remained most pleasing, notwithstanding pressure on margins in the second six months owing to global over-capacity. SANS expects demand for its PET to remain strong in 2003.

The apparel yarn market experienced a better year than in 2001, largely because the positive effects of AGOA (the Africa Growth and Opportunity Act) are beginning to be felt. Competition from imported yarn and the strengthening of the rand in the last quarter, however, affected this market and it is expected that this negative impact will continue in 2003.

Bellville

Good progress was made at Bellville in improving conversion efficiencies on all plants. In some areas, world-class performances have been achieved. Costs as a percentage of turnover were reduced further. The focus was on maintenance, including improvements carried out during a scheduled shutdown, and this will again enhance efficiencies in 2003.

SANS' transformation process, launched in 1999, began delivering bottom line results through its focus on continuous improvement and skills development. The objectives and values developed through transformation have become entrenched throughout the organisation and are driven by day-to-day practices and commitment.

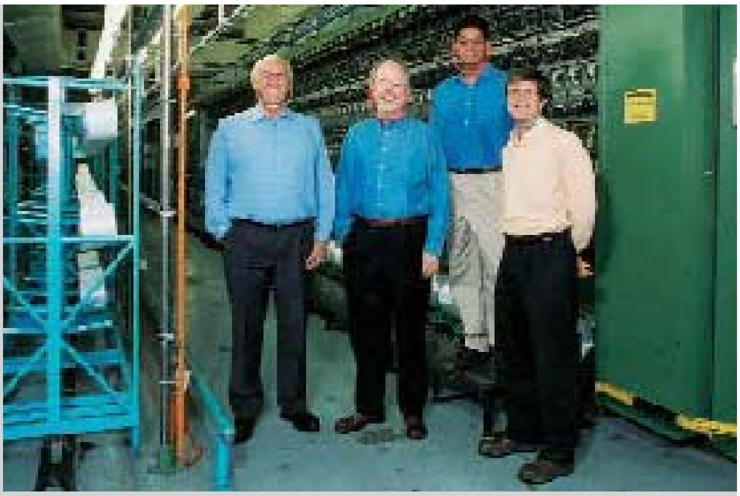
Through the SANS Continuous Improvement Production System (SCIPS) most employees have been trained in techniques to identify and reduce any form of waste. This involvement of people at all levels in improving quality, productivity and operations contributed to record results for the Bellville-based business. Progress was recognised externally with SANS receiving the National Productivity Award for productivity improvement and excellence in 2002. Commitment to quality excellence was highlighted with the achievement of the ISO 9001:2000 certification.

Barrie Evans' (59) career at SANS began as plant manager in 1974. He has held senior positions in production, sales and marketing. He was director: industrial business unit from 1994 until 1998 when he was appointed to his current position as director: apparel and industrial business. Barry has qualifications in synthetic fibre technology and advanced marketing.

Chief executive, **Thys Loubser**. See page 6.

Director of manufacturing is **Brad Page** (39). He has a BSc (Chem Eng) degree from the University of Cape Town and has also completed that university's Executive Management Programme. He joined SANS as a process engineer in 1987 and worked in the areas of product and process development and on several capital projects. After a two-year spell with another company, he returned to SANS in 2001 and assumed his current responsibilities.

In 1972, **Jannie Hofmeyr** (55) joined the company's technical department. A chemical engineer by training, he is currently the director responsible for finance, IT, human resources and planning. In his career at SANS he has held a variety of management positions and directorships in technical, marketing and strategic planning areas.



SANS' directorate. From left: Barrie Evans, Thys Loubser, Brad Page, Jannie Hofmeyr.

Joint venture

In terms of process development, the start-up of the plant in Stoneville, North Carolina, proved to be more challenging than expected early in the year. The joint venture with Unifi has been critical to SANS' competitive position in the industrial fibres market, particularly in the North American Free Trade Area. In a difficult market environment, the joint venture incurred significant losses in 2002 but good progress towards addressing its performance was recorded in the latter part of the year. Global supply contracts with the two main US-based customers ensured sales volumes. With initial technical problems resolved, a strong relationship established between the joint venture partners, and demand expected to increase, a substantial improvement is anticipated in 2003.

Prospects

Given that SANS directly, and indirectly through its customers, exports a substantial portion of its output, the key challenge for 2003 will be the management of currency fluctuations. For a largely dollar-based business, a stronger rand inevitably pressures rand-reported earnings. In addition to specific plans to manage the effects of volatility in exchange rates, a number of other initiatives are in place to sustain profitability. These include improving the performance of the US joint venture and an ongoing focus on internal cost management and tightly controlled capital expenditure.

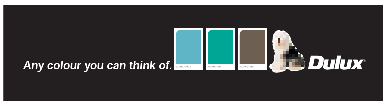
After a lengthy period of relative stability in feedstock costs, plant outages and maintenance turnarounds caused sharp and unexpected surges in prices of para-xylene, purified teraphthalic acid and ethylene glycol in the fourth quarter. These price spikes became even more accentuated early in 2003 but are expected to abate by mid-year.

SANS' vision remains "to be number one in our chosen world markets creating prosperity for our people and partners". Strategic efforts in 2003 will be focused through a project approach to specific business priorities with customer service, technology and operational improvement deliverables. Enhanced utilisation of plant and people will underpin these efforts.

** Trademark*

Financial performance (Rm)

Decorative coatings



Dulux

In 2002, Dulux (Pty) Limited was able to achieve strong and most pleasing growth in its branded lines, in excess of 20 per cent in revenue, notwithstanding only a slight market improvement compared with the flat conditions of previous years. The company also extended its penetration of the retail market with customers opening several new stores and allocating Dulux's products additional shelf space in existing stores.

Decorative paint markets generally offer a wide variety of products to the end user, from commodity-style exterior and interior coatings to high performance branded products for general and specialist applications. Dulux focuses its marketing efforts on the high quality branded end of the spectrum, where better margins can be achieved. It is this market that offers the best opportunity to secure long-term sustainable advantage.

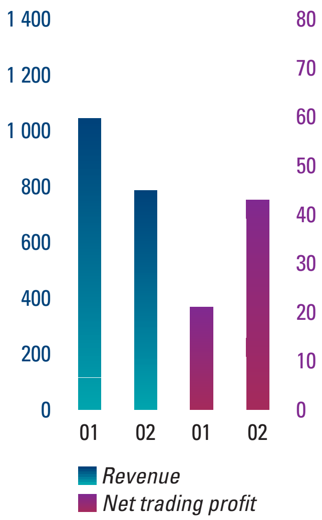
Building the Dulux brand remains a critical and ongoing activity for the business. Annual brand equity research showed improvements across the board for all measured aspects and confirmed Dulux's leadership in South Africa. The advertising campaign "Any colour you can think of . . .", launched at the end of 2001, achieved exceptional results. It has been very successful in differentiating further the Dulux brand from its competitors in southern Africa. In addition, the campaign dominated the Loerie Awards in South Africa and was awarded "gold" accolades in several categories in both New York and at Cannes. Dulux itself was awarded a Loerie as "advertiser of the year".

Dulux largely completed its transformation to a purely decorative paint company during 2001. Further refinements to this restructuring continued in 2002 with the sale of the latex manufacturing facility at Umbogintwini as well as the old factory site at Alrode in Gauteng. The restructuring of the business has facilitated strong improvement in operational performance. Manufacturing cycle times have decreased and the more focused product line has enabled the delivery of excellent service, especially on the top selling branded lines. Service levels for these products were maintained at exceptional levels, even during the peak selling months of the last quarter.

Dulux also has manufacturing facilities in Botswana, Malawi, Mozambique, Swaziland and Zimbabwe. They all manufacture their higher volume bulk products locally and source small packs and more specialised products from South Africa, from where they also receive marketing and technical support. As in 2001, these operations enjoyed good profitability despite difficult trading conditions in some instances. Sub-Saharan Africa is a natural growth area for Dulux and the company will continue to seek further opportunities to expand its business into this region.

The Dulux group's 2002 performance, both in terms of profitability and return on invested capital, was a dramatic improvement on the prior year and further progress is expected in 2003.

Financial performance (Rm)
Decorative coatings and other businesses



Managing director, **Charles Betts**. See page 7.

Before moving to Dulux in 1997, where she was appointed company human resources manager, **Penny Reed** (39) had spent seven years at SANS Fibres' Hammarsdale operation. During her time there she held various portfolios covering all aspects of the human resources function. She is a graduate of the University of Natal where she majored in industrial psychology and industrial sociology.

Director of foreign operations is **Brian Blake** (55). He has more than 30 years' experience in the decorative coatings industry in southern Africa. Prior to taking up his current appointment in 2000 he was managing director of Dulux Zimbabwe, having joined that company in 1972.

Financial director **Mike McDermott** (44) took up his appointment two years ago. Prior to this he had gained experience across a broad spectrum of industries such as cement, catering, food and beverages. He is an Associate Chartered Management Accountant.

Rae McGraw (39) is the company's marketing director. Her qualifications are diverse and range from an MBA to a degree in applied music from Auburn University, Alabama, USA. She joined Dulux in 2000 after having gained experience in the research, pharmaceutical and FMCG industries.

Gary van der Merwe (40) is operations director. He joined the company in 2001 and brought with him management experience in disciplines that include projects, production, logistics and general business. Gary has qualifications in engineering and business management and is currently reading for an MBA degree.

Dulux's management team. From left: Charles Betts, Penny Reed, Brian Blake, Mike McDermott, Rae McGraw, Gary van der Merwe.

Property

Heartland Properties

Heartland Properties is tasked with accelerating the realisation of value from land and property assets that have become surplus to the AECI Group's operational requirements. Progress towards this end was most pleasing in 2002. Revenue from sales of property exceeded R120 million whilst gross income on leased assets increased to more than R56 million, compared with R40 million the previous year.

Heartland has responsibility for some 2 500 hectares of land located primarily at Modderfontein in Gauteng, Somerset West in the Western Cape and at Umbogintwini in KwaZulu-Natal. These are AECI's three largest and oldest sites and remained the focus of Heartland's activities in 2002.

At Modderfontein, Longmeadow Business Estate continued to attract strong demand in the industrial market and Phase 3 of the development was launched. Since sales commenced three years ago, the estate has attracted local and international investors requiring premises for applications such as offices, warehouses and distribution centres, showrooms and hi-tech industrial applications. Phases 1 and 2 are essentially sold out.

Heartland's management team. From left: Martin Burr, Jeremy Clowes, Paul McAfee, Charl Marais, Neale Axelson.

Martin Burr (50) is regional manager, Western Cape. He took up this position in 2001, prior to which he had worked in various Group companies in the project, production and general management fields. He joined AECI in 1977. Martin has a BSc (Chem Eng) degree from the University of the Witwatersrand and a BCom (Hons) qualification from Unisa.

Financial director **Jeremy Clowes** (51) is a BCom graduate of the University of Cape Town and a qualified Chartered Accountant. Since joining AECI's treasury in 1979, he has held diverse positions in the areas of project and corporate finance. He moved to Heartland in November 2001 from the Group's strategic resources department.

Paul McAfee (44) is development and sales director. A structural engineer by profession, he was a partner in a civil/structural and project management practice for several years before assuming his role at Heartland early in 2002. Paul is a graduate of Queens in Belfast, Northern Ireland, the University of the Witwatersrand and the Wits Business School.

Charl Marais (35) is general manager of Heartland's leasing arm. Before establishing CF Marais Projects in 1999, he had worked at AECI for four years in what was then the Group's property department. In 2002, he contracted his services to Heartland. His qualifications include an MSc (Real Estate) and a BSc (Quantity Surveying).

Neale Axelson, executive chairman. See page 6.

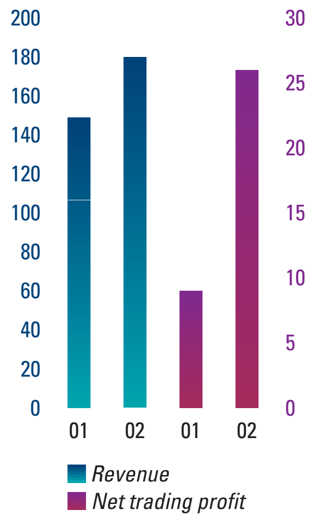
Also at Modderfontein, residential sales at Lakeside and Golf View were buoyant. Plans for the release of land at Greenstone Hill, between Edenvale and Modderfontein, for residential and commercial use were well advanced early in 2003.

At Somerset West, demand for residential, commercial and industrial land remained steady and activity at Southgate Industrial park, Umbogintwini, showed an encouraging increase. A new 71-hectare residential project for Somerset West is currently in the planning phase, for launch by mid-2003.

Heartland's leasing division, established to optimise returns on built assets, had a successful year assisted by reduced costs and enhanced efficiencies. The gross lettable area under management at Modderfontein and Somerset West remained steady at 275 000 m^2 and the vacancy rate reduced further to some 15 per cent at year-end. Securing more lucrative leases, achieving a further reduction in the vacancy rate and tight cost control will be the focus in 2003.

In determining strategy, Heartland seeks not only to align sectoral offerings with market demand but also to maintain an appropriate balance between the sale of raw land in bulk, for cash, and the potentially higher value to be derived through the delayed sale of serviced sites. The company's ever-improving ability to manage this balance for maximum benefit was demonstrated in 2002 and is expected to lead to a sustained performance in 2003.

Financial performance (Rm)



Other

The animal feeds business Kynoch Feeds and anti-oxidant producer AECI Aroma and Fine Chemicals were disposed of effective 1 April and 1 August 2002 respectively, thereby signalling the end of the Group's portfolio transformation. The Group's remaining investments are a packaging coatings division (managed by Chemical Services), and a 7 per cent financial interest in Botswana Ash. Both these entities enjoyed a satisfactory year.

Corporate services

The Group's businesses were well supported by the various corporate functional departments. Reviews on human resources, safety, health and environment and corporate citizenship appear in some detail elsewhere in this report. In addition, the Group office also assists with treasury, internal audit, patents and trademarks, insurance, employee benefits, taxation, communications and site legacy support.

The main corporate activity that was discontinued from late 2001 was the fine chemicals business development function. This resulted in savings of R37 million in the year under review. Research and development continues to be carried out by the Group's individual operating companies in support of their respective strategies.

Conclusion

In conclusion, as I welcome Schalk Engelbrecht as my successor from 1 April 2003, I wish to thank all my colleagues across the Group not only for their superb efforts in delivering 2002's excellent results but also for their most pleasant co-operation and support over the past five years. It was, in particular, a privilege to have been part of a highly competent and dedicated executive team during the era of transformation. I thank them as well as our chairman, Alan Pedder, and other members of the Board for their enthusiastic contribution. I would also like to convey our grateful thanks to the Group's many customers, suppliers, partners and business associates for their ongoing support.

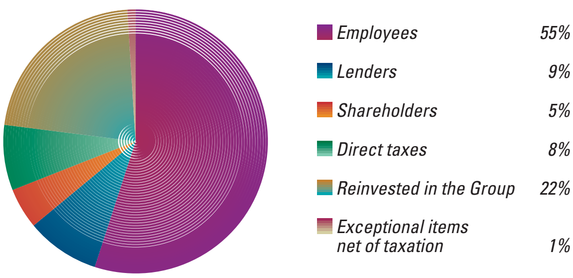
Lex van Vught
Chief executive

Distribution of value added

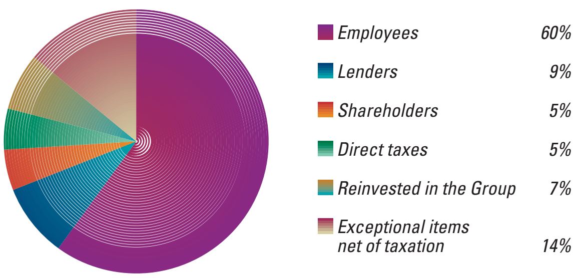
Value added is the difference between revenue received from sales and the cost of raw materials, goods and services purchased outside the Group. It represents the basic surplus of income over expenditure generated by the Group and its employees through manufacturing and selling products and services.

	2002 R millions	**%**	2001 R millions	%
Revenue	**7 818**	**100**	6 745	100
Purchased materials and services	**5 689**	**73**	4 909	73
Value added through operations	**2 129**	**27**	1 836	27
Other income	**45**	**1**	49	1
Total value added	**2 174**	**28**	1 885	28
Distributed to:				
Employees	**1 210**	**55**	1 123	60
Lenders	**201**	**9**	165	9
Shareholders	**103**	**5**	87	5
Direct taxes	**167**	**8**	102	5
Reinvested in the Group	**475**	**22**	138	7
Exceptional items net of taxation	**18**	**1**	270	14
	2 174	**100**	1 885	100

Distribution of value added
2002



Distribution of value added
2001



Monetary exchanges with the state

The following monetary exchanges with the state took place during the year:

	2002 R millions	2001 R millions
Direct taxes	**167**	102
Employees' tax collected on behalf of the state	**179**	173
Property taxes paid to local authorities	**25**	23
RSC levies paid to local authorities	**13**	14
Skills development levies paid to SA Revenue Services	**8**	4
VAT collected/(refunded) on behalf of the state	**25**	(16)
Channelled through the Group	**417**	300

Historical review

Abridged financial statements

R millions	**2002**	2001	2000	1999	1998	1997
Income statements						
Revenue	**7 818**	6 745	6 009	7 311	8 646	8 275
Net trading profit	**698**	492	474	568	644	671
Net financing costs	**164**	141	27	120	318	145
Taxation	**155**	(3)	121	117	(3)	120
Net profit/(loss) attributable to ordinary shareholders	**240**	(88)	244	974	(127)	381
Headline earnings	**318**	240	285	299	207	366
Balance sheets						
Total shareholders' interest	**2 315**	2 475	3 238	3 065	3 088	3 342
Deferred taxation	**(195)**	(207)	(182)	(215)	(67)	66
Net interest-bearing debt	**814**	987	74	124	1 522	662
Capital employed	**2 934**	3 255	3 130	2 974	4 543	4 070
Represented by:						
Property, plant, equipment, goodwill and investments	**2 283**	2 606	2 482	2 657	3 599	3 002
Current assets, excluding cash, less interest-free liabilities	**651**	649	648	317	944	1 068
Employment of capital	**2 934**	3 255	3 130	2 974	4 543	4 070
Cash flow statements						
Cash generated by operations(1)	**649**	447	527	610	444	680
Investment in working capital	**99**	72	149	207	14	366
Expenditure relating to exceptional items and long-term provisions	**48**	88	210	242	131	28
Net investments to maintain operations(2)	**18**	96	(6)	51	106	23
	484	191	174	110	193	263
Normal dividends paid	**103**	87	134	99	149	153
	381	104	40	11	44	110
Investment in expansion of assets(2)	**130**	374	218	148	897	333
Proceeds from disposal of investments and businesses	**167**	65	224	2 432	14	–
Special dividend paid	**–**	–	–	928	–	–
Net cash generated/(utilised)(3)	**418**	(205)	46	1 367	(839)	(223)
Depreciation charges	**221**	221	205	286	337	265
Commitments						
Capital expenditure authorised	**243**	102	235	181	175	426
Future rentals on property, plant and equipment leased	**147**	179	162	173	230	160
	390	281	397	354	405	586

(1) Net trading profit plus depreciation of property, plant and equipment and other non-cash flow items and after investment income, financing costs and taxes paid.
(2) Excludes property, plant and equipment of companies acquired.
(3) Excludes expenditure in respect of repurchasing own shares.

Historical review

Ratios and employee details

	2002	2001	2000	1999	1998	1997
Profitability and asset management						
Net trading profit to revenue (%)	**8.9**	7.3	7.9	7.8	7.4	8.1
Trading cash flow to revenue (%)	**11.8**	10.6	11.3	11.7	11.3	11.3
Return on net assets (%)(1)	**20.7**	13.7	13.5	16.1	12.9	15.3
Return on ordinary shareholders' interest (%)	**15.2**	10.6	9.3	10.2	7.0	11.4
Net working capital to revenue (%)(2)	**14.4**	17.5	19.5	16.4	17.7	17.4
Stock cover (days)	**70**	81	74	52	72	69
Average credit extended to customers (days)	**52**	66	65	53	59	57
Liquidity						
Cash interest cover(3)	**5.7**	5.1	25.2	7.2	3.1	6.6
Interest-bearing debt to cash generated by operations	**0.9**	1.5	0.1	0.1	1.5	0.7
Gearing (%)(4)	**35.2**	39.9	2.3	4.0	49.3	19.8
Current assets to current liabilities	**1.8**	1.6	1.4	1.3	1.2	1.4
Employees						
Number of employees at year-end(5)	**8 001**	8 164	8 412	9 850	15 700	15 900
Employee remuneration (R millions)	**1 210**	1 123	1 043	1 314	1 558	1 372
Value added per rand of employee remuneration (Rand)	**1.80**	1.68	1.72	1.79	1.66	1.73

(1) Net trading profit plus investment income related to property, plant, equipment and goodwill, investments, inventory and accounts receivable less accounts payable.

(2) Excluding businesses sold and equity accounted.

(3) Ratio of net trading profit plus depreciation plus dividends received to net interest paid.

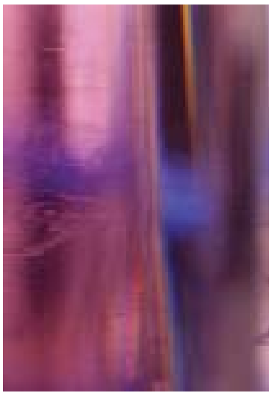
(4) Interest-bearing debt less liquid funds as percentage of total shareholders' interest.

(5) Includes proportional share of joint venture employees.

JSE Securities Exchange SA and share performance

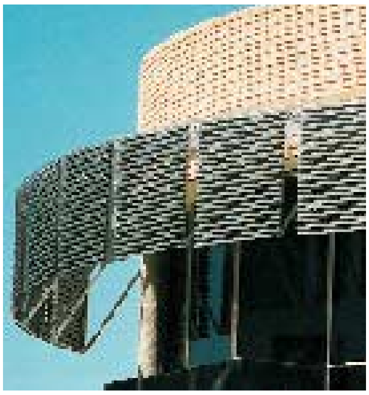
	2002	2001	2000	1999	1998	1997
Securities exchange performance						
Market price (cents per share)						
High	**2 650**	1 890	1 675	2 050	2 860	2 850
Low	**1 720**	1 275	1 050	650	690	1 500
31 December	**2 550**	1 720	1 310	1 255	750	1 520
Earnings yield (%)	**13.3**	15.0	14.1	15.4	17.9	15.6
Dividend yield (%)*	**4.4**	5.1	6.1	6.3	7.3	5.9
Dividend cover*	**3.0**	3.0	2.3	2.4	2.4	2.6
In issue (millions)	**93.9**	93.2	154.7	154.7	154.7	154.7
Value traded (R millions)	**1 135.8**	865.6	585.1	1 043.7	965.5	579.8
Volume traded (millions)	**51.1**	52.7	44.3	77.4	59.4	24.7
Volume traded (%)	**54.4**	56.6	28.6	50.0	38.4	16.0
Market capitalisation (R millions)	**2 657.1**	1 780.0	2 026.1	1 941.1	1 160.0	2 350.9
Ordinary share performance (cents per share)						
Headline earnings	**340**	258	184	193	134	237
Normal dividends declared	**112**	87	80	80	55	90
Special dividend declared	**–**	–	–	600	–	–
Net asset value	**2 222**	2 430	1 979	1 888	1 914	2 071

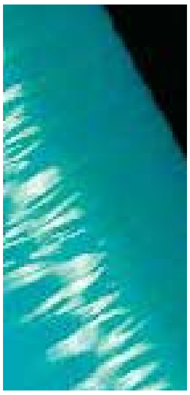
** The interim dividend in the current year and the final dividend declared, not yet paid at year-end, have been used in the calculation.*



Financial statements

for the year ended 31 December 2002





Contents

Foreign currencies

The following conversion guide is provided to facilitate the interpretation of this report. At 31 December one foreign unit was worth approximately:

	2002 **R**	2001 R
Euro	**9.02**	10.68
Pound sterling	**13.86**	17.43
Swiss franc	**6.21**	7.22
US dollar	**8.61**	11.99

Report of the independent auditors

To the members of AECI Limited

We have audited the financial statements and Group annual financial statements of AECI Limited, set out on pages 39 to 72, for the year ended 31 December 2002. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and of the Group at 31 December 2002, and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, the International Accounting Standards Board and in the manner required by the Companies Act in South Africa.

KPMG Inc

KPMG Inc.
Registered accountants and auditors

Sandton, 24 February 2003

Approval of annual financial statements

The following reports and statements have been approved by the Board of directors:

Corporate governance
Corporate citizenship
Review of operations
Directors' report
Accounting policies and definitions
Income statements
Balance sheets
Cash flow statements
Statements of changes in shareholders' equity
Notes to the financial statements
Appendices to the financial statements

For and on behalf of the Board

AE Pedder
Chairman
Sandton, 24 February 2003

LC van Vught
Chief executive

Declaration by the company secretary

The secretary certifies that the Company has lodged with the Registrar of Companies all such returns as are required of a public company, in terms of the Companies Act, No. 61 of 1973, as amended, and that all such returns are true, correct and up to date.

MJF Potgieter
Secretary
Sandton, 24 February 2003

Directors' report

The activities and results of the Group have been reviewed on pages 10 to 33.

Statutory information

Share capital

The issued ordinary share capital of the Company as at 31 December 2002 was R104 200 208.

Strate

Dematerialisation of the Company's issued shares commenced in July 2001. Shares still in paper form are no longer good for delivery and will require to be dematerialised before participation in any transaction. Shareholders may direct any enquiries in this regard to the Company's share registrars on telephone number 0861 100 950.

Dividends

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2002 financial year are set out in note 7 to the financial statements.

Directorate

Details of the directorate and secretary of the Company are shown on pages 6 and 7.

The following directors retire in terms of the Company's articles of association at the annual general meeting on 26 May 2003:

In terms of article 24(d)(i)	S Engelbrecht
	MJ Leeming
	TH Nyasulu
In terms of article 25(c)(i)	LC van Vught

These directors, being eligible, have offered themselves for re-election.

At 31 December 2002 MJ Leeming and NC Axelson had beneficial interests in 2 000 and 450 ordinary shares of the Company respectively (2001 – NC Axelson: 450). The Company is not aware of the extent, if any, of the directors' family interests.

Subsidiaries and joint ventures

Details of each joint venture and subsidiary are set out in the appendices on pages 71 and 72 respectively.

The aggregate net profits and losses after taxation of joint ventures and subsidiaries attributable to the Company for the year 2002 were as follows:

Profits	R285 million (2001 – R330 million)
Losses	R102 million (2001 – R145 million)

Accounting policies and definitions

The principal accounting policies of the Group are consistent with those followed in the previous year.

Statement of compliance

The financial statements and Group financial statements conform to international accounting standards and are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act.

Basis of accounting

The financial statements and Group financial statements are drawn up on the historical cost basis of accounting, modified to include the revaluation of certain property, plant and equipment as well as the revaluation of available-for-sale investments to fair value.

Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the Group has power to exercise control, so as to obtain benefits from their activities.

The Group financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included from the dates effective control was acquired and up to the dates effective control ceased.

Joint ventures and partnerships

Joint ventures are those entities in respect of which there is a contractual agreement whereby the Group and one or more other venturers undertake an economic activity, which is subject to joint control.

The Company's participation in joint ventures and partnerships is accounted for using the proportionate consolidation method by including its share of the underlying assets and liabilities and income statement items under appropriate headings from the effective date of acquisition.

Associated companies

Associated companies are those companies, which are not subsidiaries or joint ventures, in which the Group holds an equity interest and over which it has the ability to exercise significant influence and which it intends to hold as a long-term investment.

The post-acquisition results of associated companies are accounted for in the consolidated financial statements using the equity method of accounting from the effective dates of their acquisition until their disposal.

Goodwill

The excess of cost of consolidated subsidiaries, joint ventures and associated companies over their fair net asset value at acquisition is capitalised as goodwill and amortised over a maximum period of 20 years. Goodwill is amortised on a straight-line basis over its estimated useful life.

Deferred taxation

Deferred taxation is calculated using the balance sheet liability method, based on temporary differences, and represents the potential future liability for taxation in respect of items which are recognised for income tax purposes in periods different from those during which they are brought to account in the financial statements, except differences relating to goodwill and revaluation of property. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. In determining the liability, account is taken of tax losses. Deferred taxation released as a result of transfers of property, plant and equipment to and from subsidiaries at income tax values is re-established by the transferee company.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Property, plant and equipment

Property, plant and equipment are reflected at their cost or valuation to the Group company which first acquired them, less accumulated depreciation and accumulated impairment losses. Property, plant and equipment transferred to or from subsidiaries at income tax values are written up or down to their original cost to the Group. Depreciation is provided on property, plant and equipment, other than land, on the straight-line basis at rates which will write off the assets over their estimated residual productive lives as revised from time to time. Investment properties, mainly comprising property surplus to the Group's requirements, are valued from time to time by sworn appraisers. The basis of valuation is their open-market value and any surplus arising on valuation is transferred to non-distributable reserves.

Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

Inventory

Inventories of raw and packing materials, products and intermediates and merchandise are valued at average cost or actual cost using the first-in-first-out (FIFO) method.

The cost of products and intermediates comprises raw and packing materials, manufacturing costs and depreciation.

Specific plant spares are valued at average cost and are written off over the estimated residual productive lives of the plants to which they relate. Other spares and stores are valued at average cost less appropriate provisions for obsolescence.

Property developments include the cost of properties acquired for resale and development costs.

In all cases, inventories are valued at the lower of average or actual cost and net realisable value.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Costs relating to ongoing activities are not provided for.

Environmental remediation

Environmental expenditure not of a capital nature is charged to income in the year in which it is incurred. A provision for environmental remediation is recognised in accordance with the Group's environmental policy and applicable legal requirements. The adequacy of the provision is reviewed from time to time against changed circumstances, legislation and technology.

Revenue

Revenue comprises net invoiced sales to customers excluding value-added tax. The Group eliminates intercompany and inter-divisional sales.

Foreign currency translations

Foreign currency transactions and balances

Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at balance sheet date.

Income, expenditure and cash flow items are translated at the weighted average rates of exchange during the accounting period. Gains or losses arising on translation are credited to or charged against income.

Differences arising from exchange rate fluctuations are taken to income when they occur. Costs associated with forward cover contracts linked to borrowings are included in financing costs.

Foreign entities

Financial statements of foreign subsidiaries classified as entities are translated into South African rand as follows:

- assets and liabilities at rates of exchange ruling at the financial year-end;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period; and
- differences arising on translation are reflected in non-distributable reserves.

Foreign operations

Financial statements of foreign subsidiaries classified as operations are translated into South African rand as follows:

- monetary assets and liabilities at rates of exchange ruling at the financial year-end;
- non-monetary items at historical rates;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period; and
- differences arising on translation are taken to income for the period.

Financial instruments

The Group uses derivative financial instruments including currency and interest rate swaps, forward rate agreements and forward exchange contracts to manage its exposure to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Financial instruments are recognised initially at cost. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Listed investments classified as available-for-sale financial assets are carried at market value, which is calculated by reference to stock exchange prices ruling at the close of business on the balance sheet date.

Unlisted investments are stated at cost less amounts written off and provision for diminution in value where, in the opinion of the directors, a permanent diminution in value has occurred.

Accounts receivable
Accounts receivable are stated at cost less provision for doubtful debts.

Cash and cash equivalents
Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

Financial assets
Financial assets are recognised when the Group has rights or other access to economic benefits. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms.

Financial liabilities
Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms.

Where these criteria no longer apply, a financial asset or liability is no longer recognised.

Derivative instruments
Derivative instruments are measured at fair value. Fair value is the estimated amount that the Group would receive or pay to terminate the instrument at balance sheet date, taking into account current interest rates and current creditworthiness of the respective counterparties. The fair value of forward exchange contracts is their quoted market price at balance sheet date.

Offset
If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

Hedge of recognised assets and liabilities
Where a derivative financial instrument hedges a recognised receivable or payable, any resultant gain or loss on the derivative financial instrument is recognised in the income statement. The hedged item is also stated at fair value, with any gain or loss being recognised in the income statement.

Dividend income
Dividends are brought to account in the year in which they are received.

Research and development
Research costs are written off in the year in which they are incurred. Development costs are reviewed annually and are expensed if they do not qualify for capitalisation. If a project is abandoned during the development stage, the total accumulated expenditure is then written off.

Leases
Finance leases
Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Operating leases
Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Employee benefits
Short-term employee benefits
The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to salaries, performance bonuses and annual leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided to balance sheet date. The provisions have been calculated at undiscounted amounts based on current salary rates.

Retirement benefits
The Group provides defined benefit and defined contribution funds for the benefit of employees, the assets of which are held in separate funds. These funds are funded by payments from employees and the Group, taking account of recommendations of independent actuaries. The Group's contributions to the funds are charged to the income statement in the year to which they relate.

The projected unit credit method is used to determine the present value of the defined benefit obligations.

The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. No actuarial surplus is recognised, as the Group's ability to access the future economic benefits is uncertain.

Post-employment medical aid benefits

The present value of the post-employment medical aid obligations is actuarially determined annually on the projected unit credit method. The shortfall in the liability so determined is being phased in over five years in accordance with AC116 (Revised),"Employee benefits".

Equity compensation benefits

The Group grants share options to certain employees under a share option scheme. Other than costs incurred in administering the schemes, which are expensed as incurred, the scheme does not result in any expense to the Group.

Segment reporting

On a primary segment basis, the Group is organised as follows:

- mining solutions, comprising mainly the manufacture of explosives used by the mining industry;
- specialty chemicals, comprising niche-orientated small to medium-sized businesses marketing specialty chemicals to a broad range of industries;
- specialty fibres, comprising mainly the manufacture of nylon and polyester yarns used for industrial purposes;
- property, comprising mainly the realisation of surplus land and property assets of the Group; and
- other businesses, comprising decorative and packaging coatings and certain small businesses not included in a primary segment of the Group.

On a secondary segment basis, the geographical locations of the Group's activities have been identified.

The basis of segment reporting is representative of the internal structure used for management reporting.

Comparative figures

Whenever accounting policies are changed, comparative figures are restated in accordance with the new policies.

Income statements

for the year ended 31 December 2002

	Notes	Group		Company	
		2002	2001	**2002**	2001
		R millions	R millions	**R millions**	R millions
Revenue		**7 818**	6 745	**4 398**	3 952
Net trading profit	1	**698**	492	**282**	154
Net financing costs	2	**(164)**	(141)	**(114)**	(97)
Dividends received	3	**8**	2	**82**	39
		542	353	**250**	96
Transitional provision for post-employment medical aid benefits		**(20)**	(20)	**(20)**	(20)
Amortisation of goodwill	9	**(59)**	(56)	**(21)**	(21)
Exceptional items	4	**(19)**	(371)	**63**	(311)
Net profit/(loss) before taxation		**444**	(94)	**272**	(256)
Taxation	5	**(155)**	3	**(69)**	43
Net profit/(loss) profit after taxation		**289**	(91)	**203**	(213)
Share of associated companies' income		**–**	23		
Attributable to preference and outside shareholders		**(49)**	(20)	**(2)**	(2)
Net profit/(loss) attributable to ordinary shareholders		**240**	(88)	**201**	(215)
Per ordinary share (cents)					
– Attributable earnings/(loss)	6	**257**	(95)		
– Diluted earnings/(loss)		**248**	(91)		
– Headline earnings		**340**	258		
– Diluted headline earnings		**328**	249		
– Ordinary dividends paid	7	**95**	82		
– Ordinary dividends declared but not provided for		**72**	55		

Balance sheets

at 31 December 2002

		Group		Company	
	Notes	**2002 R millions**	2001 R millions	**2002 R millions**	2001 R millions
Assets					
Non-current assets		**2 283**	2 606	**2 203**	2 369
Property, plant and equipment	8	**1 734**	1 910	**670**	774
Goodwill	9	**467**	525	**312**	333
Investment in associated companies	10	**1**	87	**–**	5
Other investments	10	**81**	84	**33**	32
Subsidiaries	11			**1 188**	1 225
Current assets		**3 211**	3 277	**1 609**	1 661
Inventory	12	**1 248**	1 231	**523**	544
Accounts receivable	13	**1 321**	1 469	**733**	808
Cash and cash equivalents		**642**	577	**353**	309
Total assets		**5 494**	5 883	**3 812**	4 030
Equity and liabilities					
Ordinary capital and reserves		**2 086**	2 264	**1 480**	1 650
Capital	14	**97**	95	**107**	105
Reserves – non-distributable		**390**	662	**285**	424
– distributable		**1 599**	1 507	**1 088**	1 121
Preference capital	14	**6**	6	**6**	6
Outside shareholders' interest in subsidiaries		**223**	205		
Total shareholders' interest		**2 315**	2 475	**1 486**	1 656
Non-current liabilities		**1 352**	1 391	**1 310**	1 341
Deferred taxation	15	**(195)**	(207)	**(160)**	(183)
Long-term borrowings	16	**1 196**	1 248	**1 154**	1 206
Long-term provisions	17	**351**	350	**316**	318
Current liabilities		**1 827**	2 017	**1 016**	1 033
Accounts payable	18	**1 446**	1 530	**779**	842
Provision for restructuring		**56**	109	**56**	109
Short-term borrowings	19	**260**	316	**149**	46
Taxation		**65**	62	**32**	36
Total equity and liabilities		**5 494**	5 883	**3 812**	4 030

Cash flow statements

for the year ended 31 December 2002

		Group		Company	
		2002	2001	**2002**	2001
	Notes	**R millions**	R millions	**R millions**	R millions
Cash generated by operations	i	**899**	660	**468**	352
Dividends received		**8**	2	**82**	39
Net financing costs		**(164)**	(141)	**(114)**	(97)
Taxes paid	ii	**(94)**	(74)	**(5)**	(11)
Changes in working capital	iii	**(99)**	(72)	**(59)**	1
Expenditure relating to long-term provisions		**(16)**	(14)	**(16)**	(13)
Expenditure relating to restructuring		**(32)**	(74)	**(32)**	(51)
Cash available from operating activities		**502**	287	**324**	220
Dividends paid	iv	**(103)**	(87)	**(101)**	(87)
Cash retained from operating activities		**399**	200	**223**	133
Cash generated by/(utilised in) investing activities		**19**	(405)	**(50)**	(248)
Net investments to maintain operations		**(18)**	(96)	**(21)**	(102)
Replacement of property, plant and equipment		**(92)**	(148)	**(51)**	(116)
Proceeds from disposal of property, plant and equipment		**74**	52	**30**	14
Investments to expand operations		**(130)**	(374)	**(184)**	(466)
Acquisition of – property, plant and equipment		**(110)**	(276)	**(39)**	(67)
– investments		**(20)**	(8)	**(9)**	9
– joint ventures		**–**	(8)	**(2)**	–
– subsidiaries		**–**	(82)	**(134)**	(408)
Proceeds from disposal of investments and businesses		**167**	65	**155**	320
Proceeds from disposal of – subsidiaries		**4**	3	**–**	100
– businesses		**76**	62	**76**	220
– unlisted investments		**79**	–	**79**	–
– listed investments		**8**	–	**–**	–
Expenditure in respect of repurchasing own shares		**(206)**	(775)	**(175)**	(656)
First payment in terms of the share repurchase agreement		**–**	(775)	**–**	(656)
Final payment in terms of the share repurchase agreement		**(206)**	–	**(175)**	–
Net cash generated/(utilised)		**212**	(980)	**(2)**	(771)
Long-term borrowings – raised		**11**	1 284	**–**	1 252
– repaid		**(61)**	(52)	**(50)**	(45)
Movement in short-term borrowings		**(58)**	(768)	**101**	(983)
Proceeds from shares issued		**4**	2	**4**	2
Cash effects of financing activities		**(104)**	466	**55**	226
Increase/(decrease) in cash and cash equivalents		**108**	(514)	**53**	(545)
Cash and cash equivalents at the beginning of the year		**577**	1 037	**309**	838
Translation differences on cash and cash equivalents		**(43)**	54	**(9)**	16
Cash and cash equivalents at the end of the year		**642**	577	**353**	309

Notes to the cash flow statements

for the year ended 31 December 2002

	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
i. Cash generated by operations				
Net trading profit	**698**	492	**282**	154
Depreciation of property, plant and equipment	**221**	221	**129**	142
Provisions – investments	**2**	–	**56**	69
– long-term provisions	**6**	–	**–**	–
(Surplus)/loss on disposal of property, plant and equipment	**(40)**	(26)	**(9)**	3
Loss on disposal of investments	**–**	1	**–**	–
Surplus on disposal of businesses	**–**	(2)	**–**	–
Translation differences	**9**	(16)	**10**	(16)
Revaluation of investments	**3**	(10)	**–**	–
	899	660	**468**	352
ii. Taxes paid				
Owing at the beginning of the year	**62**	56	**36**	38
Current charge for the year – normal activities	**98**	87	**1**	9
– exceptional items	**5**	(6)	**–**	–
Translation differences	**(4)**	–	**–**	–
Changes in the Group	**(2)**	(1)	**–**	–
Owing at the end of the year	**65**	62	**32**	36
	94	74	**5**	11
iii. Changes in working capital				
Inventory	**(17)**	(196)	**21**	1
Accounts receivable	**148**	(250)	**75**	(6)
Accounts payable	**(84)**	370	**(63)**	108
	47	(76)	**33**	103
Non-trade payables	**(7)**	(48)	**(7)**	(46)
Translation differences	**(65)**	93	**(26)**	1
Changes in the Group	**(74)**	(41)	**(59)**	(57)
	(99)	(72)	**(59)**	1
iv. Dividends paid				
Paid during the year	**91**	78	**101**	87
Paid to outside shareholders	**12**	9		
	103	87	**101**	87
v. Changes in the Group				
Property, plant and equipment	**(41)**	(115)	**(38)**	(137)
Investments	**(85)**	(112)	**(4)**	(101)
Subsidiaries	**–**	–	**–**	(159)
Working capital	**(74)**	(41)	**(59)**	(57)
Restructuring provision	**–**	(21)	**–**	(23)
Deferred taxation and taxation	**–**	(14)	**–**	–
Borrowings	**–**	(11)	**–**	–
Outside shareholders' interest in subsidiaries	**13**	12		
Non-distributable reserves	**–**	–	**–**	–
Net loss/(surplus) on disposal of investments and businesses	**26**	200	**(55)**	157
Goodwill	**1**	153	**–**	–
Net (proceeds)/purchase price	**(160)**	51	**(156)**	(320)
Cash and cash equivalents acquired	**–**	1	**–**	–
	(160)	52	**(156)**	(320)

Statement of changes in ordinary shareholders' equity

for the year ended 31 December 2002

	Ordinary share capital	Share premium	**Total ordinary capital**
Group			
Balance at 1 January 2001	155	73	**228**
Net loss attributable to ordinary shareholders			
Ordinary dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Surplus arising on revaluation of property, transferred to retained income			
Retained income of associated companies			
Share option scheme		2	**2**
Shares repurchased during the year	(62)	(73)	**(135)**
Shares cancelled	(52)	(73)	**(125)**
Treasury shares	(10)	–	**(10)**
Sale of associated company			
Transfers from income statement			
Balance at 31 December 2001	93	2	**95**
Net profit attributable to ordinary shareholders			
Ordinary dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Surplus arising on revaluation of property, transferred to retained income			
Share option scheme	1	3	**4**
Shares repurchased	–	(2)	**(2)**
Final payment in terms of the share repurchase agreement		(2)	**(2)**
Treasury shares		–	**–**
Sale of associated company			
Balance at 31 December 2002	**94**	**3**	**97**
Company			
Balance at 1 January 2001	155	73	**228**
Net loss attributable to ordinary shareholders			
Ordinary dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Share option scheme		2	**2**
Shares repurchased during the year	(52)	(73)	**(125)**
Balance at 31 December 2001	103	2	**105**
Net profit attributable to ordinary shareholders			
Ordinary dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Share option scheme	1	3	**4**
Final payment in terms of the share repurchase agreement	–	(2)	**(2)**
Balance at 31 December 2002	**104**	**3**	**107**

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Surplus arising on revaluation of property	Foreign currency translation reserve	Retained earnings of associated companies	Other non-distributable reserves	**Total non-distributable reserves**	**Retained income**	**Total**
525	50	31	2	**608**	**2 225**	**3 061**
					(88)	**(88)**
					(76)	**(76)**
	165			**165**	**8**	**173**
	(33)			**(33)**		**(33)**
(4)				**(4)**	**4**	**–**
		23		**23**	**(23)**	**–**
						2
(130)				**(130)**	**(510)**	**(775)**
(108)				**(108)**	**(423)**	**(656)**
(22)				**(22)**	**(87)**	**(119)**
		30		**30**	**(30)**	**–**
			3	**3**	**(3)**	**–**
391	182	84	5	**662**	**1 507**	**2 264**
					240	**240**
					(89)	**(89)**
	(168)			**(168)**	**1**	**(167)**
	40			**40**		**40**
(16)				**(16)**	**16**	**–**
						4
(45)				**(45)**	**(159)**	**(206)**
(38)				**(38)**	**(135)**	**(175)**
(7)				**(7)**	**(24)**	**(31)**
		(83)		**(83)**	**83**	**–**
330	**54**	**1**	**5**	**390**	**1 599**	**2 086**
456				**456**	**1 844**	**2 528**
					(215)	**(215)**
					(85)	**(85)**
	109			**109**		**109**
	(33)			**(33)**		**(33)**
						2
(108)				**(108)**	**(423)**	**(656)**
348	76			**424**	**1 121**	**1 650**
					201	**201**
					(99)	**(99)**
	(144)			**(144)**		**(144)**
	43			**43**		**43**
						4
(38)				**(38)**	**(135)**	**(175)**
310	**(25)**			**285**	**1 088**	**1 480**

Notes to the financial statements

for the year ended 31 December 2002

	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
1. Net trading profit				
Net trading profit has been arrived at after taking into account:				
Cost of sales	**5 383**	4 574	**2 764**	2 571
Selling and distribution expenses	**1 212**	1 083	**848**	789
Administrative expenses	**525**	596	**504**	438
	7 120	6 253	**4 116**	3 798
Auditors' remuneration	**10**	9	**4**	3
– Audit fees	**9**	8	**4**	3
– Other services	**1**	1	**–**	–
Depreciation of property, plant and equipment	**221**	221	**129**	142
Buildings	**19**	16	**8**	9
Plant and equipment	**202**	205	**121**	133
Directors' emoluments (see note 24)	**5**	7	**5**	7
– Non-executive	**1**	1	**1**	1
– Executive	**4**	6	**4**	6
Foreign exchange gains	**101**	204	**69**	125
– Realised	**84**	63	**60**	35
– Unrealised	**17**	141	**9**	90
Foreign exchange losses	**120**	63	**74**	5
– Realised	**95**	14	**64**	1
– Unrealised	**25**	49	**10**	4
Increase in provisions				
– Investments	**2**	–	**56**	69
– Post-employment medical aid benefit	**6**	–	**–**	–
Research expenditure	**13**	51	**2**	44
Surplus/(loss) on disposal of property, plant and equipment	**40**	26	**9**	(3)
Surplus land holdings	**34**	34	**4**	–
Property	**4**	(1)	**3**	–
Plant and equipment	**2**	(7)	**2**	(3)
Loss on disposal of investments	**–**	(1)	**–**	–
Salaries and other staff costs	**1 210**	1 123	**718**	727
Technical fees paid	**4**	4	**–**	1

	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
2. Net financing costs				
Interest paid	**(201)**	(165)	**(167)**	(124)
Long-term borrowings	**(147)**	(17)	**(138)**	(10)
Short-term borrowings	**(54)**	(148)	**(29)**	(114)
Interest received	**37**	24	**53**	27
	(164)	(141)	**(114)**	(97)
3. Dividends received				
Dividends from investments	**8**	2	**7**	1
– Listed	**1**	1	**–**	–
– Unlisted	**7**	1	**7**	1
Dividends from joint ventures				
South African				
– Unlisted			**2**	–
Dividends from subsidiaries			**73**	38
South African				
– Listed			**28**	23
– Unlisted			**6**	15
Foreign				
– Unlisted			**39**	–
	8	2	**82**	39
Aggregate income from subsidiaries and joint ventures				
Dividends			**75**	38
Interest			**27**	18
Secretarial and administrative fees			**14**	14
			116	70

	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
4. Exceptional items				
Long-term provisions				
– Environmental remediation	**–**	(36)	**–**	(36)
Income/(costs) related to restructuring	**7**	(171)	**8**	(92)
– Write-down of assets	**(12)**	(16)	**(12)**	(7)
– Retrenchment costs	**(1)**	(80)	**–**	(45)
– Other closure income/(costs)	**20**	(75)	**20**	(40)
Net (loss)/gain on disposal of investments	**(26)**	(164)	**55**	(183)
Exceptional items before taxation	**(19)**	(371)	**63**	(311)
Tax effect	**1**	88	**1**	81
– Normal	**(5)**	6	**(5)**	–
– Deferred	**6**	82	**6**	81
Exceptional items after taxation	**(18)**	(283)	**64**	(230)
Attributable to outside shareholders	**–**	13		
	(18)	(270)	**64**	(230)
5. Taxation				
South African and foreign taxes				
Normal, secondary and foreign	**(102)**	(75)	**(1)**	(1)
Normal activities	**(97)**	(81)	**(1)**	(1)
Exceptional items	**(5)**	6	**–**	–
Deferred	**(64)**	61	**(74)**	39
Normal activities	**(70)**	(21)	**(75)**	(42)
Exceptional items	**6**	82	**1**	81
	(166)	(14)	**(75)**	38
Adjustment for prior years	**11**	17	**6**	5
Normal, secondary and foreign	**(1)**	(6)	**–**	(8)
Deferred	**12**	23	**6**	13
	(155)	3	**(69)**	43
Computed tax losses	**734**	1 068	**465**	774

	%	%	**%**	%
Reconciliation of tax rate computed in relation to profit before exceptional items and investment income				
Effective rate	**30.4**	25.9	**47.6**	102.9
Capital and non-taxable receipts	**2.3**	5.8	**(1.0)**	1.7
Expenses not allowable	**(5.0)**	(5.4)	**(19.8)**	(87.0)
Secondary and foreign taxes	**(1.2)**	(1.7)	**(0.6)**	(1.9)
Adjustment for prior years	**2.1**	4.9	**3.8**	14.4
Other	**1.4**	0.5	**–**	(0.1)
South African standard rate	**30.0**	30.0	**30.0**	30.0

	Group 2002 R millions	Group 2001 R millions
6. Earnings per ordinary share		
Headline earnings are derived from:		
Net profit/(loss) attributable to ordinary shareholders	**240**	(88)
Amortisation of goodwill	**59**	56
Transitional provision for post-employment medical aid benefits	**20**	20
Exceptional items (see note 4)	**19**	371
Tax effects of the above items	**(7)**	(94)
Outside shareholders' share of the above items	**(13)**	(25)
Headline earnings	**318**	240

The transitional provision for post-employment medical aid benefits has been excluded from the calculation of headline earnings in terms of circular 7/2002 issued by the South African Institute of Chartered Accountants. Previously it was included. Comparative figures have been restated.

Earnings per share

Attributable and headline earnings per share have been calculated on the profit for the financial year as shown above and on a weighted average number of shares in issue of 93 436 300, net of treasury shares (2001 – 92 936 663).

Diluted earnings per share

At 31 December 2002 there were 5 796 000 options outstanding under the employees' share option scheme. Taking these share options into account, diluted earnings per share and diluted headline earnings per share have been calculated on the profit for the financial year as shown above and on a weighted average number of shares of 96 963 085 (2001 – 96 271 578). The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R21.88 compared with an average exercise price on the outstanding options of R8.57.

	Group 2002	Group 2001
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**93 436 300**	92 936 663
Number of options available for future exercise	**5 796 000**	5 041 600
Number of shares that would be issued at fair value	**(2 269 215)**	(1 706 685)
Weighted average number of ordinary shares for diluted earnings per share calculation	**96 963 085**	96 271 578

	Group 2002 R millions	Group 2001 R millions	Company 2002 R millions	Company 2001 R millions
7. Dividends paid				
Ordinary	**89**	76	**99**	85
Final for previous year: No. 136 of 55 cents (2000 – 50 cents) paid 22 April 2002	**51**	46	**57**	52
Interim for current year: No. 137 of 40 cents (2001 – 32 cents) paid 23 September 2002	**38**	30	**42**	33
Preference Nos. 128 and 129 paid 18 June 2002 and 17 December 2002 respectively	**2**	2	**2**	2
	91	78	**101**	87

	Group 2002 R millions	Group 2001 R millions	Company 2002 R millions	Company 2001 R millions
8. Property, plant and equipment				
Property				
Cost or valuation	**934**	968	**217**	236
At the beginning of the year	**968**	935	**236**	231
Additions	**14**	38	**2**	18
Disposals and transfers	**(28)**	(7)	**(13)**	(5)
Changes in the Group	**(9)**	(11)	**(8)**	(8)
Translation differences	**(11)**	13	**–**	–
***Less:* Depreciation**	**173**	173	**116**	122
At the beginning of the year	**173**	158	**122**	118
Disposals and transfers	**(9)**	(4)	**(10)**	(3)
Changes in the Group	**(5)**	(2)	**(4)**	(2)
Translation differences	**(5)**	5	**–**	–
Provided during the year	**19**	16	**8**	9
Net book value	**761**	795	**101**	114
Plant and equipment				
Cost or valuation	**2 327**	2 438	**1 609**	1 658
At the beginning of the year	**2 438**	2 269	**1 658**	1 803
Additions	**188**	386	**88**	165
Disposals and transfers	**(96)**	(106)	**(51)**	(79)
Changes in the Group	**(96)**	(191)	**(86)**	(231)
Translation differences	**(107)**	80	**–**	–
***Less:* Depreciation**	**1 354**	1 323	**1 040**	998
At the beginning of the year	**1 323**	1 248	**998**	1 033
Disposals and transfers	**(76)**	(83)	**(27)**	(68)
Changes in the Group	**(59)**	(85)	**(52)**	(100)
Translation differences	**(36)**	38	**–**	–
Provided during the year	**202**	205	**121**	133
Net book value	**973**	1 115	**569**	660
Total net book value	**1 734**	1 910	**670**	774
Cost of assets which are fully depreciated	**505**	480	**380**	362
Cost or valuation of land included in land and buildings	**584**	592	**30**	31
Insured value of property, plant and equipment	**7 657**	7 271	**5 880**	5 584

Registers containing details of the properties of the Company and its subsidiaries and joint ventures are available for inspection at the registered offices of the companies.

	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
9. Goodwill				
Cost	**655**	654	**417**	417
At the beginning of the year	**654**	501	**417**	417
Additions	**1**	153	**–**	–
***Less:* Amortisation**	**188**	129	**105**	84
At the beginning of the year	**129**	73	**84**	63
Provided during the year	**59**	56	**21**	21
Net book value	**467**	525	**312**	333
10. Investments				
Associated companies				
Unlisted shares at cost				
– Huntsman Tioxide Southern Africa (Pty) Limited	**–**	3	**–**	3
– Dussek Campbell (Pty) Limited	*****	*		
Net indebtedness of associated companies	**–**	–	**–**	2
Post-acquisition retained income	**1**	84		
Balance at the beginning of the year	**84**	31		
Current year's share of associated companies' retained income	**–**	23		
Reversal on sale of associated company	**(83)**	30		
Total investment in associated companies	**1**	87	**–**	5
Other investments				
Joint ventures (see appendix 2)			**–**	(1)
Shares at cost			**–**	*
Net indebtedness			**–**	(1)
Available-for-sale assets				
Listed investments at market value	**36**	36	**–**	–
Unlisted investments				
Shares at cost less amounts written off	**45**	48	**33**	33
– Botswana Ash (Pty) Limited	**26**	26	**26**	26
– Other	**12**	11	**–**	1
Indebtedness of unlisted investments	**7**	11	**7**	6
Total other investments	**81**	84	**33**	32
Total investments	**82**	171	**33**	37
Directors' valuation	**88**	173	**33**	113

** Nominal amount*

	Group 2002 R millions	Group 2001 R millions	Company 2002 R millions	Company 2001 R millions
11. Subsidiaries (see appendix 3)				
Shares at cost less amounts written off			**264**	260
Listed – market value R1 228 million (2001 – R836 million)			**225**	221
Unlisted			**39**	39
Net indebtedness			**924**	965
Indebtedness of subsidiaries less amounts written off			**1 229**	1 141
Indebtedness to subsidiaries			**(305)**	(176)
			1 188	1 225
12. Inventory				
Raw and packing materials	**448**	415	**179**	164
Products and intermediates	**694**	711	**299**	331
Merchandise	**8**	18	**–**	9
Specific plant spares	**34**	35	**31**	30
Other spares and stores	**14**	12	**14**	10
Property developments	**50**	40	**–**	–
	1 248	1 231	**523**	544
13. Accounts receivable				
Trade	**1 118**	1 219	**616**	672
Other	**203**	250	**117**	136
	1 321	1 469	**733**	808
Other includes the following housing loan to a Company director which bears interest at a rate of not less than 5 per cent per annum and is payable in full on resignation, retirement or death (figures in rand).				
NC Axelson	**148 000**	148 000	**148 000**	148 000
	148 000	148 000	**148 000**	148 000

	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
14. Capital				
Ordinary shares				
Authorised				
180 000 000 shares of R1 each	**180**	180	**180**	180
Issued				
At the beginning of the year	**93**	155	**103**	155
Shares repurchased during the year	**–**	(62)	**–**	(52)
51 555 605 shares cancelled	**–**	(52)	**–**	(52)
10 311 120 shares held as treasury shares	**–**	(10)		
Issued 711 600 (2001 – 377 400) shares during the year	**1**	*	**1**	*
At the end of the year	**94**	93	**104**	103
Group 93 889 088 shares (2001 – 93 177 488)				
Company 104 200 208 shares (2001 – 103 488 608)				
Share premium less share issue expenses	**3**	2	**3**	2
At the beginning of the year	**2**	73	**2**	73
Shares repurchased				
First payment in terms of the share repurchase agreement	**–**	(73)	**–**	(73)
Final payment in terms of the share repurchase agreement	**(2)**	–	**(2)**	–
Issued during the year	**3**	2	**3**	2
	97	95	**107**	105
Unissued shares under the control of the directors until the next annual general meeting: 75 799 792 (2001 – 76 511 392)	**76**	77	**76**	77
Preference shares				
Authorised and issued				
3 000 000 5.5 per cent cumulative shares of R2 each	**6**	6	**6**	6

In terms of the Company's articles of association all payments of dividends on the preference shares and all payments to be made in respect of the preference shares in the event of liquidation shall be made in pound sterling and calculated as though the shares were one pound sterling. The capital repayment to preference shareholders, in the event of liquidation, is limited to 3 150 000 pound sterling (1.05 pound sterling per share).

** Nominal amount*

	Group 2002 R millions	Group 2001 R millions	Company 2002 R millions	Company 2001 R millions
15. Deferred taxation				
At the beginning of the year	**(207)**	(182)	**(183)**	(174)
Transfer from/(to) net profit – normal activities	**58**	(2)	**68**	29
– exceptional items	**(6)**	(82)	**(1)**	(81)
Transferred (to)/from non-distributable reserve				
– foreign currency translation reserve	**(42)**	33	**(43)**	33
Transferred to/(from) long-term provisions (see note 17)	**1**	10	**(1)**	10
Changes in the Group	**1**	16	**–**	–
	(195)	(207)	**(160)**	(183)
Analysis by major temporary differences:				
Property, plant and equipment	**114**	128	**76**	90
Provisions	**(275)**	(248)	**(233)**	(218)
Deferred foreign exchange differences	**(7)**	33	**(7)**	33
Computed tax losses	**(184)**	(280)	**(140)**	(232)
Other	**6**	10	**9**	8
	(346)	(357)	**(295)**	(319)
Applicable to long-term provisions (see note 17)	**151**	150	**135**	136
	(195)	(207)	**(160)**	(183)
16. Long-term borrowings (see appendix 1)				
Unsecured	**1 095**	1 145	**1 095**	1 145
Secured	**153**	155	**106**	107
	1 248	1 300	**1 201**	1 252
Current portion (see note 19)	**52**	52	**47**	46
	1 196	1 248	**1 154**	1 206
17. Long-term provisions				
At the beginning of the year	**350**	328	**318**	295
Expenditure incurred during the year	**(16)**	(14)	**(16)**	(13)
Provided during the year – normal activities	**26**	20	**20**	20
– exceptional items	**–**	36	**–**	36
Transferred to accounts payable	**(7)**	(10)	**(7)**	(10)
Deferred tax relating to current year's movement (see note 15)	**(1)**	(10)	**1**	(10)
Translation differences	**(1)**	–	**–**	–
	351	350	**316**	318
Made up as follows:				
Environmental remediation	**177**	194	**176**	192
Post-employment medical aid benefits	**362**	336	**312**	292
Current portion included in accounts payable (see note 18)	**(37)**	(30)	**(37)**	(30)
	502	500	**451**	454
Deferred taxation thereon (see note 15)	**(151)**	(150)	**(135)**	(136)
	351	350	**316**	318

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	Group		Company	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
18. Accounts payable				
Trade	**907**	1 013	**466**	559
Other	**502**	487	**276**	253
	1 409	1 500	**742**	812
Current portion of long-term provisions (see note 17)	**37**	30	**37**	30
	1 446	1 530	**779**	842
19. Short-term borrowings				
Current portion of long-term borrowings (see note 16)	**52**	52	**47**	46
Other	**208**	264	**102**	–
	260	316	**149**	46
20. Borrowings and contingent liabilities				
Borrowings	**1 456**	1 564	**1 303**	1 252
Long-term	**1 196**	1 248	**1 154**	1 206
Short-term	**260**	316	**149**	46
Contingent liabilities	**–**	16	**–**	–
Tax dispute	**–**	12		
Litigation dispute	**–**	4		
Guarantees	**152**	144	**139**	140
	1 608	1 724	**1 442**	1 392
21. Commitments				
Capital expenditure authorised	**243**	102	**58**	40
Contracted for	**51**	92	**40**	30
Not contracted for	**192**	10	**18**	10
The expenditure will be incurred in the next financial year and will be financed from funds on hand and internally generated, supplemented by borrowings against facilities available to the Group.				
Future rentals on property, plant and equipment leased	**147**	179	**103**	99
Payable within one year	**35**	40	**19**	21
Payable thereafter	**112**	139	**84**	78
	390	281	**161**	139

22. Financial instruments

The Group finances its operations by a mixture of retained profits, short-term borrowings, long-term borrowings and financial instruments such as trade bills denominated in both rand and foreign currencies. The Group also enters into derivative transactions in order to manage the currency and interest rate risk arising from its operations.

The Group raises long- and short-term borrowings centrally and on-lends to its operating units at market-related interest rates. The Group borrows in both the local and international debt markets in rand and foreign currencies, mainly at floating rates of interest. It uses derivatives where appropriate to generate the desired effective currency and interest rate profile. The derivatives used for this purpose are principally forward foreign currency contracts, cross-currency swaps, forward rate agreements, interest rate swaps and interest rate caps and floors.

The Group does not write interest rate or currency options and only purchases currency options where these are considered to offer a cost-effective alternative to forward foreign exchange contracts. It is Group policy that no financial instruments are purchased or sold unless they relate to underlying commercial transactions.

The main risks arising in the normal course of business from the Group's financial instruments are currency, interest rate, liquidity and credit risk.

(a) Currency risk

The Group's non-South African operations are relatively small in relation to its total operations. Where possible, foreign entities match their assets and liabilities in the same currency to avoid unnecessary currency exposures. However, forward currency markets do not exist in some of the territories in which the Group operates. It is not the Group's policy to hedge foreign currency translation exposures.

Currency risk arises as a result of transactions in a currency other than rand. The currencies giving rise to currency risk are mainly US dollar, Japanese yen, euro and pound sterling. Currency exposures are managed using appropriate exposure management techniques. At least 90 per cent of borrowings in foreign currencies are hedged at all times.

The Board of directors of each operating unit is tasked with managing the foreign currency exposures arising within its own unit in consultation with the central treasury function. All material purchases and sales in foreign currencies are transacted through the central treasury.

AECI

Group	Foreign currency	Foreign amount 2002 millions	Foreign amount 2001 millions	Rand amount 2002 millions	Rand amount 2001 millions
22. Financial instruments (continued)					
Transactions in foreign currencies					
Forward exchange contracts at 31 December 2002, relating to specific balance sheet items.					
– Accounts receivable				**211**	227
	US dollar	**18**	14	**163**	166
	Euro	**4**	4	**34**	41
	Pound sterling	**1**	1	**14**	17
	Deutschmark	**–**	*	**–**	3
– Accounts payable				**229**	292
	US dollar	**16**	16	**140**	194
	Deutschmark	**–**	*	**–**	2
	Euro	**5**	5	**46**	51
	Pound sterling	**2**	2	**28**	34
	French franc	**–**	*	**–**	1
	Italian lira	**–**	2	**–**	3
	Swiss franc	**2**	1	**13**	5
	Spanish peseta	**–**	25	**–**	2
	Japanese yen	**24**	–	**2**	–
– Long-term borrowings				**–**	7
	US dollar	**–**	1	**–**	7
– Cash and cash equivalents	US dollar	**–**	–	**–**	–
Forward exchange contracts at 31 December 2002, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due.	**Imports**				
	US dollar	**4**	5	**46**	57
	Euro	**3**	6	**24**	62
	Pound sterling	**–**	1	**2**	17
	Japanese yen	**21**	3	**2**	*
	Spanish peseta	**–**	26	**–**	3
	Exports				
	US dollar	**–**	–	**–**	3
Other					
Commodity price risk	US dollar	**–**	3	**–**	21
Interest rate risk	Rand	**–**	–	**4**	1

At 31 December 2002 the Group had utilised US$65 million (2001 – US$65 million) in terms of its syndicated loan facility. This has been swapped into R793 million (2001 – R793 million) by means of cross-currency swaps at floating interest rates.

** Nominal amount*

22. Financial instruments (continued)

(b) Interest rate risk

The Group borrows extensively in both local and offshore markets to minimise its borrowing costs in rand terms.

Exposure to interest rate risk on borrowings and receivables is managed on a proactive basis. Depending on market conditions, the Group makes appropriate use of forward rate agreements, interest rate swaps and interest rate caps and floors to generate the desired interest profile and to manage exposure to interest rate fluctuations. No target levels of exposure are maintained.

The interest rate risk profile of financial liabilities of the Group by currency, at 31 December 2002, was:

Currency	Total 2002 R millions	Total 2001 R millions	Floating rate financial liabilities 2002 R millions	Floating rate financial liabilities 2001 R millions	Fixed rate financial liabilities 2002 R millions	Fixed rate financial liabilities 2001 R millions
Rand						
Short-term	**259**	309	**212**	268	**47**	41
Long-term	**1 195**	1 243	**1 089**	1 089	**106**	154
US dollar	**–**	10	**–**	–	**–**	10
Other	**2**	2	**2**	2	**–**	–
Total	**1 456**	1 564	**1 303**	1 359	**153**	205

	Fixed rate financial liabilities Weighted average interest rate 2002 %	Fixed rate financial liabilities Weighted average interest rate 2001 %	Weighted average period for which rate is fixed 2002 Months	Weighted average period for which rate is fixed 2001 Months
	5.8	5.5	**40.1**	50.5

22. Financial instruments (continued)

(c) Maturity profile of financial instruments at 31 December 2002

	Within 1 year		2 to 3 years		4 to 7 years		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions	**R millions**	R millions	**R millions**	R millions
Financial assets								
Cash and cash equivalents	**642**	577	**–**	–	**–**	–	**642**	577
Accounts receivable	**1 321**	1 469	**–**	–	**–**	–	**1 321**	1 469
Investments	**43**	125	**6**	–	**33**	46	**82**	171
Total financial assets	**2 006**	2 171	**6**	–	**33**	46	**2 045**	2 217
Percentage profile (%)	**98**	98	**–**	–	**2**	2	**100**	100
Financial liabilities								
Interest-bearing liabilities	**260**	316	**1 045**	1 049	**151**	199	**1 456**	1 564
Accounts payable	**1 409**	1 500	**–**	–	**–**	–	**1 409**	1 500
Total financial liabilities	**1 669**	1 816	**1 045**	1 049	**151**	199	**2 865**	3 064
Percentage profile (%)	**58**	59	**37**	34	**5**	6	**100**	100

(d) Carrying amounts and fair values of financial assets and liabilities at 31 December 2002

	Carrying amount		Fair value	
	2002	2001	**2002**	2001
	R millions	R millions	**R millions**	R millions
Financial assets				
Cash and cash equivalents	**642**	577	**642**	577
Accounts receivable	**1 321**	1 469	**1 321**	1 469
Investments	**82**	171	**88**	173
Total financial assets	**2 045**	2 217	**2 051**	2 219
Financial liabilities				
Interest-bearing liabilities	**1 456**	1 564	**1 456**	1 564
Accounts payable	**1 409**	1 500	**1 409**	1 500
Total financial liabilities	**2 865**	3 064	**2 865**	3 064
Unrecognised gains			**6**	2

22. Financial instruments (continued)

(e) Credit risks

Credit risks arise on cash and cash equivalents, investments and trade receivables. The risk on cash and cash equivalents is managed by only investing with financially sound institutions and by setting prudent exposure limits for each institution. The risk arising on trade receivables is managed through normal credit policy using credit limits, continual review and exception reporting. The exposure to credit risk relating to trade receivables is decentralised with each operating unit managing its own credit control procedures because of the Group's diversified customer base. Adequate provision is made for doubtful debts.

(f) Liquidity risks

The Group manages liquidity risk through the management of working capital and cash flows. A balance between continuity of funding and flexibility is maintained through the use of borrowings from a range of institutions with varying debt maturities. At 31 December 2002 the bulk of the Group's borrowings had a maturity greater than 12 months. The largest component of this was R793 million, which represents the rand equivalent (in terms of cross-currency swaps) of US$65 million drawn down on the Group's three-year syndicated loan facility.

(g) Borrowing facilities

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are in place. The Group maintains a policy of ensuring that expected peak cash flows over the next 12 months are comfortably exceeded by existing facilities in order to preserve operational flexibility.

	Group	
	2002	2001
	R millions	R millions
Borrowing capacity in terms of the articles of association	**1 834**	1 934
Total borrowings	**1 456**	1 564

Some of the Group's loan agreements contain certain financial covenants. The Group complied with all such covenants at balance sheet date.

23. Related party information

The subsidiaries of the Group are identified in appendix 3, joint ventures and partnerships in appendix 2 and associated companies in note 10.

The directors' emoluments are stated in note 24.

Income received from associated companies amounted to R nil (2001 – R23 million) and there were no loans to associated companies.

AECI

R thousands	NC Axelson	S Engelbrecht*	VC Liddiard	LC van Vught	Total

24. Directors' emoluments

Executive directors

R thousands	NC Axelson	S Engelbrecht*	VC Liddiard	LC van Vught	Total
Basic salary	1 128	225	–	1 562	**2 915**
Bonus and performance-related payments	397	–	–	642	**1 039**
Expense allowances, medical aid and insurance contributions	183	52	–	158	**393**
Other material benefits	13	–	–	–	**13**
Retirement fund contributions	110	25	–	215	**350**
Aggregate emoluments	1 831	302	–	2 577	**4 710**
Less: Paid by subsidiary	–	302	–	–	**302**
2002	**1 831**	**–**	**–**	**2 577**	**4 408**
PAYE thereon					**1 495**
2001	1 683	–	2 366	2 040	6 089
PAYE thereon					1 223

** Appointed as director on 7 October 2002.*

Non-executive directors

R thousands	Directors' fees	Chairman/ committee fees	Additional payments	**2002 Total**	2001 Total
CB Brayshaw	50	30		**80**	80
EK Diack (resigned 1 October 2002)	38			**38**	50
ZM Jakavula (resigned 16 August 2002)	38			**38**	21
MJ Leeming (appointed 1 October 2002)	12			**12**	–
TH Nyasulu (appointed 25 November 2002)	4			**4**	–
AE Pedder	50	50	1 105*	**1 205**	974
CML Savage	50			**50**	50
	242	80	1 105	**1 427**	1 175

Notes:

1. Share options issued to directors are set out in note 25. None of the directors exercised any of their options in either the current or the previous financial year.
2. There were no pensions paid to directors or past directors of the Company.
3. No compensation was paid to any director or past director for loss of office.
4. There are no service contracts with any directors which have a notice period of longer than one month.

** Payments for work related to the strategic development of the Group and to technology development in SANS Fibres.*

25. Employee benefits

Retirement benefits

The Group provides retirement benefits for all its permanent employees by means of a number of independent defined benefit pension schemes and a defined contribution provident fund.

At 31 December 2002 the following funds were in existence:

	Date of last valuation
Defined benefit funds	
– AECI Pension Fund	1 March 2001
– AECI Employees Pension Fund	1 March 2001
– AECI Supplementary Pension Fund	1 March 2001
– Dulux Employees Pension Fund	1 March 2001
Defined contribution fund	
– AECI Employees Provident Fund	n/a

Members pay a maximum contribution of 7.5 per cent of earnings, with the employer's contribution of 9 per cent being expensed as incurred. The assets of the funds are under the control of the trustees of the respective funds.

All funds are governed by the Pension Fund Act, 24 of 1956, as amended. Defined benefit funds are actuarially valued every three years using the accrued benefit method of valuation by independent firms of consulting actuaries and interim valuations of the major fund are normally carried out annually. However, the delay in the publication of the regulations to be promulgated in terms of the Pension Funds Second Amendment Act, 2001, rendered this impossible for the current year.

Membership of each fund and employer contributions to each fund were as follows:

	Pensioner members		Contributing members		Employer contributions	
	2002	2001	**2002**	2001	**2002**	2001
	Numbers	Numbers	**Numbers**	Numbers	**R millions**	R millions
– AECI Pension Fund	**4 396**	4 626	**1 919**	2 695	**29**	31
– AECI Employees Pension Fund	**2 516**	2 563	**56**	293	*****	*
– AECI Supplementary Pension Fund	**248**	262	**82**	104	**4**	6
– Dulux Employees Pension Fund	**157**	142	**20**	25	*****	*
– AECI Employees Provident Fund	**n/a**	n/a	**4 061**	6 208	**28**	29

Principal actuarial assumptions for the AECI Pension Fund were as follows:

	2002	2001
	%	%
Discount rate	**12.0**	12.0
Expected return on plan assets	**12.0**	12.0
Future salary increases	**8.5**	8.5

The consolidated position for all retirement funds at 31 December 2002 was as follows:

	Group	
	2002	2001
	R millions	R millions
Present actuarial value of obligations	**3 335**	3 395
Actuarial value of plan assets	**4 052**	3 967
Net assets	**717**	572

n/a Not applicable

** Nominal amount*

25. Employee benefits (continued)

Retirement benefits

The defined benefit asset has not been recognised due to the outstanding regulations to be promulgated in terms of the Pension Funds Second Amendment Act, 2001.

The assets of all funds consist primarily of equities, interest-bearing stock, cash and deposits and fixed property.

	2002 %	2001 %
Post-employment medical aid benefits		
Principal actuarial assumptions for post-employment medical aid benefits were as follows:		
Annual increase in health care costs	**10.0**	9.0
Discount rate	**12.0**	11.0

The position at 31 December 2002 was as follows:

	Group		Company	
	2002 **R millions**	2001 R millions	**2002** **R millions**	2001 R millions
Present actuarial value of obligations	**425**	445	**374**	374

Details of the provision for post-employment medical aid benefits at 31 December 2002 are disclosed in note 17. The directors are of the opinion that the Company has no contractual obligation to increase current levels of employer contribution to the various medical aid societies of which present and past employees are members. Subject to affordability, the directors nonetheless intend to support reasonable increases in future employer contributions depending on circumstances at the time. Whilst the post-employment medical aid liability determined on this basis is lower than that recognised at 31 December 2001, the Company has continued to provide through the income statement for the full amount of the liability recognised in 2001.

Share option scheme

AECI Limited offers share options, without payment, to those employees of the Company or its subsidiary companies who the Board of directors, in its absolute discretion, considers play a role in the management of the Company or subsidiary companies and contribute to their growth and profitability.

Participants are entitled to exercise their options as follows:
After 2 years – up to 20 per cent of the shares
After 3 years – up to 40 per cent of the shares
After 4 years – up to 60 per cent of the shares
After 5 years – up to 100 per cent of the shares

If an option is not exercised within 10 years from the date such option was granted, it will lapse.

If a participant retires on pension, or otherwise leaves the employ of AECI Limited or one of its subsidiary companies for a reason approved by the Board of directors, the participant shall nevertheless continue to have the same rights and obligations under the scheme in respect of the participant's options as if the participant had remained in the employ of the Company or subsidiary company.

In the event that the participant ceases to be an employee otherwise than as a result of death, retirement on pension or other reasons approved by the Board of directors, any option not yet exercised will lapse.

25. Employee benefits (continued)

Details of outstanding share options at 31 December 2002:

		Number of shares			
Expiry date	Exercise price	Granted	Exercised	Lapsed	Outstanding
31 December 2008	R4.50	4 804 000	993 000	130 000	3 681 000
31 December 2009	R7.00 – R15.80	410 000	51 000	104 000	255 000
31 December 2010	R11.45 – R13.78	477 000	45 000	32 000	400 000
31 December 2011	R17.50	1 460 000	–	–	1 460 000
		7 151 000	**1 089 000**	**266 000**	**5 796 000**
Included in outstanding share options are the following options granted to executive directors:					
NC Axelson	R4.50	350 000	–	–	350 000
S Engelbrecht	R4.50	50 000	–	–	50 000
S Engelbrecht	R17.50	40 000	–	–	40 000
LC van Vught	R4.50	500 000	–	–	500 000
		940 000	**–**	**–**	**940 000**

Note:

In 2001 the Company converted its share incentive scheme (benefit units) to a share option scheme. The options expiring on 31 December 2008 were originally issued as benefit units in November 1998 at an exercise price of R10.50. The exercise price was reduced to R4.50 in 1999 following the special dividend of R6.00 per share paid to ordinary shareholders in that year.

26. Industry segment analysis

	Revenue 2002 R millions	Revenue 2001 R millions	Net trading profit 2002 R millions	Net trading profit 2001 R millions	Depreciation 2002 R millions	Depreciation 2001 R millions
Class of business						
Mining solutions	**1 904**	1 474	**176**	142	**69**	71
Specialty chemicals	**3 037**	2 415	**318**	232	**46**	46
Specialty fibres	**2 082**	1 717	**173**	161	**72**	62
Property	**180**	149	**26**	9	**6**	3
Other businesses	**787**	1 044	**43**	21	**18**	28
Group services, development and intergroup	**(172)**	(54)	**(38)**	(73)	**10**	11
	7 818	6 745	**698**	492	**221**	221

	Total assets 2002	Total assets 2001	Total liabilities 2002	Total liabilities 2001	Capital expenditure 2002	Capital expenditure 2001
Class of business						
Mining solutions	**1 118**	1 156	**249**	269	**68**	94
Specialty chemicals	**1 509**	1 450	**586**	538	**67**	93
Specialty fibres	**1 176**	1 287	**271**	342	**54**	214
Property	**646**	706	**34**	31	**4**	1
Other businesses	**279**	455	**176**	233	**7**	21
Group services and development	**42**	81	**130**	117	**1**	1
	4 770	5 135	**1 446**	1 530	**201**	424

Geographical segment analysis

	Revenue 2002	Revenue 2001	Total assets 2002	Total assets 2001	Capital expenditure 2002	Capital expenditure 2001
Region						
Republic of South Africa	**5 942**	4 961	**4 323**	4 532	**160**	260
Rest of Africa	**902**	681	**238**	283	**23**	26
Europe	**360**	370	**–**	–	**–**	–
North America	**213**	224	**209**	320	**18**	138
South America	**85**	136	**–**	–	**–**	–
Rest of the world	**316**	373	**–**	–	**–**	–
	7 818	6 745	**4 770**	5 135	**201**	424

Assets consist of property, plant and equipment, goodwill, inventory and accounts receivable. Liabilities consist of accounts payable excluding current portion of long-term provisions.

Appendix 1

Long-term borrowings

	Weighted closing interest rate %	Group 2002 R millions	Group 2001 R millions	Company 2002 R millions	Company 2001 R millions
Unsecured					
Local					
Loans					
1998/2012	9.00	**3**	3	**3**	3
2001/2004[1]	14.65	**943**	943	**943**	943
2001/2006	5.70	**149**	190	**149**	190
Repaid		**–**	–	**–**	–
Foreign[2]					
Loans					
US dollar					
Repaid		**–**	9	**–**	9
Secured					
Local					
2001/2006[3]	12.30	**103**	103	**103**	103
Loans – other[4]	15.27	**48**	50	**3**	4
Foreign					
Loans – other	17.34	**2**	2	**–**	–
		1 248	1 300	**1 201**	1 252

(1) Includes R793 million being the rand equivalent of US$65 million hedged by means of cross-currency swaps, included as local borrowings in the summary of repayments below.
(2) At 31 December 2001 all the foreign currency denominated loans were fully hedged against exchange rate fluctuations.
(3) Secured over plant and equipment having a net book value of R90 million (2001 – R97 million).
(4) Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R24 million (2001 – R24 million) and mortgage over property having a net book value of R28 million (2001 – R26 million).

Summary of repayments

R millions	Year	Local	Foreign	Total
	2003	51	1	52
	2004	996	–	996
	2005	49	–	49
	2006	116	–	116
	2007	1	–	1
	After 2007	33	1	34
		1 246	2	1 248

Appendix 2

Significant joint ventures and partnerships

	Effective percentage held by AECI Limited	
	2002	2001
Crest Chemicals (Pty) Limited	**36**	–
ONDEO Nalco SA (Pty) Limited	**36**	36
Resinkem (Pty) Limited	**36**	36
Specialty Minerals South Africa (Pty) Limited	**36**	36
Unifi-SANS Technical Fibers LLC	**50**	50

	2002 R millions	2001 R millions
The aggregate of proportionately consolidated amounts included in the consolidated results is as follows:		
Balance sheets		
Property, plant, equipment and investments	**202**	234
Current assets	**157**	141
Total assets	**359**	375
Equity	**241**	265
Long-term borrowings	**5**	4
Current liabilities	**113**	106
Total equity and liabilities	**359**	375
Income statements		
Revenue	**644**	342
Net trading profit	**(9)**	5
Net loss	**(21)**	(3)
Exceptional items	**–**	(4)
Cash flow statements		
Cash generated by operations	**82**	60
Financing costs	**(2)**	(4)
Taxes paid	**(8)**	(5)
Changes in working capital	**(42)**	(16)
	30	35
Dividends paid	**4**	6
Cash retained from operating activities	**26**	29
Cash utilised in investing activities	**(31)**	(148)
Increase in funding requirements	**(5)**	(119)
Commitments		
Capital expenditure authorised	**3**	37
Future rentals on property, plant and equipment leased	**12**	3
	15	40

Appendix 3

Principal consolidated subsidiaries

	Issued share capital 2002 R	Effective shareholding 2002 %	Effective shareholding 2001 %	Interest of AECI Limited # Shares 2002 R millions	Interest of AECI Limited # Shares 2001 R millions	Interest of AECI Limited # Net indebtedness 2002 R millions	Interest of AECI Limited # Net indebtedness 2001 R millions
Listed							
Specialty chemicals							
Chemical Services Limited	**8 214 479**	**71**	71	**225**	221	**126**	*
Unlisted							
Holding companies							
AECI Treasury Holdings (Pty) Limited	**200**	**100**	100	*****	*	**146**	119
African Explosives Holdings (Pty) Limited	**43 312**	**100**	100	*****	*	**–**	–
Athena Paint Investments S.A.(1)	**230 000**	**100**	100	*****	*	*****	*
Athena Investments Limited S.A.(1)	**3 360 000**	**100**	100	**–**	–	**–**	–
Capex (Pty) Limited	**10 000**	**100**	100	*****	*	**–**	–
African Explosives International Limited(2)	**1 812**	**100**	100	**–**	–	**–**	–
Insurance							
AECI Captive Insurance Company Limited	**810 000**	**100**	100	**11**	11	**(7)**	(7)
Mining solutions							
African Explosives Limited+	**100**	**100**	100	*****	*	**–**	–
AEL Chemico-Mali SARL(3)	**12 000**	**90**	90	**–**	–	**8**	23
African Explosives (Botswana) Limited(4)	**3**	**100**	100	**–**	–	**1**	–
African Explosives (Ghana) Limited(5)	**12 000 000**	**100**	100	**–**	–	*****	–
African Explosives (Nigeria) Limited(6)	**485 500**	**100**	100	*****	*	**–**	–
African Explosives (Tanzania) Limited(7)	**3**	**100**	100	**–**	–	**26**	31
African Explosives (Zambia) Limited(8)	**8 268 838**	**80**	80	**–**	–	**2**	–
Paints and allied products							
Dulux (Pty) Limited+	**4**	**100**	100	*****	*	**–**	–
Dulux Botswana (Pty) Limited(4)	**1 150**	**100**	100	*****	*	**2**	1
Dulux Limited(9)	**500**	**100**	100	*****	*	**2**	2
Dulux (Mozambique) Lda(10)	**994 000**	**80**	80	*****	–	**6**	4
Dulux Swaziland (Pty) Limited(11)	**100 000**	**100**	100	*****	*	**1**	*
Property							
Heartland Properties (Pty) Limited	**1**	**100**	100	*****	*	**182**	105
Other				**3**	4	**229**	379
Specialty chemicals							
Directly held							
AECI Aroma and Fine Chemicals (Pty) Limited+	**–**	**–**	100	**–**	*	**–**	*
Indirectly held							
AECI Coatings (Pty) Limited	**1 000**	**57**	57	**–**	–	**26**	14
Akulu Marchon (Pty) Limited	**410 000**	**71**	71	**–**	–	**–**	–
Atlas Consolidated Industries (Pty) Limited	**200**	**71**	71	**–**	–	**8**	–
Chemical Initiatives (Pty) Limited	**1**	**71**	71	**–**	–	**–**	–
Chemoleo (Pty) Limited	**200 000**	**71**	71	**–**	–	**–**	–
Chemserve Perlite (Pty) Limited	**800 000**	**71**	71	**–**	–	**–**	–
Chemserve Polymer Sciences (Pty) Limited	**800 000**	**71**	71	**–**	–	**–**	–
Chemserve Systems (Pty) Limited	**1 250 000**	**71**	71	**–**	–	**–**	–
Chemserve Technical Products (Pty) Limited	**26 790**	**71**	71	**–**	–	**–**	–
Chemserve Trio (Pty) Limited	**150 000**	**71**	71	**–**	–	**–**	–
Crest Chemicals (Pty) Limited	**47 000**	**–**	50	**–**	–	**–**	–
Industrial Oleochemical Products (Pty) Limited	**4 000**	**71**	71	**–**	–	**–**	–
Metswako Chemicals (Pty) Limited(4)	**3 000**	**71**	71	**–**	–	**–**	–
Pelichem (Pty) Limited	**50 000**	**71**	71	**–**	–	**–**	–
Plaaskem (Pty) Limited	**400**	**71**	71	**–**	–	**–**	–
Plastamid (Pty) Limited	**32 000**	**71**	71	**–**	–	**3**	–
S.A. Paper Chemicals (Pty) Limited	**220 443**	**71**	71	**–**	–	**–**	–
Specialty fibres							
SANS Fibres (Pty) Limited+	**17 979 433**	**100**	100	**8**	8	**(12)**	(11)
SANS Fibers Incorporated(12)	**365**	**100**	100	**–**	–	**199**	307
SANS Fibres Europe Ltd(2)	**14**	**100**	100	**–**	–	*****	–
Other				**17**	16	**(24)**	(2)
				264	260	**924**	965

*# Cost less amounts written off   + Trading as an agent on behalf of AECI Limited   * Nominal amount*
All companies are incorporated in the Republic of South Africa except for: (1) Grand Duchy of Luxembourg (2) United Kingdom (3) Mali (4) Botswana (5) Ghana (6) Nigeria (7) Tanzania (8) Zambia (9) Malawi (10) Mozambique (11) Swaziland (12) United States of America.

Notice to shareholders

Notice is hereby given that the 79th annual general meeting of shareholders of AECI Limited will be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton, on 26 May 2003 at 09:15 for the following purposes:

1. To receive and consider the balance sheets, income statements and reports of the directors and independent auditors for the year ended 31 December 2002.

2. To elect directors in place of Messrs S Engelbrecht and MJ Leeming, Ms TH Nyasulu and Mr LC van Vught who are required to retire in terms of the provisions of the articles of association but, being eligible, offer themselves for re-election.

   Condensed biographies of these directors appear on pages 6 and 7 of this report.

3. To consider, and resolve if deemed fit, to continue to place the unissued authorised shares in the capital of the Company under the control of the directors, subject to such limitations as are imposed by the Companies Act, 1973, and the rules of the JSE Securities Exchange SA.

4. To fix, with effect from 1 January 2003, the remuneration of the directors who are not in the full-time employ of the Company at R100 000 per director per annum payable quarterly in arrears plus additional amounts of:

- R300 000 per annum payable to the chairperson of the Company;
- R50 000 per annum payable to members of the audit committee; and
- R50 000 per annum payable to the chairperson of the audit committee.

5. To transact any other business which may be transacted at an annual general meeting.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and speak and vote in his/her stead. A proxy need not be a member of the Company.

By order of the Board

MJF Potgieter
Secretary

Sandton, 24 February 2003

Administration

Company registration number

1924/002590/06

Secretary and registered office

MJF Potgieter
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Transfer secretaries

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70 Marshall Street
Johannesburg

and

Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
England

Auditors

KPMG Inc.

Bankers

First National Bank of Southern Africa Limited
Nedcor Bank Limited
The Standard Bank of South Africa Limited

Form of proxy

AECI Limited
(Incorporated in the Republic of South Africa)
(Registration number 1924/002590/06)
("AECI" or "the Company")

For the use of shareholders recorded in the register and who have not dematerialised their AECI ordinary shares or hold dematerialised AECI ordinary shares in their own name, at the annual general meeting to be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton, on Monday, 26 May 2003 at 09:15 ("the general meeting").

Shareholders who have dematerialised their AECI ordinary shares and do not have own name registration must inform their CSDP or stockbroker of their intention to attend the general meeting and request their CSDP or stockbroker to issue them with the necessary authorisation to attend or provide their CSDP or stockbroker with their voting instructions should they not wish to attend the general meeting in person. Such shareholders must not return this form of proxy to the transfer secretaries.

I/We

(name in block letters)

being the holder/s of ______ shares in the Company, do hereby appoint

1. or failing him/her

2. or failing him/her

3. the chairman of the general meeting
as my/our proxy to act for me/us and on my/our behalf at the general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the shares registered in my/our name/s, in accordance with the following instructions (see note 4):

Number of votes (one vote per ordinary share)

Resolutions	For	Against	Abstain
1.			
2.			
3.			
4.			

Signed at (place) on (date) 2003

Signature

Assisted by me
(where applicable)

(Note: A shareholder entitled to attend and vote is entitled to appoint a proxy to attend, speak and vote in his stead on a show of hands and on a poll, and such proxy need not also be a shareholder of the Company.)

Please read the notes on the reverse side hereof.

Notes to the form of proxy

1. Only registered shareholders who are recorded in the register of members of the Company under their own name may complete a proxy or alternatively attend the meeting. Beneficial shareholders whose shares are not registered in their own name but in the name of another, for example a nominee company, may not complete a proxy or attend the meeting unless a proxy is issued to them by the registered shareholder. Beneficial shareholders who are not also registered shareholders should contact the registered shareholders for assistance in obtaining a proxy to attend the meeting and/or issuing instructions on voting the shares.

2. All beneficial owners of shares who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or stockbroker, may provide the CSDP or stockbroker with a voting instruction, or request their CSDP or stockbroker for a letter of representation in terms of their custody agreement with the CSDP or stockbroker should they wish to attend the annual general meeting in person.

3. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the general meeting", but any such deletion must be initialled by the shareholder. The person whose name appears first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

4. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting as he deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obligated to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

5. This duly completed form of proxy must be received by the Company's transfer secretaries by not later than 09:00 on Friday, 23 May 2003.

6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the Company's transfer secretaries or waived by the chairman of the general meeting.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

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