Annual report 2003

Specialty product and service solutions

80th annual report

for the year ended 31 December 2003

Contents

Financial 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:

	2003	2002
	R	R
Euro	**8.36**	9.02
Pound sterling	**11.81**	13.86
Swiss franc	**5.36**	6.21
US dollar	**6.62**	8.61

Values

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

AECI

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

Profile

AECI is a 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 Group's 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. Specialty fibres has a joint venture manufacturing facility in the USA and, in 2003, mining solutions announced a joint venture which is aimed at being the international leader in the design, production and sale of specialised electronic detonators.

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.

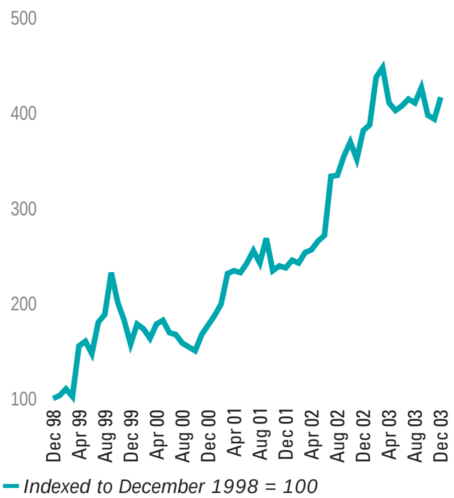
Shareholder information

Group results at a glance

for the year ended 31 December 2003

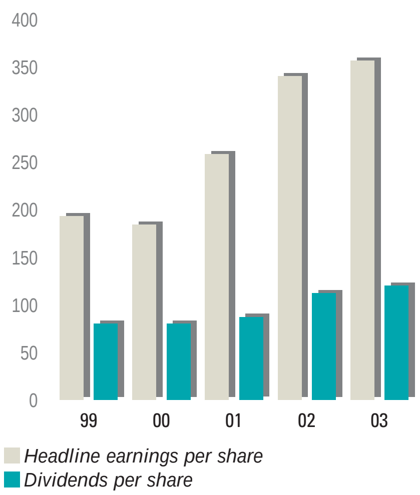
	2003	2002	% change
Revenue (R millions)	**7 659**	7 818	-2
Net trading profit (R millions)	**691**	698	-1
Headline earnings (R millions)	**337**	318	6
Net profit attributable to ordinary shareholders (R millions)	**239**	240	
Headline earnings per ordinary share (cents)	**356**	340	5
Dividends declared per ordinary share (cents)	**120**	112	7
Market capitalisation at 31 December (R millions)	**4 029**	2 657	52
Trading margin (%)	**9.0**	8.9	
Return on net assets (%)	**19.3**	19.7	
Net borrowings as a percentage of shareholders' interest (%)	**40**	35	

AECI share price* relative to JSE industrial index

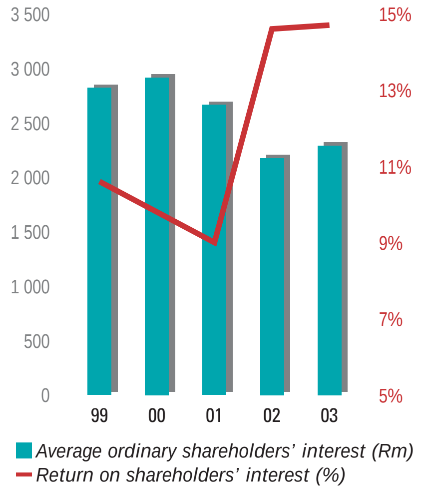


* Adjusted for special dividend

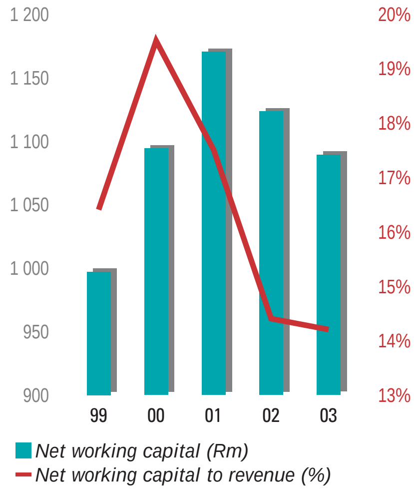
Headline earnings and normal dividends per ordinary share (cents)



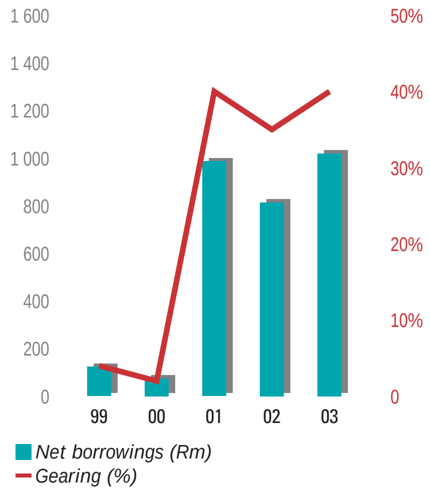
Return on shareholders' interest



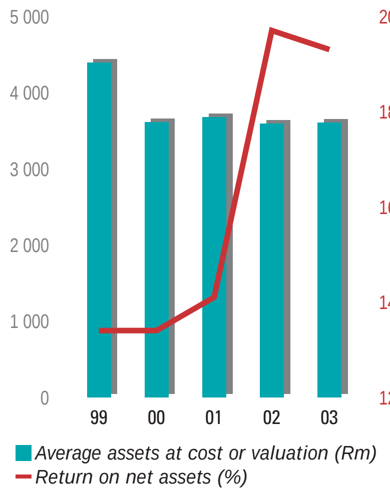
Revenue and net working capital



Net borrowings and gearing



Return on net assets



Analysis of ordinary shareholders

December 2003

	Number of shareholders	Shares held (thousands)	% of total shares
SHAREHOLDER SPREAD			
To the best knowledge of the directors, after reasonable enquiry, the spread of shareholders in December 2003 was as follows:			
AECI Treasury Holdings (Pty) Limited	1	10 311	9
Directors	3	5	0
Non-public	4	10 316	9
Public	5 715	108 188	91
Total	5 719	118 504	100
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 in December 2003:			
RMB Asset Management		18 056	15.2
Stanlib Limited		16 908	14.3
Coronation Asset Management		16 337	13.8
Old Mutual Asset Management		8 900	7.5
Bernstein Investment Research Management		6 017	5.1

To the best of the directors' knowledge, the percentage of the Company's shares held by non-South African shareholders was 10.5 per cent in December 2003.

BENEFICIAL SHAREHOLDERS

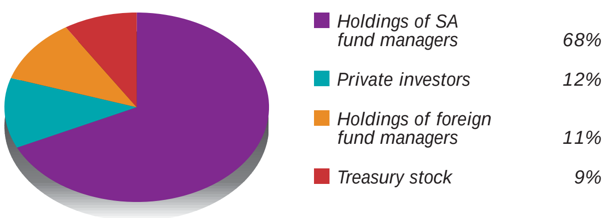
In accordance with the terms of section 140A of the Companies Act, the Company has conducted investigations into the registered holders of its ordinary shares to establish the extent of beneficial shareholdings in the Company. Only the following public shareholder had a beneficial holding of 5 per cent or more of the issued shares in December 2003:

	Shares held (thousands)	% of total shares
Public Investment Commissioner	11 056	9.3

PROFILE OF REGISTERED SHAREHOLDERS

Size of shareholding	Number of shareholders	% of total	Shares held (thousands)	% of total shares
1 – 1 000	3 208	56	1 321	1
1 001 – 10 000	1 942	34	6 783	6
10 001 – 100 000	438	8	14 351	12
Over 100 000	131	2	96 049	81
Total	5 719	100	118 504	100

Profile of shareholdings



Financial calendar

2003 final ordinary dividend No. 140

Declaration date	23 February
Last date to trade cum dividend	16 April
Ex dividend trade	19 April
Payment date	26 April

5.5% preference shares dividend No. 132

Declaration date	19 May
Last date to trade cum dividend	4 June
Ex dividend trade	7 June
Payment date	15 June

80th annual general meeting — 24 May

2004 interim ordinary dividend No. 141

Declaration date	26 July
Last date to trade cum dividend	10 September
Ex dividend trade	13 September
Payment date	20 September

2004 interim report released — 27 July

5.5% preference shares dividend No. 133

Declaration date	15 November
Last date to trade cum dividend	3 December
Ex dividend trade	6 December
Payment date	15 December

Financial year-end — 31 December

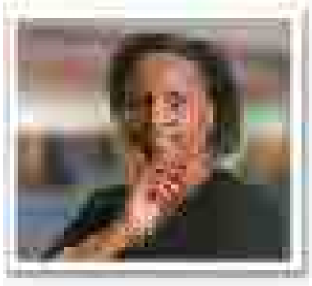
2004 audited results released — February 2005

2004 annual report posted — March 2005

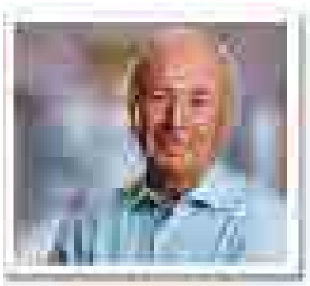
Non-executive directors

Colin Brayshaw

Mike Leeming



Hixonia Nyasulu



Alan Pedder

Cedric Savage

Lex van Vught

Colin Brayshaw (68)
CA(SA), FCA
He joined the AECI Board in 1996. He is chairman of the Company's audit committee and a member of the nominations and remuneration committees. A past managing partner and chairman of Deloitte & Touche, he serves on the Boards of several other companies including Anglogold, Anglo Platinum, Highveld Steel, Johnnic, Johnnic Communications and Datatec, and he is chairman of Coronation Investments and Trading.

Mike Leeming (60)
BCom, MCom, FCMA, FIBSA,
AMP (Harvard)
He is a retired executive director of Nedcor. He joined AECI's Board in 2002 and is a member of the Company's audit and corporate citizenship committees. He has served as chairman of the Banking Council of South Africa and president of this country's Institute of Bankers. Current directorships of listed companies include the Imperial group and the Altron group.

Hixonia Nyasulu (49)
BA (SocSc)
She has been an AECI non-executive director since 2002 and chairs the newly-established corporate citizenship committee. She is the sole proprietor of TH Nyasulu & Associates, a marketing and research company. Other directorships of listed companies are AVI, Nedcor and Tongaat-Hulett. She is chairman of the Development Bank of South Africa's Development Fund.

Alan Pedder (65)
AMIMechE, FCIM
He joined the AECI Board in 1994. He is the Company's chairman and also chairs its nominations and remuneration committees. In addition, he is a director of SANS Fibres. He is based in the United Kingdom where his activities include chairman of Remploy Limited (the UK's leading supplier of employment opportunities for disabled people) and non-executive director of the venture capital company Baronsmead VCT4 plc. Alan has a chemicals background from a long career at ICI plc, from where he retired as group technology director.

Cedric Savage (65)
BSc (Mech Eng), MBA,
ISMP (Harvard)
He has been a non-executive director of AECI since 1997 and is a member of the Company's audit, nominations and remuneration committees. He is non-executive chairman of the Tongaat-Hulett group, having retired from executive duties in that group in 2002. Other directorships include Harmony Gold Mining Company, Delta Motor Corporation, Datatec, Kumba Resources and Nedcor.

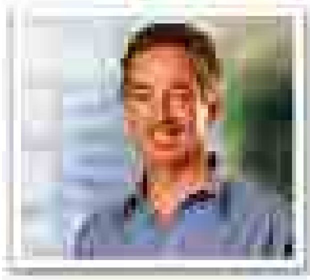
Lex van Vught (60)
BSc (Hons), BCom
He retired from his position as AECI's chief executive in March 2003 after having led the Group through a successful transformation programme launched in 1998. In addition to his continued involvement with the Group as a non-executive director and member of the corporate citizenship committee, he has also joined the Boards of the Altron group, Tiger Brands and Impala Platinum.

Executive committee


Neale Axelson


Frank Baker


Charles Betts


Graham Edwards


Schalk Engelbrecht


Thys Loubser


Lincoln Partridge


Jacques Pienaar

Neale Axelson (54)
BSc (Hons)
He is an executive director of AECI and its chief financial officer. He was appointed to the Board in 1989, having joined the Group in 1972. Neale is executive chairman of Heartland Properties and chairman of AECI's Pension Fund. He has overall responsibility for the Company's accounting and finance, legal and secretarial, and group communications functions.

Frank Baker (50)
BSc (Chem Eng)
He took up his position as managing director of Chemical Services in April 2003. Frank joined AECI in 1976. He moved to Chemical Services in a management position in 1993, joined that company's executive committee in 1998 and its Board in 1999. From 1993 to 2003 he managed a number of subsidiaries within the Chemical Services group.

Charles Betts (55)
BSc (Eng), BCom
He is managing director of Dulux. Before moving to the decorative coatings company nine years ago he had been in the Group's strategic planning function, as it was known, for six years. For 14 years before that he had worked at various AECI manufacturing sites in process control and also spent time at ICI, in the UK, on secondment.

Graham Edwards (49)
BSc (Mech Eng), BCom, MBA, PhD, Pr Eng
He is managing director of African Explosives (AEL) and chairman of DetNet Solutions. He joined AECI as a design engineer in 1978 and subsequently worked in various areas of production, engineering, buying and strategic planning at Modderfontein. He took up an explosives marketing portfolio in 1988. After five years on the AEL Board, he was appointed to his current position in 1999.

Schalk Engelbrecht (57)
BSc, MBL
He was appointed chief executive of AECI from 1 April 2003, having joined the Board as an executive director in 2002. In 1980, he joined Chemical Services where he managed a number of subsidiaries before being appointed that group's managing director in 1998. Before his career at Chemserve, Schalk had gained 10 years' experience in a variety of fields, including technical and marketing.

Thys Loubser (50)
BEng, MEng, Pr Eng
He was appointed chief executive of SANS Fibres in 1998, having joined the company as a director the previous year. Before his move to SANS he had gained extensive experience in the retail sector, with portfolios covering manufacturing, exports and the establishment of overseas sales opportunities. Thys is chairman of the South African Textile Industry Export Council and also serves on the executive of the SA Textile Federation.

Lincoln Partridge (61)
BSc (Chem Eng)
He is Group manager, technology. He joined AECI 40 years ago and his current portfolio includes overall responsibility for Group strategic resources, IT, the safety, health and environment function and land remediation. In his career Lincoln has held various senior positions in production management, research, project development and project management.

Jacques Pienaar (44)
BA
He is general manager, Group human resources. Jacques joined Chemical Services in 1990 as industrial relations manager and was appointed to his current position at AECI in 1998. He is also chairman of the AECI Medical Aid Society, the AECI Employees Provident Fund and the AECI Employees Pension Fund.

Senior managers

Martin Potgieter

Chris Sinclaire

Louis van der Walt

Martin Potgieter (53)
BProc
He is Company secretary and head of the Group's legal department. Having joined AECI as a junior legal adviser in 1981, he was promoted to assistant legal adviser in Group office in 1984 before taking up his current portfolio in 1987.

Chris Sinclaire (54)
CA(SA)
He is Group treasurer. Having joined AECI in 1973 and served in a number of the Company's businesses, he returned to Group office in 1989 to take up his current position. His portfolio includes the accounting, finance, insurance and taxation functions.

Louis van der Walt (49)
BIuris, LLB, CFP
He has been manager of AECI's Retirement Funds since 1999. He joined AECI as a legal adviser in 1991, having worked in similar capacities elsewhere. He is an advocate of the High Court and a Certified Financial Planner.

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 two executive and six non-executive directors, of whom five are independent. 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 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 2003 during their tenure as directors is shown in the table below:

	Meetings held	Meetings attended
NC Axelson	5	5
CB Brayshaw	5	5
S Engelbrecht	5	5
MJ Leeming	5	5
TH Nyasulu	5	5
AE Pedder	5	5
CML Savage	5	4
LC van Vught	5	4

Board committees

The Board has established five 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 securities 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 in 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 general manager, Group human resources, 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 general manager, Group human resources, 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.

Corporate citizenship committee

During 2003 the Board decided to establish a corporate citizenship committee. The committee is comprised of three non-executive directors. The general manager, Group human resources, and the Group manager, technology, attend by invitation. The remit of the committee is being formalised for approval by the Board. It will include the review and assessment of progress by the Group in areas such as economic empowerment, employment equity, social responsibility investment, education, training and environmental practice. Current members of the committee are:

TH Nyasulu (Chairman)
MJ Leeming
LC van Vught

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 those of shareholders. In 2003, the remuneration committee approved a "phantom" share scheme that supplements the existing option scheme and 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 and International Financial Reporting Standards.

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 judgment 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.

Markets and areas of business

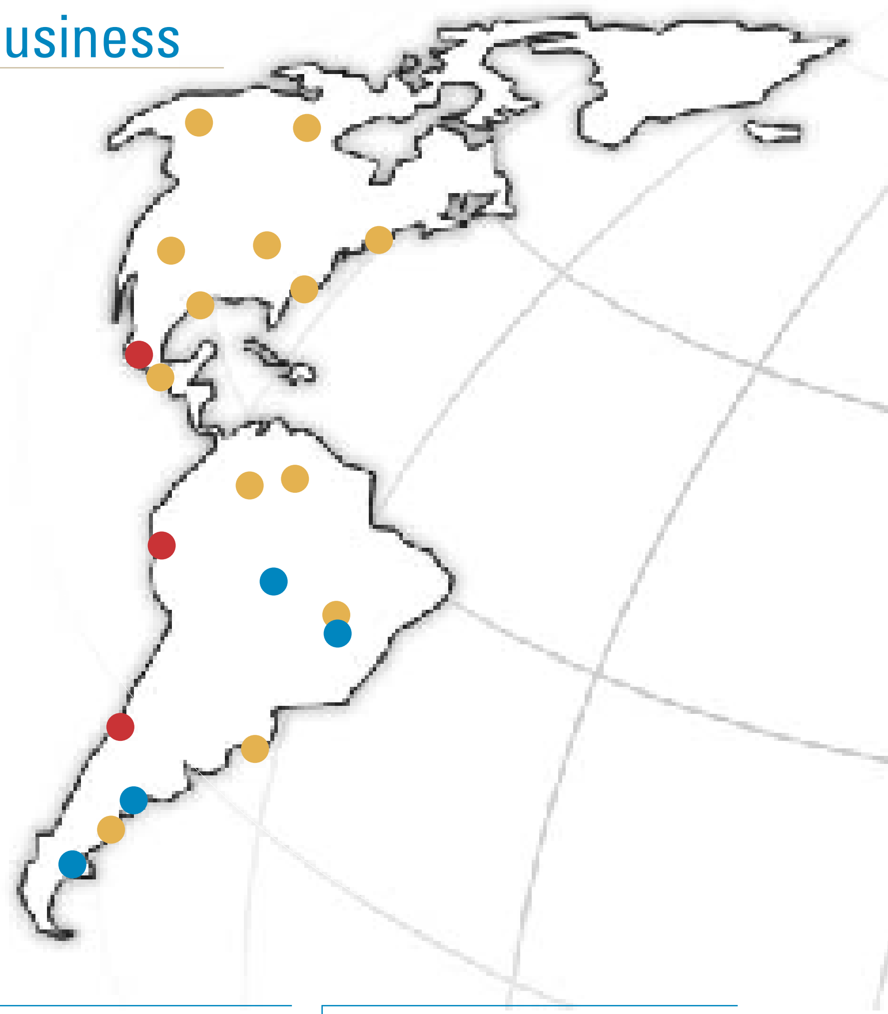
African Explosives

Chemical Services

SANS Fibres

Dulux

Heartland Properties



African Explosives

AEL
African Explosives Limited

AEL's 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 have been primarily in Africa, but a new initiative is under way to transform the world's initiating systems market by becoming the leading international supplier of high value, specialised electronic detonators. AEL will continue working with its customers to release wealth by delivering leading blasting solutions.

Chemical Services

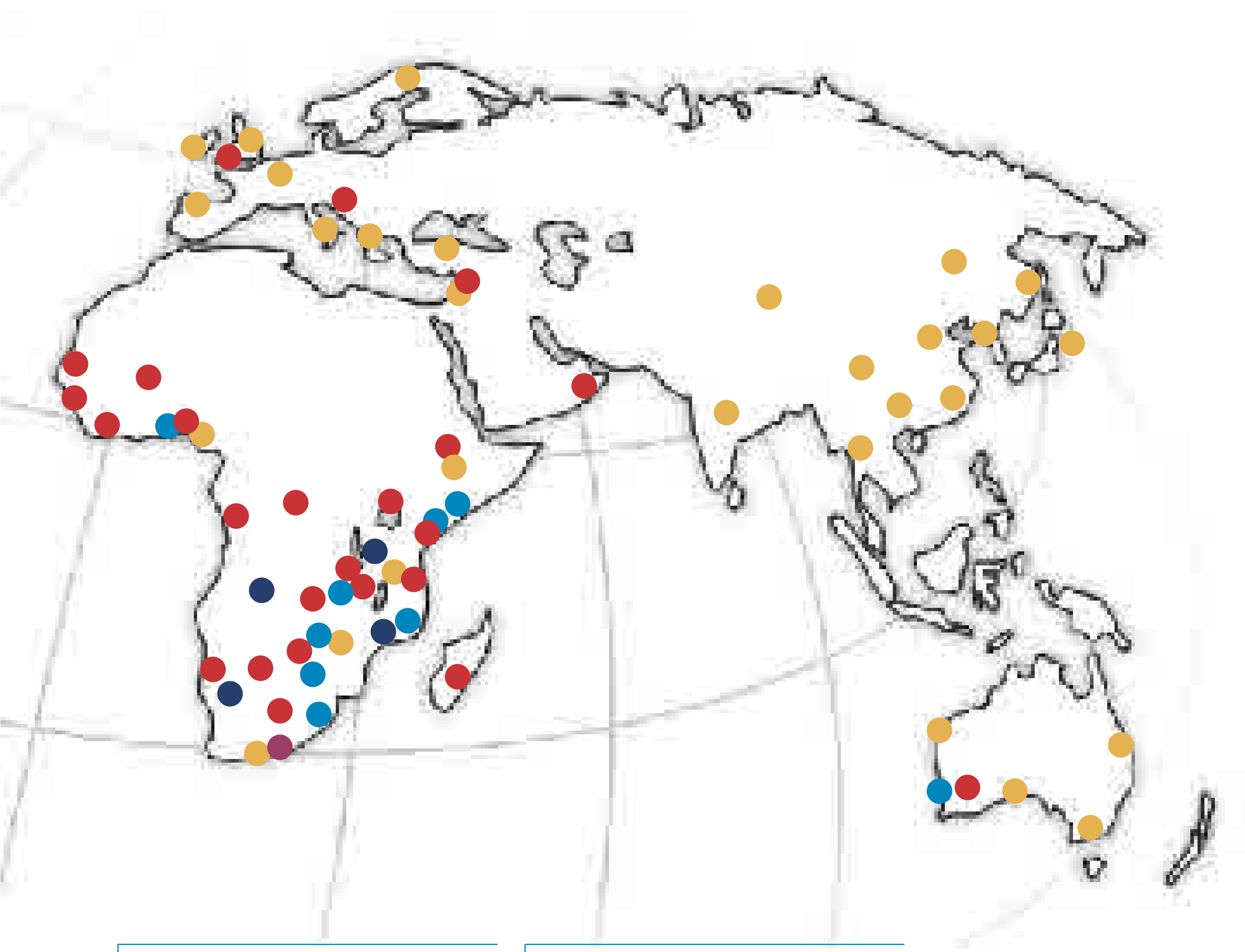
Chemical Services Limited

Chemical Services comprises 19 autonomous, niche-oriented small to medium-sized businesses. They provide specialty chemicals to a broad range of industries, mostly in South and southern Africa but also in selected worldwide export markets. 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.

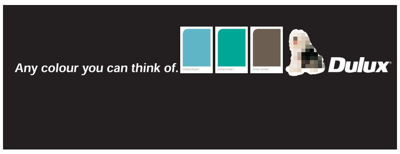
SANS Fibres

SANS FIBRES

SANS Fibres produces a broad range of specialty yarns for high specification end uses. It is a global business with leading positions in its niche markets, supplying polyester and nylon fibres to a wide range of industrial and some domestic markets. 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



As conveyed in its award-winning advertising campaign, Dulux brings you "Any colour you can think of". The company is a leading player in southern Africa's decorative coatings sector. It has 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 has operating subsidiaries in Botswana, Malawi, Mozambique, Swaziland 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 the focus of Heartland's activities. In addition to the flexibility of available options, it is the location of these sites close to South Africa's three largest metropolitan areas that has contributed to the momentum of development.

Chairman's letter to shareholders

It is a pleasure to report on a most satisfactory performance by the AECI Group in difficult trading conditions. Headline earnings per share rose by 5 per cent to 356 cents, the annual dividend was increased by 7 per cent to 120 cents and the balance sheet remained sound. This result reflects the resilient quality of the Group's portfolio and its repositioning away from the volatility of the commodity chemical cycle. In addition, safety performance improved further to world class levels and good progress was made on other key corporate citizenship issues such as environmental management, economic empowerment and governance.

Trading conditions

Global market conditions showed some improvement in the second half of the year as continuing growth in China was supported by a tentative recovery in the United States. However, energy prices rose further, Middle East tensions barely abated, and economic imbalances in the US approached new extremes. The sustainability of higher rates of growth in the world economy seems questionable in these circumstances.

Once again the behaviour of the rand was the most important macro influence on the domestic economy. In sharp reversal of previous declines, the currency's strong appreciation (an average gain of some 28 per cent against the US dollar) pressured the region's exporters and also other local manufacturers as imports became more competitive. The export-led growth of prior years was thereby curtailed.

On the positive side, the stronger rand led to a substantial decline in inflation followed by interest rates, which boosted domestic consumption towards the end of the year. Reduced volatility in the currency and hence in interest rates and inflation would be most welcome in the years ahead, given the difficulty of effecting rapid changes in fixed costs.

Financial performance

A 5 per cent increase in headline earnings per share was a pleasing result in the context of the trading conditions which prevailed in 2003. Quality management of the impact of currency effects around the portfolio and outstanding control of cash made a major contribution to financing a significant portion of the year's package of substantial acquisitions from cash flow.

African Explosives posted an impressive 37 per cent increase in net trading profit while Chemical Services, Dulux and the property realisation activities all recorded strong performances with further gains in trading margin.

SANS Fibres, the Group's most global business, continued its drive into international specialty industrial yarn markets and achieved another year of growth in US dollar revenues. However, the marked strengthening of the currency impacted severely on margins in rand terms and this prompted a comprehensive restructuring of operations at Bellville with the intent of bringing the cost base and productivity performance to international levels in dollar terms. More detail on this initiative and other aspects of operational performance by Group businesses is provided in the chief executive's review of operations.

The Group invested over R1 billion in growth assets during 2003, primarily on acquisitions, which should add considerable value for shareholders over time. While R335 million of this total was settled by the issue of 13.3 million new AECI shares to shareholders in Chemical Services, the outlay of the balance of R700 million in cash led to an increase of no more than R200 million in net borrowings. This underscores both the quality of management and the cash-generating capability of the portfolio even in less than favourable trading conditions. Cash interest cover improved further to 6.1 times while gearing increased from 35 to 40 per cent of shareholder funds.

A final dividend of 78 cents was declared, making the annual dividend 120 cents, a 7 per cent increase on 2002. The dividend cover ratio was 3 times, in line with our current dividend objective.

Strategic progress

During 2003 the Group accelerated its progress towards being a provider of specialty product and value-adding service solutions, based on science, in partnership with customers. AECI's performance has demonstrated a clear departure from the cyclical commodity characteristics of its historical portfolio, a trend that will continue.

African Explosives made significant strides in its strategy of becoming a provider of high value added explosives management systems. Automation of fuse and detonator manufacture at Modderfontein was embarked upon in the drive for long-term competitiveness in terms of cost, quality and reliability of supply. An international joint venture is to be formed with Dyno Nobel ASA of Norway, the international leader in explosives initiation systems, to develop AECI's world leading innovative technology in electronic detonation. The joint venture is expected, subject to regulatory approvals, to take effect in the second quarter of 2004. Arrangements regarding the participation of a market knowledgeable empowered partner in African Explosives are well advanced and are expected to be concluded in the first half of the year.

Chemical Services expanded its position in the mining chemicals sector with the value enhancing acquisition of Senmin. It also bought out its joint venture partner in the robust specialty water treatment business, whilst securing long-term access to technology and market development. AECI also concluded the planned acquisition of the minority shareholding in Chemical Services whilst maintaining the essential entrepreneurial structures in place there, many features of which are now prevailing in AECI.

Corporate citizenship

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

During 2003 the Board established a corporate citizenship committee to set the pace and assess progress on these issues. A Board performance assessment process was also introduced, which proved to be both demanding and constructive.

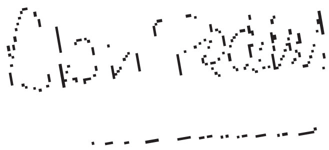
Comprehensive chapters on both corporate citizenship and governance are included in this annual report.

Directorate and management

As planned and reported last year, Lex van Vught stepped down as chief executive on 31 March and was succeeded by Schalk Engelbrecht. Lex continues to serve on the Board as a non-executive director. Apart from this change, we were fortunate to have stability in Board composition in 2003. I wish to congratulate and thank Lex and Schalk, with the executive team, for the seamless nature of this transition as evidenced by the results achieved for the year.

Outlook

Rising global commodity prices are indicative of an incipient but still patchy recovery in the world's major economies, which should underpin demand for South Africa's export-oriented mining and manufacturing sectors. With local interest rates and inflation set to remain at levels supportive of domestic consumption, demand conditions for the Group seem likely to be favourable in the year ahead. Assuming no material strengthening of the rand exchange rate from the 2003 average, which would further pressure margins at SANS Fibres, management is targeting an increase in headline earnings for the full 2004 financial year.



Alan Pedder
Chairman

Sandton, 23 February 2004

Corporate citizenship

The "King II" Code has entrenched the triple bottom line approach to business in South Africa. Corporate goals cannot focus exclusively on financial delivery. Social responsibility, previously regarded as a "soft" issue, must now be viewed as an equally important business imperative in strategic corporate planning.

Any company that wishes to retain its competitiveness and remain acceptable as a corporate citizen must prove its commitment to non-financial issues that are of interest to wider society. It must also demonstrate its record in these areas and set measurable targets against which future performance can be evaluated.

Group human resources

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

Labour relations

In 2003, Group businesses continued to maintain transformation forums where all employees, and/or trade unions, and management are represented and where pertinent matters are dealt with. The year was again characterised by excellent cooperation with representative bodies, including discussion and action on essential transformation and restructuring initiatives. There were no major disputes.

Skills development

Learnerships have become a major focus, not only in the private sector but also at national government level where critical skills needs have been identified in the paper on National Skills Strategies. This covers issues such as training in HIV/Aids and the promotion of small and medium businesses. The 25 statutory Sectoral Education and Training Authorities (SETAs) have added industry-specific areas for attention. In this framework, a number of options for participation are available to the Group. Those identified include learnerships in key areas listed by government as well as opportunities to assist target groups such as the unemployed and those with disabilities. AECI is involved in the following projects:

AECI/Project Literacy/CHIETA

In 2002, the Chemical Industries Education and Training Authority (CHIETA) was awarded a grant through the National Skills Fund (NSF) for a portfolio of projects. One joint project between AECI, Project Literacy and the CHIETA aims to help 4 000 unemployed learners improve their literacy levels and their mathematics and science skills. The project was launched in 2003. Those benefiting include 120 people with disabilities and 54 per cent of the learners are women.

CHIETA HIV/Aids project

AECI is a corporate participant in this innovative and holistic initiative, again funded through the NSF and implemented by a specialised workplace HIV/Aids service provider. The programme extends to 150 companies and is based on a skills transfer strategy. The service provider consults with companies whilst concurrently facilitating the learning of appropriate skills by at least one employee per workplace.

Pretoria Technikon/AECI partnership

This project will enter its pilot phase in 2004. Through an entrepreneurial "incubator", students will learn on-the-job and in a project-based environment how to design, launch, manage and sustain technology-driven businesses. The premise is that entrepreneurs are best developed when assisted in converting opportunities and business plans into projects they are willing and able to do, with the support necessary to establish and expand ventures. The vision is for the incubator approach to become a national drive, owned by students, giving them access to international business opportunities.

Social responsibility

AECI Limited has a well-documented history in progressive practices in human resources and social issues. Strategically, key elements of the Group's philosophy going forward include:

- participating in the creation of learnerships over a broad skills-base, leading to sustainable small and medium enterprises (SMMEs) which enhance economic empowerment
- contributing to the development of South Africa's people, beyond the needs of sectors in which the Group operates
- operating above break-even point, with regard to community projects, in the longer term.

Since the manufacturing sector is unlikely to create enough jobs in the future, alternative areas for growth, such as arts and crafts, are being explored. AECI is involved in establishing craft centres in partnership with NGOs and education institutions. Again, the objective is to create opportunities for people via learnerships, skills programmes and training. Once individuals have completed learnerships, assistance will also be provided to establish businesses via community structures or NGOs.

Such initiatives are in line with government's poverty alleviation efforts and, in many instances, the synergies of combining private and public sector resources have unexpected, positive knock-on effects. The following are examples in progress:

Qunu

With the University of Port Elizabeth, AECI is creating opportunities in the Eastern Cape. Owing to the growth of tourism along the Wild Coast, and the attraction of Nelson Mandela's home in the Umtata area, the craft industry is receiving attention. A group of women have been trained in business principles and are establishing their own operations at the Qunu community centre, presented by AECI to the community in 2001. The intention is to open a craft workshop and retail mall for tourists stopping at Mr Mandela's house on the opposite side of the road.

Monkeybiz

This small NGO creates employment and empowerment opportunities for women by commissioning them to create beaded dolls, pictures, sculptures and other curios. All profits from sales are used to pay the women and to create more jobs to improve the lives of more people. Since artists work at home, community building is an added advantage.

Sparrow Schools

AECI has partnered with Sparrow Schools Educational Trust for several years, assisting in equipping youths with disabilities, and with little or no education, to obtain qualifications and practical skills. The intention is to continue efforts through the establishment of a clothing production workshop. This will provide technical and vocational training and learnerships that meet industry specifications. Graduates will improve their income-earning prospects. Learnerships and courses currently offered include carpentry, panel beating, catering and hospitality.

Patantshwana

AECI has worked with the Patantshwana community in Nebo, Limpopo, for 10 years. In 2003, responding to an appeal from the Department of Water Affairs and Forestry, the Company funded the installation of a borehole and pump for community use. In addition to having easier access to water for domestic purposes, the people of Patantshwana will benefit further when Food and Trees for Africa establishes a permaculture garden in the immediate vicinity of the borehole.

Business against Crime (BAC)/Edenvale police station

BAC's Support Partnership for Police Stations programme has concentrated on improving service delivery at the local level in an entrepreneurial manner. The involved parties identified, and addressed, the areas of greatest need. Each partnership comprises a willing business, a selected police station and the community served by that station, represented by the Community Policing Forum. BAC facilitates the process.

BAC's review of the programme in 2003 highlighted the need to focus all partnerships on the same service delivery criteria so as to standardise them and facilitate evaluation. The focus areas selected are those that most affect the victims of crime: the community service centre (CSC) where crimes are reported, the detectives who investigate, and the support facility that assists victims. Since most people who visit police stations deal only with the CSC, the onus for excellent service delivery lies with these important members of the service.

With officials from the Edenvale police station, AECI is participating in improvement efforts. The Company has contributed to the refurbishment of the victims' support and operations rooms and is backing the training of volunteer trauma counsellors.

Economic empowerment (EE)

The Group's approach to this important issue has been threefold: the development of SMMEs; procurement from EE companies; and equity participation by empowerment partners in some parts of the business, where appropriate.

Business development and skills transfer

Unemployment continues to be an issue of concern at national level. 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 potential entrepreneurs in compiling business plans, preparing related financial statements, identifying non-core activities in-house that lend themselves to privatisation, and mentoring these businesses.

Examples of successful ventures to date include enterprises in the areas of laboratory services, motor vehicle maintenance and laundry. These businesses, owned and managed by former employees, now sell their services to AECI. As has already been mentioned, the key focus is on skills transfer to enable people, both in urban and rural areas, to earn an income.

Procurement

The main thrust in this regard remains the procurement of goods and services from SMMEs. In several instances these enterprises have been established as a result of the Group's business development efforts along the lines of examples quoted above.

Equity participation

The third component of the EE imperative, that of equity participation in the business, received a great deal of attention in 2003. It is expected that an announcement on transforming AEL into an empowered company will be made in the first half of 2004. Chemical Services, which has already been involved in EE arrangements in recent years, will also continue to explore relevant opportunities.

HIV/Aids

Aids taskforces in Group businesses have formulated strategies and policies to deal with the disease. These incorporate activities that promote awareness through education, and action plans to manage the potential negative impacts of the disease.

The "AID for AIDS" programme is well established Group-wide. It operates on the premise that HIV/Aids is a manageable, chronic disease that can be treated cost-effectively. As part of proactive management, 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 at prevention and is also a crucial tool for identifying suitable future actions. Voluntary sero-prevalence assessments seek to determine HIV/Aids rates in the workplace. This is an investment in people and productivity with results providing an opportunity to revisit existing interventions, thereby ensuring their alignment with global 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. The emphasis is on confidentiality for patients. They are advised on the benefits available and on optimising them, they are counselled and receive holistic patient care.

Following an internal HIV/Aids business impact model analysis in 2003, an independent third party was contracted to conduct a knowledge, attitude and practices (KAP) survey and an HIV sero-prevalence study on AEL's Modderfontein employees, as a sample group. Well in excess of 80 per cent of employees were tested, with just over 12 per cent of those found to be HIV positive. This is below the 20.3 per cent indicated for Gauteng by the HSRC Nelson Mandela study of 2002. It is believed that awareness programmes at AEL over the last 10 years have contributed to this lower rate. Efforts will need to be sustained, however.

Notwithstanding the high levels of HIV/Aids-related knowledge revealed in the survey, many misperceptions remain. These will be addressed in future interventions. Further KAP and sero-prevalence studies have been planned for other parts of the Group in 2004. They will assist in enhancing the accuracy of the Aids impact model and in appropriate planning.

Employment equity

Downsizing of the Group has continued to make it difficult to address fully the challenges of employment equity. These constraints notwithstanding, it is pleasing that, in 2003, more appointments were made from designated groups at various levels of seniority, including those of senior management and directorate in AECI businesses.

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 is 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 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.

Schalk Engelbrecht
Chief executive

Sandton, 23 February 2004

Safety, health and environment (SHE) continued

Standards

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

Safety and occupational health performance

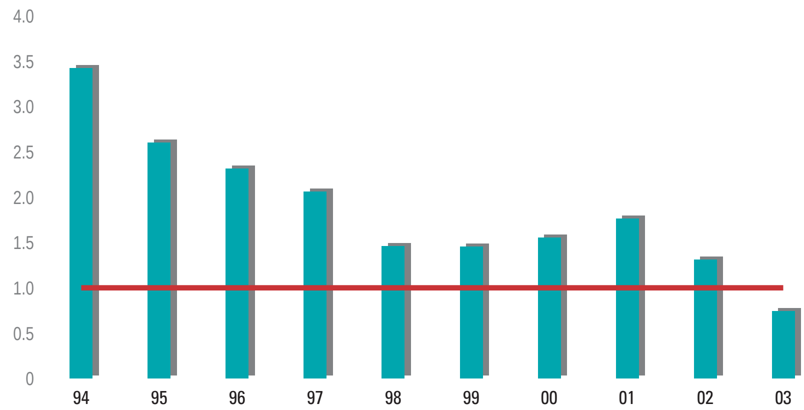
To enable a comparison with major international companies, AECI reports occupational illnesses and injuries based on the format set out by the American Occupational Safety and Health Administration. Performance is expressed as the total recordable incident rate (TRIR), which is the number of recordable occupational injuries or illnesses for every 200 000 hours worked and is approximately equivalent to 100 employees working for a year. All work-related injuries and illnesses, beyond initial first aid treatment, are recorded.

Safety and health performance

The Group achieved its best-ever performance, with the TRIR at 0.74 improving significantly on the 1.32 of 2002. Overall figures for 2003 were also well below the Group maximum tolerable level of 1.00 set for achievement by the end of 2003, thus comparing very favourably with the reported performance from a range of world class companies. In contrast, the TRIR for contract workers was a disappointing 1.39 and will be a focus area for improvement in 2004.

There were no site-based fatalities.

TRIR – AECI employees



Total recordable incident rate
Maximum tolerable level

TRIR performance by company

	AECI employees	Contractors	Combined
AEL	0.55	0.53	0.55
Chemical Services	1.14	1.70	1.21
Dulux	0.27	2.70	0.59
SANS Fibres	0.64	1.12	0.76
AECI Group	**0.74**	**1.39**	**0.83**

Causes of injuries and occupational health incidents

	Lost time	Non-lost time	Total
Explosion	0	1	1
Chemical exposure	0	5	5
Chemical burns	10	6	16
Injuries from falling	4	10	14
Injuries from moving machinery	3	4	7
Injuries from handling objects	4	6	10
Injuries from handling tools	1	5	6
Injuries from lifting objects	3	1	4
Noise-induced hearing loss	0	2	2
Repetitive strain injuries	0	1	1
Road accidents – Company business	0	2	2
Total	**25**	**43**	**68**

The majority of incidents were attributable to unsafe acts. The elimination of these remains a key area of focus in the Group's quest for continuous improvement.

Cost of safety and occupational health incidents

The Group continues to monitor the costs of incidents in an attempt to better quantify the cost of failure. On this basis, the injuries listed cost the Group R0.75 million (2002 – R1.6 million).

Occupational illnesses

In past years, based on the results of medical surveillance, a small number of employees were temporarily removed from exposure to specific chemicals as a precautionary measure. Major efforts have been made to reduce this risk in operations where potentially harmful chemicals are present. As a result, it was unnecessary to remove any employee from his workplace, for precautionary reasons, in 2003.

Another area of concern that received attention was the prevention of noise-induced hearing loss. Several projects reduced noise levels significantly in a number of work areas. In addition, baseline hearing levels of all potentially exposed employees were recorded and procedures for regular audiometric testing have been updated in accordance with guidelines from the Department of Labour.

Exposure to asbestos cladding and insulation continued to be eliminated wherever possible through the controlled removal, under permit, of any damaged material. All remaining cladding or insulation where asbestos content is known or suspected is fully encapsulated and clearly marked to prevent inadvertent exposure. Once due for replacement, asbestos-containing materials are disposed of in the manner required.

Health promotion

To promote a healthy lifestyle, those employees who do not have regular, statutory medical examinations as part of their conditions of employment are offered free, voluntary and confidential medical screenings on an annual basis. These are carried out at factory clinics and via the lifestyle management service of the AECI Medical Aid administrators.

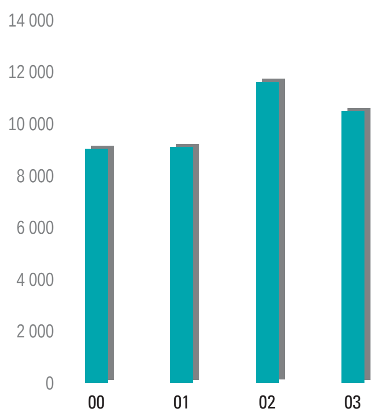
Environmental performance

In 2003, a comprehensive review was undertaken of environmental information reported since 2000. The extensive nature and speed of AECI's transformation from 1998 to 2001 has resulted in some information being no longer available or relevant. Simultaneously, the review process was an opportunity to challenge assumptions made when deriving previous environmental information and to make appropriate and conservative amendments. As a result, the Group has restated its published environmental data for 2000 to 2002. For comparative purposes, it has been assumed that AECI comprised the current businesses throughout the period.

Hazardous waste

The Group generated 10 460 tons of hazardous waste, down from 11 600 tons the previous year. This pleasing progress is attributable to advances made in waste reduction programmes. All hazardous waste is disposed of to a licensed waste site, as required by law.

Hazardous waste (t/year)



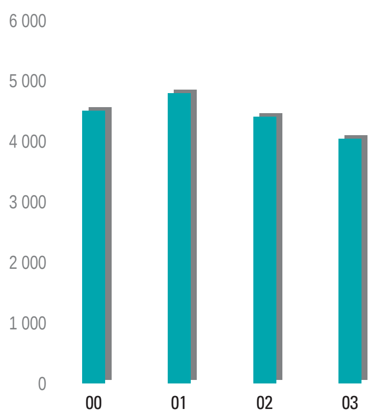
Non-hazardous waste

Arisings for 2003 amounted to 35 240 tons (2002 – 38 100 tons). About 80 per cent of this was reused in the manufacture of ash bricks. In addition some 200 000 tons of ash, stockpiled in prior years, was also reused in this way.

Water

Water use declined from 4 406 Mℓ the previous year to 4 038 Mℓ, with AEL contributing most to the reduction owing to efficiency improvements in production processes.

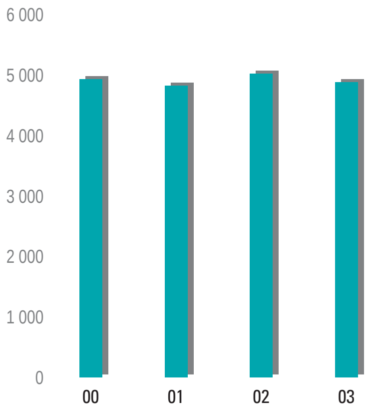
Water usage (Mℓ/year)



Energy

Energy usage totalled 4 875 TJ, slightly down from the 5 013 TJ in 2002.

Energy usage (TJ/year)



Environmental incidents

There were 12 reported road accidents involving contractor vehicles transporting Group products where product was spilled to the environment. All cases were responded to timeously and there was no lasting environmental damage.

Environmental burden due to emissions to the atmosphere

The environmental burden (EB) concept is accepted as a meaningful and understandable method for reporting environmental emissions. EB provides a basis for combining the environmental impact of diverse substances, within 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 acidify water. The EB for acidification for the Group remained virtually unchanged at 3 730 tons (2002 – 3 720 tons) of sulphur dioxide equivalent.

Global warming potential. Progressive global warming, due principally to the burning of fossil fuels such as coal, is a threat to world climate and habitat conditions. The EB is expressed in tons per year of carbon dioxide (CO_2) equivalent. In 2003, AECI had an EB of 361 500 tons of CO_2 equivalent (2002 – 371 500 tons).

Marine effluent pipelines at Umbogintwini

Umbogintwini Operations Services (UOS), an AECI company, operates a pipeline that discharges to the sea off Umbogintwini, KwaZulu-Natal. Huntsman Tioxide operates a second pipeline that discharges close to the UOS outlet. The two companies cooperate closely to identify and minimise the impact of their pipelines on the marine environment. To this end, annual ecological surveys are undertaken by international consultants.

In recent years there has been a steady improvement in the ecology of seabed communities, with 2002 results showing particularly significant year-on-year improvements. 2003 results indicated the presence of metals as significant ecological factors. Coincident with this finding was evidence of a drop in the density of species activity per sampling site, indicative of a loss of species less tolerant of their environment.

An examination of effluent data from UOS and Huntsman Tioxide failed to identify increases in metals that would have accounted for these changes. Analyses of the ecological and environmental data by the international consultants indicated that the deterioration was probably the result of increased concentrations of metals in sediments. In their opinion, it is likely that the phenomenon was caused by a period of above-average rainfall that resulted in muds being washed to sea. Owing to the reproduction potential of the area, they expect that the 2004 survey will confirm a quick recovery to pre-2003 conditions.

Land remediation

Activities remained focused on ensuring the legislative compliance of the Group's older production facilities and on the release of land for potential alternative development. The first phase in capping the Potchefstroom gypsum dam, as required in terms of the sale of AECI's fertilizer business, was completed. The effectiveness of this will be assessed over two years, prior to a decision being taken on possible additional capping.

Expenditure on land remediation amounted to R22 million. At year-end, the Group provision for the future remediation of soil and groundwater, in line with legislative requirements, was R156 million.

ISO 14001

This internationally accepted standard assists companies in managing production plants such that environmental impacts are better understood, and thus minimised. AECI's deadline for the implementation of ISO 14001 is end-2004 for all Group businesses with potential relevant impacts.

"Responsible Care"

"Responsible Care" is a public commitment to continuous improvement in SHE-related matters. AECI is a founding member of this initiative in South Africa. Group companies cooperate closely with the Chemical and Allied Industries' Association (CAIA), reporting against "Responsible Care" protocols and enhancing them.

APELL (Awareness and Preparedness for Emergencies at Local Level) is a process developed by the United Nations Environment Programme and is aimed at helping industry, government and communities prevent, prepare for and respond appropriately to accidents and emergencies. In 2003, AECI's Group SHE manager represented CAIA at the APELL senior advisory group meeting in Geneva, Switzerland.

African Explosives Limited

Imagine

the Olympic Games without medals

Without modern mining methods, assisted by hi-tech explosives and initiating systems, the accumulation of gold would still be the arduous process of eras past.

African Explosives Limited (AEL)

With excellent progress in financial, operational and strategic terms, 2003 was another successful year for AEL. In addition to year-on-year gains, the company consolidated further its foundation for sustained growth and profitability into the future.

Results

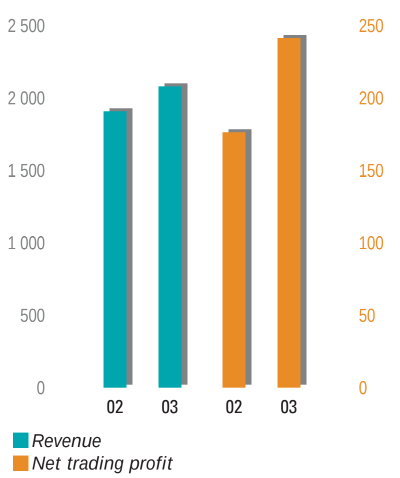
Sales at R2 076 million were 9 per cent up on 2002, with good volume growth somewhat offset by the sharp appreciation of the rand and lower exports of ammonium nitrate. Sales into Narrow Reef markets again exceeded expectations and increased by 26 per cent, due mainly to growth in the platinum sector. Year-on-year sales also increased in South African surface mining and in Botswana, Ghana, Mali, Nigeria and Tanzania. Rand sales to Zimbabwe rose by 47 per cent on the back of better sales to platinum mines.

Gross margin increased from 2002 owing to an improved product mix which resulted from a decline in low margin exports offset by an increase in higher margin sales to South African customers. Domestically, price increases were generally in line with cost escalations although margin improvements were achieved in certain areas, particularly on ammonium nitrate products. Fixed costs were well controlled, notwithstanding higher expenditure on electronic detonator development. Trading profit, at 12 per cent of sales, totalled R241 million, 37 per cent more than in 2002.

Operations

A highlight of the year was the company's overall safety performance which, with a total recordable incident rate (TRIR) of 0.55, matched world class levels. Delivery of final product to customers remained excellent, as a benchmark of 99 per cent for on-time, in-full delivery was exceeded. The quality of initiating systems was maintained, whilst better operating procedures and some capital improvements benefited ammonium nitrate. This, in turn, ensured the production of superior bulk emulsions and packaged explosives.

Financial performance (Rm)



AEL's general management team

Graham Edwards (49)
Managing director. See page 7. Within the Group, he is also a non-executive director of Chemical Services.

Cyril Gamede (40)
He joined AEL as operations director in 2002. His background and experience are in engineering, projects, manufacturing and operations. In addition to an MSc (Eng) degree, he also has a qualification in labour law.

Piet Halliday (51)
He is director: products, research and technology, and has overall responsibility for the technical aspects of the company's products worldwide, as well as the product management function. He joined AEL in 1980 after he had completed a PhD in the synthesis of high-energy sensitisers for explosives.

Strategy

Electronic detonators

Of key significance was the announcement in December of a joint venture with Dyno Nobel ASA of Norway, aimed at establishing the international leader in the design, production and sale of specialised electronic detonators.

The new company, DetNet International, will be responsible for all future design, manufacture, promotion and support of electronic detonator systems. Marketing and sales will be implemented primarily through AEL and Dyno Nobel.

AEL brings to the joint venture extensive experience in the development and use of electronic detonators through its subsidiary, DetNet Solutions, which is the largest global supplier of electronic detonator initiation systems. Dyno Nobel has operations in 35 countries and provides AEL with improved access to major international markets.

DetNet International is expected to commence activities early in the second quarter of 2004.

Economic empowerment

By year-end AEL had reached an advanced stage in negotiations to transform itself into a fully empowered company in the developing South African business environment. An independent benchmark audit commissioned in 2003 rated AEL as good or satisfactory in all categories except direct empowerment, which covers equity ownership and management.

The company devoted much effort to addressing this issue and extensive negotiations were initiated to identity suitable equity partners. Potential partners had been short-listed by December and an announcement on further progress is expected during the first half of 2004.

African growth and consolidation

Whilst attention in 2003 focused on consolidating the company's widespread operations in Africa, the mining industry continues to offer growth opportunities on the continent and AEL is committed to remaining the dominant supplier to this dynamic market. The strategy, therefore, remains to add value through servicing of not only existing mining operations but also new mining ventures in Africa, in partnership with customers.

Strategic changes

The strategy to shrink AEL's operational "footprint" at Modderfontein led to a number of operational changes, over and above making a substantial area of additional land available for potential alternative use.

Following the decision to cease the manufacture of cartridged explosives and to outsource production, both Powergel* and Magnum* had been switched to this arrangement by year-end. Anfex* production will be continued although the manufacturing operation will be relocated within the site.

A phased capital expenditure plan, totalling about R90 million, to automate and increase detonator manufacturing capacity was agreed. Automation will enable higher volumes, cost reductions and improvements in quality. Production capacity expansion will be essential to meet the future demands of DetNet International's global market. Work is already under way on the first phase of the project at an estimated cost of R60 million.

AEL's general management team

Gys Landman (43)
He is business director: Narrow Reef. Gys joined AEL in 1994 from the University of the Witwatersrand, where he was a lecturer. Prior to this he had gained extensive experience in production management in the mining industry. His qualifications include a PhD (Eng), as well as degrees in business management and economics.

Danie Richards (41)
He is financial controller. 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.

Early in 2004, AEL completed the move to its modern new offices at Longmeadow Business Estate, Modderfontein.

Outlook

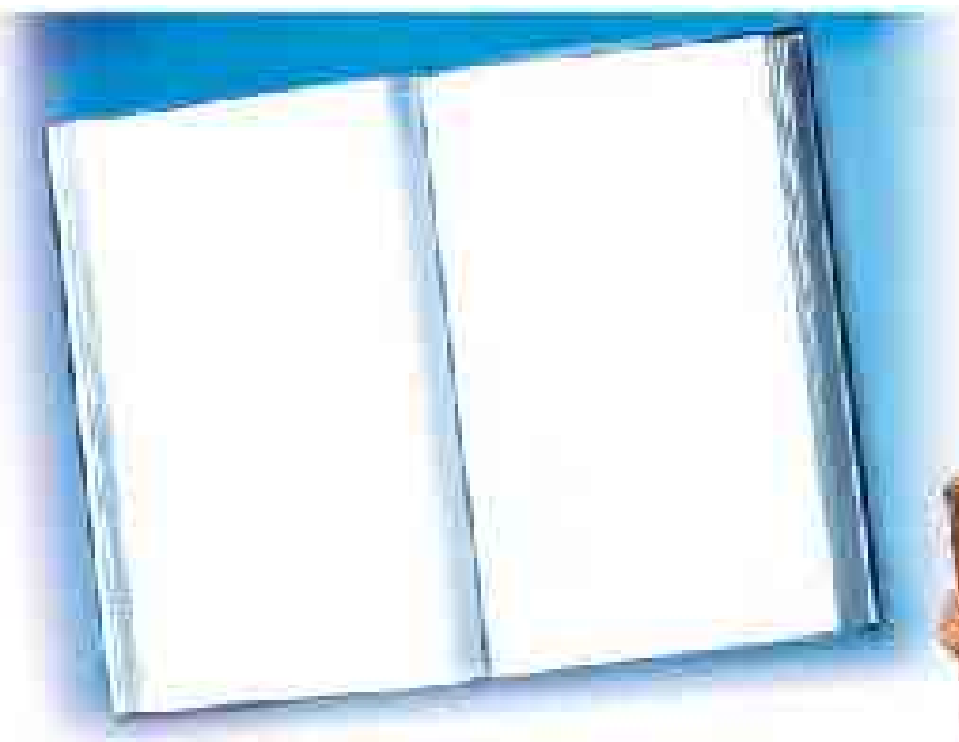
Despite challenging market conditions, it is anticipated that AEL's pleasing performance will continue in 2004. The company will continue to focus on international sales of electronic detonators, the restructuring of its Modderfontein operations, finalisation of economic empowerment plans, and the rationalisation of South Africa's nitrates industry. These strategic initiatives will continue to be accompanied by tight operational control and an unwavering customer focus.

* Trademark

AEL's general management team

Colin Rilley (52)
He started his Group career as a laboratory assistant in 1969. Currently he is an executive director of AEL responsible for running the Surface and Africa business activities, and a director of DetNet Solutions. Colin's qualifications include a BCom and a Master's degree in business leadership.

Christopher "Tiff" Whitehouse (39)
He is managing director of DetNet Solutions and an AEL director. He will become CEO of DetNet International once this joint venture is operational. 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.



Chemical Services
Limited

Imagine

a world without words

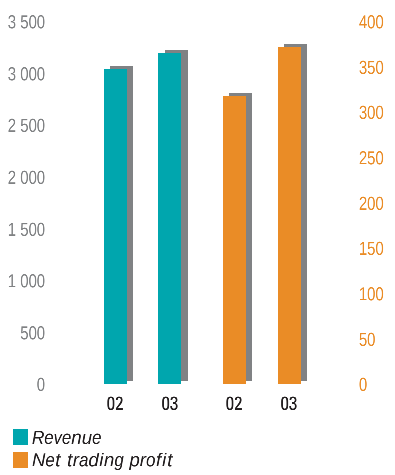
Without the effects of an array of specialty chemicals writeability, printability, sheet formation and high white grades of paper would not be achievable.

Chemical Services

The specialty chemical operations of AECI are consolidated in Chemical Services Limited (Chemserve). Chemserve is now 100 per cent owned by AECI, after the latter's successful offer to the minority shareholders of the 26 per cent of Chemserve that it did not already own. Subsequent to the transaction, Chemserve shares were delisted from the JSE Securities Exchange SA in December.

Chemserve's success has been built on a solutions-based, value-adding customer focus serviced by independent, autonomous business units. The group has 19 businesses servicing an extensive range of industries, primarily in southern Africa but also elsewhere in Africa and in selected worldwide export markets. The portfolio and structure have proved their robustness in testing economic conditions over time and 2003 was no exception. The group posted a 16 per cent increase in headline earnings to 270 cents per share, maintaining the 10-year compound growth in earnings of 20 per cent per annum.

Financial performance (Rm)



Volumes for 2003 were marginally up on the previous year and profit margins increased from 10.5 per cent in 2002 to 11.6 per cent. Working capital continued to be well controlled and, with reduced interest rates, contributed to strong cash generation by the group. Gearing reduced to 19 per cent, notwithstanding major acquisitions totalling R280 million, and year-end borrowings were down to R155 million.

Opportunities

The rand strengthened dramatically against both the US dollar and the euro during the year. Domestically, the consequences were pressure on local prices, loss of competitiveness in export markets and an increase in imported competition. The manufacturing sector, a major market for Chemserve, was most adversely affected and began contracting from the first quarter. Chemserve companies responded with cost reductions and an increased focus on efficient supply chain management, which resulted in new supply routes being explored and new sources of raw

Chemserve's management team

Frank Baker (50)
Managing director. See page 7. Within the AECI Group, he is also a non-executive director of SANS Fibres.

Rick Cameron (55)
He took up his position as human resources manager in 1979. Prior to joining the company he was deputy registrar (staff) at the University of the Witwatersrand, from where he has a BA degree. He also has an MA degree from London University.

Mark Dytor (42)
He 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 and then of SA Paper Chemicals in 1996, which position he still holds.

Specialty chemicals continued

materials being identified. The effect was extremely pleasing and led to an increase in overall profit margins.

The decrease in interest rates and the strong rand also resulted in a significant decline in the cost of capital items. Consequently, Chemserve made investments to service customers in the plastics industry, automotive coatings and in specialist oleo-chemistry. In line with the company's philosophy of providing value-adding solutions, an increasing proportion of capital expenditure is on equipment installed at customer premises.

Strategy

Chemserve continues to grow its earnings by acquisition, organically and by rationalisation. The stronger currency made possible the purchase of the 50 per cent of Ondeo-Nalco SA (now ImproChem) not already owned from specialist water treatment joint venture partner Nalco, of the USA, for US$14 million. A 10-year technology and licence agreement with Nalco puts ImproChem in an excellent position in sub-Saharan Africa.

The group's strategic thrust into the mining chemicals market was strengthened with the acquisition of Senmin from Dow Chemicals. Senmin performed above expectations in the eight months since the transaction took effect. In addition to this new company, the mining chemicals thrust is supported by Pelichem, specifically, and also by Industrial Oleochemical Products, Akulu Marchon, Industrial Urethanes, Lake International Technologies (formerly Chemserve Technical Products) and ImproChem.

The merger of Chemserve Polymer Sciences into Chemserve Systems, driven by cost and margin imperatives, was completed effectively. Polymer Sciences, with an improved cost base, delivered an excellent performance and has found its niche in the competitively commercial environment of Systems.

Performances

The strength of a diverse portfolio was again evident, with strong performances from Chemical Initiatives, Chemserve Perlite, Crest Chemicals, ImproChem, Industrial Urethanes, SA Paper Chemicals and Senmin. This compensated for difficult conditions at AECI Coatings and at Industrial Oleochemical Products, the strong performer of 2002. Akulu Marchon, Lake International Technologies, Pelichem, Plaaskem, Plastamid and Performance Masterbatch and Custom Colour struggled to reproduce 2002's results. All, however, recorded encouraging improvements towards year-end and are well positioned for 2004.

After an improved 2002, AECI Coatings experienced significant application problems relating to its current technology source. Consequently, and with the cooperation of joint venture partner PPG Inc, the business is re-evaluating its technology strategy.

Corporate citizenship

Chemserve has had two economic empowerment joint ventures in water treatment over the past four years, during which time some valuable experience was gained. Several empowerment consortia have expressed interest in collaborating in certain market sectors served by Chemserve and discussions continue.

Chemserve's management team

Stuart Hughes (37)
He is group secretary. He is an admitted attorney and has a BA LLB and a Constitutional Litigation Certificate. Stuart practised as an attorney before joining AECI's legal department in 1994. He took up his current position in 2001.

Chris Kotze (38)
He is group information technology manager. He has been with Chemserve since 1990 when he joined the group's quality assurance department. Chris has held his current position since 1998 and his qualifications include a BSc degree and a diploma in Datametrics.

Chris Povall (46)
He is group financial manager. Before joining the company six years ago Chris had gained experience in the auditing field and had also worked as financial director for a major media company. He has a BCom degree and is a qualified Chartered Accountant.

In 2003, group companies as a whole recorded a significant improvement in the total recordable incident rate (TRIR) from 2.01 the previous year to 1.14. Whilst the trend is pleasing, the rate remains above the maximum tolerable level of 1.00 and determined efforts to address this important issue will be sustained in 2004.

Outlook

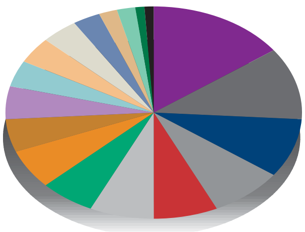
Chemserve continues to focus on adding value to its customers. In line with its growth strategy, the group will continue to seek new opportunities, acquisitions and technology partners in 2004.

Chemserve's management team

Alan Roth (60)
He joined the group in 1968 and 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.

Trevor Street (56)
He has more than 27 years' service in the group, having started as a sales representative. Several management positions followed and he was appointed to the Chemserve Board in an executive capacity in 1991. He has served as chairman of a number of subsidiaries since 1997.

Specialty chemicals: serving an extensive range of industries (Revenue by sector)



Mining	15%
Paper and packaging	11%
Chemicals industry	9%
Automotive	8%
Detergents	7%
Plastics and rubber	7%
Toiletries, cosmetics and pharmaceuticals	6%
Food and beverages	6%
Agriculture	5%
Coatings, inks and adhesives	5%
Appliances and furniture	4%
Construction	4%
Engineering and foundry	4%
Oil and refining	3%
Explosives	2%
Textiles and tanning	2%
Steel and metal	1%
Other	1%

Imagine

a basketball without the bounce

Nylon yarn from SANS Fibres finds its way into balls used by 80 per cent of the national basketball leagues in the USA. The properties of Nylon 66 ensure that each ball retains its ideal form, guaranteeing bounceability.

SANS Fibres

In what was an exceptionally difficult year for SANS Fibres (SANS), trading profit reduced from R173 million in 2002 to R22 million, after taking into account a once-off restructuring cost of R15 million. The strong appreciation of the rand led to lower contribution levels whilst escalation in the cost base, in US dollar terms, outstripped the pace of the company's cost saving programmes. Additional cost reduction measures including organisational restructuring, non-strategic plant closures and retrenchment programmes were initiated in response.

Encouraging volume growth was achieved in key strategic markets, such as that for light decitex industrial (LDI) yarns, notwithstanding the adverse global trading conditions that prevailed. Improved dollar margins were also realised in many key markets.

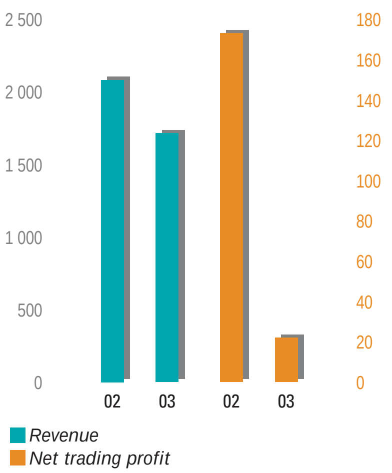
Overall product quality showed a marked improvement as did both conversion and utilisation efficiencies. The appointment of international experts to the permanent employee complement had a positive impact on technology performance.

It is most pleasing that the joint venture with Unifi, in Stoneville, North Carolina, USA, achieved a dramatic turnaround compared with 2002. In the last quarter of 2003, the business approached break even and this positive trend is expected to continue.

Bellville

Trading profit, before restructuring charges, was R48 million in 2003 compared with R220 million in 2002. SANS' export sales from the Bellville operation in Cape Town are predominantly dollar-based and, in the local market, rand prices must be adjusted to ensure competitiveness with imported alternatives. All major raw materials costs are also dollar denominated. The net effect, therefore, is the significant impact of currency exchange rates on SANS' results at the contribution level. Increased sales volumes and improved dollar margins in some sectors allowed Bellville's dollar contribution to improve by

Financial performance (Rm)



SANS' directorate

Barrie Evans (60)
He began his career at SANS as plant manager in 1974. He has held senior positions in production, sales and marketing and is currently director: apparel and industrial businesses. Prior to taking up this appointment in 1998, he was director: industrial business. Barry has qualifications in synthetic fibre technology and in advanced marketing.

Jannie Hofmeyr (56)
He is director: company services. This includes responsibility for finance, IT, human resources and planning. A chemical engineer by training, Jannie joined SANS in 1972 in the technical department. He has held a variety of management positions and directorships in technical, marketing and strategic planning areas.

US$3.5 million in 2003 compared to 2002. However, appreciation of the rand resulted in the total contribution, in rand terms, decreasing by R177 million.

Below the contribution line, costs are rand-based and are influenced by factors such as domestic inflation. At this level, SANS' cost saving and improvement programmes proved highly successful. This offset the currency impact to an extent.

Notwithstanding the severe setback due to economic and currency factors, positive aspects remain. SANS' overall strategy is unchanged and, in its key LDI markets, volumes increased by 6 per cent. Growth in polyester was particularly pleasing. Simultaneously, dollar margins on polyester escalated by 3.6 per cent and those on nylon by an impressive 14 per cent. Demand exceeded plant capacity for heavy industrial (HDI) polyester and a 12 per cent dollar margin increase over 2002 was posted.

Polyethylene teraphthalate (PET) continued the most pleasing trend established in prior years and the domestic market remained strong. Local volumes grew by a further 9.5 per cent. PET is used in a variety of packaging applications, most notably carbonated soft drink bottles.

Progress in establishing good market positions in China, where major textile growth is expected, was another positive feature of 2003 and steady volume growth was achieved.

Investments in SANS' Continuous Improvement Production System yielded noteworthy results during the year, particularly in the areas of waste reduction and asset utilisation. Further benefits are expected and an important consequence in many plant areas is that, for the foreseeable future, major capital expenditure will not be required to fund further volume growth.

The decline in the apparel and household textile markets continued, exacerbated by currency factors. Regrettably, this led to the nylon apparel line at Bellville becoming non-viable and, as part of the overall company restructuring programme, the plant's closure was announced.

Concerns emerged during the year as to the viability and competitiveness of certain major raw material suppliers, leading to an evaluation of potential alternative sources being initiated. This will continue in 2004. A sharp spike in purified terephthalic acid prices occurred during the first quarter. However, SANS responded rapidly to the increase and impact on the business was minimised.

The company achieved an excellent safety performance, with the total recordable incident rate (TRIR) at 0.64, an all-time low and a great improvement on the 1.35 of 2002.

Restructuring

Notwithstanding the results of SANS' ongoing improvement programmes, operating costs remain uncompetitive, in dollar terms, compared with those of international producers. A restructuring of the company commenced in the second half-year to address this. Once completed in 2004, SANS will comprise three core business units (LDI, HDI and Polymer). Technology, engineering and other support services have been refocused in support of the new structure. As was announced

SANS' directorate

Thys Loubser (50)
Chief executive. See page 7. Within the Group, he is also a non-executive director of Dulux.

Brad Page (40)
He joined SANS as a process engineer in 1987, working in the areas of product and process development. He also gained experience on a number of capital projects and in production management. After a two-year break with an international company, he returned to SANS in 2001 to manage the manufacturing portfolio. In 2003, he also assumed overall responsibility for technology. Brad has a BSc (Chem Eng) degree from the University of Cape Town and has also completed that university's Executive Management Programme.

in October, the restructuring will, regrettably, result in an employee reduction of about 330 people in 2004.

Significant cost savings are expected from this process.

Joint venture

Following the start-up problems and difficult market conditions of the previous year, 2003 was a watershed period for the USA investment and the joint venture emerged as a potentially winning entity that is expected to show a profit in 2004. This impressive performance has been the result of intense focus on technology and operations. The technology objectives were to develop stable processes for all products required in the product offer and to define robust operational "lock-in" conditions. Operational objectives were to effect major improvements in plant operating procedures and asset utilisation efficiencies. In the main, all objectives were met.

Sales volumes increased from 3 250 tons in 2002 to 3 800 tons, all of which, significantly, was from joint venture production. Reflecting these improvements, contribution to sales increased from 14 per cent in 2002 to 50 per cent.

Outlook

Achieving an after tax return higher than the cost of capital within the next two years is the essential challenge for SANS. The key to meeting this goal will be to continue building on the initiatives developed and successes achieved in 2003. In this context, critical success factors will include:

- full implementation of restructuring and the concomitant cost reduction programmes
- effective use of the techno-operational focus flowing from the new organisational structure to achieve further improvements in raw material to finished goods conversion and asset utilisation efficiencies
- an unrelenting drive to continue effecting significant cost efficiency improvements across the business
- successful development of a range of new products. Specifically, this includes weaving quality nylon LDI yarns for both Bellville and the USA-based joint venture, whilst, in polyester HDI, the move from commodity products to more technically challenging products, such as Colorcord*, will be accelerated
- full exploitation of new opportunities for growth in strategic market sectors, particularly those in Europe and the rapidly growing Chinese market.

* Trademark

Imagine

the rainbow nation without colour

The possibilities of colour are limited only by the imagination.
Any colour you can think of.

Dulux

Dulux is a purely decorative paint company in South Africa with operating subsidiaries in Botswana, Malawi, Mozambique, Swaziland and Zimbabwe. Decorative paint markets generally offer a wide variety of products for the end-user, from low performance commodity-style products to high performance branded products for general and specialist applications.

In South Africa, Dulux focuses its marketing effort on the branded, higher quality end of the decorative market. In its other African businesses, the markets are less specialised and Dulux markets a much wider range of products, including industrial and refinish product ranges.

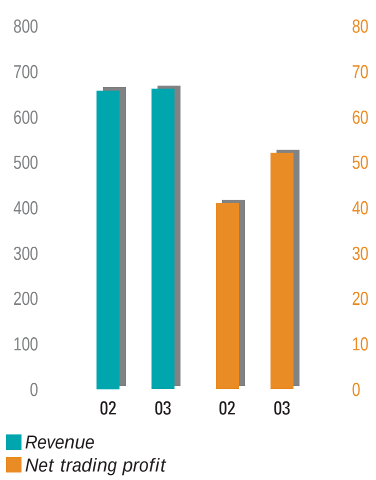
The marketing campaign "Any colour you can think of" won many awards during 2002. It continued in 2003 and won several more.

Building the brand is a critical part of the business strategy and Dulux is the most recognised paint brand in South Africa. The impact of this was a pleasing performance, in volume terms, for Dulux's branded lines in a market that was experiencing negative growth for most of the year. This offset negative volume growth in commodity or unbranded products. The overall better product mix resulted in worthwhile improvements in margins.

The Dulux group's 2003 performance saw a substantial improvement on 2002 results. This improvement came entirely from the South African market where branding strengthened substantially across measured attributes, raw material pricing was contained to single digit figures and some reduction in operating expenses resulted in significantly better margins.

The other African operations in the group struggled with the effects of the stronger rand as many of their raw materials, as well as finished products, are imported from Dulux in South Africa. Reluctance of their local markets to accept price increases put pressure on margins, resulting in little or no performance improvement for the year.

Financial performance (Rm)



Dulux's management team

Charles Betts (55)
Managing director. See page 7.

Prejay Lalla (34)
He was appointed sales director in 2003. After being awarded an AECI scholarship, and completing a BSc degree in mathematics and chemistry, he joined Dulux in 1991. He started his career in the R&D department before gaining experience in various aspects of the company's business, including the marketing function. Prejay's other qualifications include a Master's degree in business leadership and a marketing management diploma.

Mike McDermott (45)
He is financial director, an appointment he took up three years ago. Prior to this he had gained experience across a broad spectrum of industries such as cement, catering, food and beverages. Mike is an Associate Chartered Management Accountant.

Whilst brand marketing and sales continue to be obvious areas for attention, Dulux maintained its strategy of reducing costs and was able to contain expenses in South Africa at a level similar to that of 2002. An ongoing commitment to developing its people, particularly management and leadership skills, is an essential part of this cost containment process.

Outlook

In 2004, the market is expected to return to positive growth due to reduced interest rates. Branded lines will continue to dominate the Dulux portfolio, with stable pricing and continued expense management delivering a further improvement in margins. African operations will face consolidation as economic stability returns to several of the major contributors and market price positioning is recovered.

SA Packaging Coatings, the second and much smaller component of this sector, continued to deliver a most pleasing performance and it is expected that this trend will be sustained in 2004.

Dulux's management team

Rae McGraw (40)
She is 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.

Rakesh Sithlu (36)
He was appointed operations director in 2003. He joined Dulux as a graduate chemist in 1991 and went on to gain experience in technical, manufacturing and executive management functions. Rakesh has a BSc (Chemistry and Biochemistry) degree and an MBA degree.

Penny Reed (40)
She is company human resources manager. Before moving to Dulux in 1997, she 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.

Gary van der Merwe (41)
He is director of foreign operations. 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. Before taking up his current appointment in 2003, he was Dulux's operations director.

Property

Heartland Properties

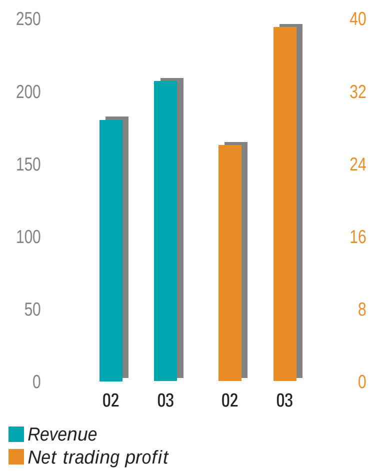
Heartland Properties is tasked with accelerating the realisation of value from land and property assets that have become surplus to the AECI Group's operational requirements. Progress towards this end was most pleasing in 2003. Revenue from sales of property exceeded R100 million whilst gross income on leased assets increased to more than R73 million, compared with R56 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 they remained the focus of Heartland's activities in 2003.

At Modderfontein the Longmeadow Business Estate again attracted strong demand in the industrial market and Extensions 4, 5 and 6 of the development were launched in 2003. Since sales commenced four years ago, this estate has attracted local and international investors requiring premises for applications such as offices, warehouses and distribution centres, showrooms and hi-tech industrial applications. Extensions 1, 2 and 3 of the development have been substantially sold out.

Also at Modderfontein, residential sales at the Golf View development have been completed. The release of land at Greenstone Hill commenced in 2003 for residential, retail and commercial use. This new node has attracted considerable market demand

Financial performance (Rm)



Heartland's management team

Neale Axelson (54)
Executive chairman. See page 7.

Martin Burr (51)
He 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.

Jeremy Clowes (52)
He is financial director. He is a BCom graduate of the University of Cape Town and a qualified Chartered Accountant. Since joining AECI's treasury in 1979, Jeremy has held diverse positions in the areas of project and corporate finance. He moved to Heartland in 2001 from the Group's strategic resources department.

and, ultimately, it will release in excess of 300 hectares of prime surplus land.

At Somerset West offers to purchase all of a 71 hectare residential and neighbourhood retail site were accepted in 2003. These offers remained subject to suspensive conditions at year-end and were accordingly not recognised as sales in the year. Further developments have been contemplated for the Historic Precinct and for the Paardevlei area. The balance of the Links and Triangle commercial/retail node continued to attract considerable demand.

In KwaZulu-Natal, sales at Southgate Industrial Park, Umbogintwini, have continued apace with 2004 prospects looking better than ever before.

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 2004.

Outlook

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 enhanced in 2003 and is expected to lead to a sustained performance in 2004.

Heartland's management team

Charl Marais (36)
He 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 a BSc (Quantity Surveying) and an MSc (Real Estate).

Paul McAfee (45)
He is development and sales director. A structural engineer by profession, he was a partner in a civil/structural and project management practice 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.

Conclusion

AECI's portfolio of businesses demonstrated its resilience in a year when the strengthening of the rand posed significant challenges, the local manufacturing sector declined and the recovery in global economies was erratic. Earnings improved on the record levels set in 2002 and have increased by a most impressive 38 per cent since 2001. With the exception of SANS Fibres, all Group businesses posted a pleasing improvement in trading margin. The meaningful progress made in matters relating to safety, health and the environment was most gratifying and at least matched world class levels in a number of areas. I wish to thank all of the Group's people for their efforts in achieving a robust performance.

Schalk Engelbrecht
Chief executive

Sandton, 23 February 2004

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.

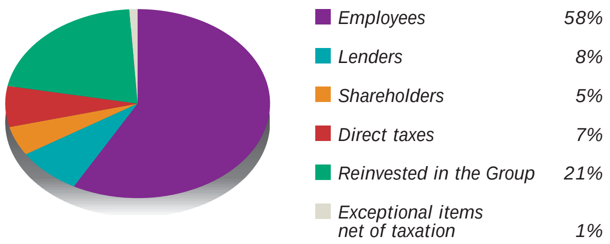
	2003 **R millions**	**%**	2002 R millions	%
Revenue	**7 659**	**100**	7 818	100
Purchased materials and services	**5 421**	**71**	5 689	73
Value added through operations	**2 238**	**29**	2 129	27
Other income	**44**	**1**	45	1
Total value added	**2 282**	**30**	2 174	28
Distributed to:				
Employees	**1 324**	**58**	1 210	55
Lenders	**190**	**8**	201	9
Shareholders	**123**	**5**	103	5
Direct taxes	**156**	**7**	167	8
Reinvested in the Group	**466**	**21**	475	22
Exceptional items net of taxation	**23**	**1**	18	1
	2 282	**100**	2 174	100

Monetary exchanges with the state

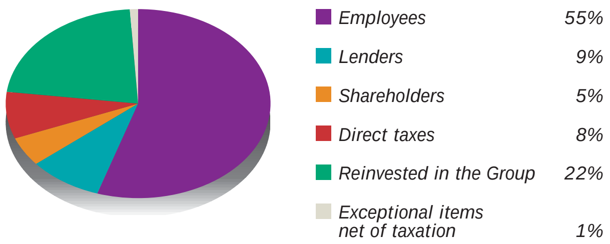
The following monetary exchanges with the state took place during the year:

	2003 **R millions**	2002 R millions
Direct taxes	**156**	167
Employees' tax collected on behalf of the state	**203**	179
Property taxes paid to local authorities	**32**	25
RSC levies paid to local authorities	**15**	13
Skills development levies paid to SA Revenue Services	**7**	8
VAT collected/(refunded) on behalf of the state	**157**	25
Channelled through the Group	**570**	417

Distribution of value added
2003



Distribution of value added
2002



Historical review

Abridged financial statements

R millions	**2003**	2002	2001	2000	1999	1998
Income statements						
Revenue	**7 659**	7 818	6 745	6 009	7 311	8 646
Local	**6 176**	5 943	4 962	4 820	5 977	7 198
Foreign	**1 483**	1 875	1 783	1 189	1 334	1 448
Net trading profit	**691**	698	492	474	568	644
Net financing costs	**150**	164	141	27	120	318
Taxation	**135**	155	(3)	121	117	(3)
Net profit/(loss) attributable to ordinary shareholders	**239**	240	(88)	244	974	(127)
Headline earnings	**337**	318	240	285	299	207
Balance sheets						
Total shareholders' interest	**2 521**	2 315	2 475	3 238	3 065	3 088
Deferred taxation (net)	**(353)**	(346)	(342)	(322)	(367)	(194)
Net interest-bearing debt	**1 019**	814	987	74	124	1 522
Capital employed	**3 187**	2 783	3 120	2 990	2 822	4 416
Represented by:						
Property, plant, equipment, goodwill and investments	**2 711**	2 283	2 606	2 482	2 657	3 599
Current assets, excluding cash, less interest-free liabilities	**476**	500	514	508	165	817
Employment of capital	**3 187**	2 783	3 120	2 990	2 822	4 416
Cash flow statements						
Cash generated by operations (1)	**632**	649	447	527	610	444
Investment in working capital	**(111)**	99	72	149	207	14
Expenditure relating to exceptional items and long-term provisions	**64**	48	88	210	242	131
Net investments to maintain operations (2)	**22**	18	96	(6)	51	106
	657	484	191	174	110	193
Normal dividends paid	**123**	103	87	134	99	149
	534	381	104	40	11	44
Investment in expansion of assets (2)	**1 042**	130	374	218	148	897
Proceeds from disposal of investments and businesses	**1**	167	65	224	2 432	14
Special dividend paid	**–**	–	–	–	928	–
Net cash (utilised)/generated (3)	**(507)**	418	(205)	46	1 367	(839)
Depreciation charges	**223**	221	221	205	286	337
Commitments						
Capital expenditure authorised	**189**	243	102	235	181	175
Future rentals on property, plant and equipment leased	**158**	147	179	162	173	230
	347	390	281	397	354	405

(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 on repurchasing own shares in 2001 and 2002.

RATIOS AND EMPLOYEE DETAILS

	2003	2002	2001	2000	1999	1998
Profitability and asset management						
Net trading profit to revenue (%)	**9.0**	8.9	7.3	7.9	7.8	7.4
Trading cash flow to revenue (%)	**11.9**	11.8	10.6	11.3	11.7	11.3
Return on average net assets (%) (1)	**19.3**	19.7	14.1	13.4	13.4	13.8
Return on average ordinary shareholders' interest (%)	**14.7**	14.6	9.0	9.8	10.6	7.0
Net working capital to revenue (%) (2)	**14.2**	14.4	17.5	19.5	16.4	17.7
Stock cover (days)	**67**	70	81	74	52	72
Average credit extended to customers (days)	**55**	52	66	65	53	59
Liquidity						
Cash interest cover (3)	**6.1**	5.7	5.1	25.2	7.2	3.1
Interest-bearing debt to cash generated by operations	**1.1**	0.9	1.5	0.1	0.1	1.5
Gearing (%) (4)	**40.4**	35.2	39.9	2.3	4.0	49.3
Current assets to current liabilities	**1.1**	1.8	1.6	1.4	1.3	1.2
Employees						
Number of employees at year-end (5)	**8 167**	8 001	8 164	8 412	9 850	15 700
Employee remuneration (R millions)	**1 324**	1 210	1 123	1 043	1 314	1 558
Value added per rand of employee remuneration (rand)	**1.72**	1.80	1.68	1.72	1.79	1.66

(1) Net trading profit plus investment income related to average 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 a percentage of total shareholders' interest.
(5) Includes proportional share of joint venture employees.

JSE SECURITIES EXCHANGE SA AND SHARE PERFORMANCE

	2003	2002	2001	2000	1999	1998
Securities exchange performance						
Market price (cents per share)						
High	**3 400**	2 650	1 890	1 675	2 050	2 860
Low	**2 114**	1 720	1 275	1 050	650	690
31 December	**3 400**	2 550	1 720	1 310	1 255	750
Earnings yield (%)	**10.5**	13.3	15.0	14.1	15.4	17.9
Dividend yield (%) *	**3.5**	4.4	5.1	6.1	6.3	7.3
Dividend cover *	**3.0**	3.0	3.0	2.3	2.4	2.4
In issue (millions)	**118.5**	104.2	103.5	154.7	154.7	154.7
Value traded (R millions)	**995.0**	1 135.8	865.6	585.1	1 043.7	965.5
Volume traded (millions)	**38.2**	51.1	52.7	44.3	77.4	59.4
Volume traded (%)	**32.2**	49.0	50.9	28.6	50.0	38.4
Market capitalisation (R millions)	**4 029.1**	2 657.1	1 780.0	2 026.1	1 941.1	1 160.0
Ordinary share performance						
(cents per share)						
Headline earnings	**356**	340	258	184	193	134
Normal dividends declared	**120**	112	87	80	80	55
Special dividend declared	**–**	–	–	–	600	–
Net asset value	**2 305**	2 222	2 430	1 979	1 888	1 914

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

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 for the year ended 31 December 2003. 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 aspects, the financial position of the Company and of the Group at 31 December 2003, and the results of their operations 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
Chartered Accountants (SA)

Sandton, 23 February 2004

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
Notes to the cash flow statements
Statements of changes in ordinary shareholders' equity
Notes to the financial statements
Appendices to the financial statements

For and on behalf of the Board

AE Pedder
Chairman

S Engelbrecht
Chief executive

Sandton, 23 February 2004

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, 23 February 2004

Directors' report

The activities and results of the Group have been reviewed on pages 14 to 40.

Statutory information

Share capital

The issued ordinary share capital of the Company as at 31 December 2003 was R118 504 218 (2002 – R104 200 218).

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 Transfer Secretaries on telephone number 0861 100 950.

Dividends

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2003 financial year are set out in note 7 to the financial statements.

Directorate

Details of the secretary and directorate of the Company are shown on pages 6 to 8.

The following directors retire in terms of the Company's articles of association at the annual general meeting on 24 May 2004:

In terms of article 25(c)(i):
AE Pedder
CML Savage

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

At 31 December 2003 the directors had beneficial interests in 5 250 ordinary shares of the Company (2002 – 450). The Company is not aware of the extent, if any, of the directors' family interests.

Subsidiaries and joint ventures

Details of each trading subsidiary and joint venture are set out in the appendices on pages 79 and 80.

The aggregate net profits and losses after taxation of South African subsidiaries and joint ventures attributable to the Company for the year 2003 were as follows:

Profits:	R365 million (2002 – R285 million)
Losses:	R129 million (2002 – R102 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 have been prepared in accordance with International Financial Reporting Standards and 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 with items of a similar nature on a line-by-line basis from the effective dates of their acquisition until their disposal.

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 date that significant influence commences until the date that significant influence ceases. Intergroup transactions are eliminated.

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 estimated 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 interdivisional sales.

Foreign currency translations

Foreign currency transactions and balances

Monetary 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 under the foreign currency translation reserve in non-distributable reserves.

Foreign operations

Financial statements of foreign subsidiaries classified as operations integral to the Company's 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 the date of transaction
- 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 the income statement.

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 securities exchange prices ruling at the close of business on balance sheet date. Changes in the market value are taken to the income statement.

Unlisted investments are stated at fair value.

Accounting policies and definitions continued

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 economic 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 the Company becomes unconditionally entitled thereto.

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 actuarial 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 the specific transitional provisions of 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 scheme, 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 and initiating systems used by the mining industry
- specialty chemicals, comprising of niche-oriented 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
- decorative and packaging coatings, comprising mainly the manufacture of paint for architectural and packaging purposes, and
- property, comprising mainly the realisation of surplus land and property assets 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.

Income statements

for the year ended 31 December 2003

	Notes	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
REVENUE		**7 659**	7 818	**4 263**	4 398
Net trading profit	1	**691**	698	**216**	282
Net financing costs	2	**(150)**	(164)	**(116)**	(114)
Dividends received	3	**3**	8	**51**	82
		544	542	**151**	250
Transitional provision for post-employment medical aid benefits		**(20)**	(20)	**(20)**	(20)
Amortisation of goodwill	9	**(75)**	(59)	**(20)**	(21)
Exceptional items	4	**(31)**	(19)	**(31)**	63
Net profit before taxation		**418**	444	**80**	272
Taxation	5	**(135)**	(155)	**(7)**	(69)
Net profit after taxation		**283**	289	**73**	203
Share of associated companies' income		**1**	–		
Attributable to preference and outside shareholders		**(45)**	(49)	**(2)**	(2)
Net profit attributable to ordinary shareholders		**239**	240	**71**	201
Per ordinary share (cents)					
– Attributable earnings	6	**252**	257		
– Diluted attributable earnings	6	**244**	248		
– Headline earnings	6	**356**	340		
– Diluted headline earnings	6	**345**	328		
– Ordinary dividends paid	7	**114**	95		
– Ordinary dividends declared but not provided for		**78**	72		

Balance sheets

at 31 December 2003

		Group		Company	
		2003	2002	**2003**	2002
	Notes	**R millions**	R millions	**R millions**	R millions
ASSETS					
Non-current assets		**3 110**	2 643	**2 856**	2 498
Property, plant and equipment	8	**1 708**	1 734	**635**	670
Goodwill	9	**916**	467	**292**	312
Investment in associated companies and joint ventures	10	**1**	1	**–**	–
Other investments	10	**86**	81	**32**	33
Subsidiaries	11			**1 585**	1 188
Deferred taxation assets	12	**399**	360	**312**	295
Current assets		**2 911**	3 211	**1 310**	1 609
Inventory	13	**1 170**	1 248	**490**	523
Accounts receivable	14	**1 280**	1 321	**660**	733
Cash and cash equivalents		**461**	642	**160**	353
Total assets		**6 021**	5 854	**4 166**	4 107
EQUITY AND LIABILITIES					
Ordinary capital and reserves		**2 494**	2 086	**1 717**	1 480
Issued capital	15	**437**	97	**447**	107
Reserves – non-distributable		**347**	390	**243**	285
– distributable		**1 710**	1 599	**1 027**	1 088
Preference capital	15	**6**	6	**6**	6
Outside shareholders' interest in subsidiaries		**21**	223		
Total shareholders' interest		**2 521**	2 315	**1 723**	1 486
Non-current liabilities		**756**	1 712	**612**	1 605
Deferred taxation liabilities	12	**46**	14	**–**	–
Long-term borrowings	16	**209**	1 196	**169**	1 154
Long-term provisions	17	**501**	502	**443**	451
Current liabilities		**2 744**	1 827	**1 831**	1 016
Accounts payable	18	**1 361**	1 446	**758**	779
Provision for restructuring		**48**	56	**48**	56
Short-term borrowings	19	**1 271**	260	**995**	149
Taxation		**64**	65	**30**	32
Total equity and liabilities		**6 021**	5 854	**4 166**	4 107

Cash flow statements

for the year ended 31 December 2003

	Notes	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
Cash generated by operations	i	**898**	899	**383**	468
Dividends received		**3**	8	**51**	82
Net financing costs		**(150)**	(164)	**(116)**	(114)
Taxes paid	ii	**(119)**	(94)	**(2)**	(5)
Changes in working capital	iii	**111**	(99)	**48**	(59)
Expenditure relating to long-term provisions		**(21)**	(16)	**(21)**	(16)
Expenditure relating to restructuring		**(43)**	(32)	**(43)**	(32)
Cash available from operating activities		**679**	502	**300**	324
Dividends paid	iv	**(123)**	(103)	**(121)**	(101)
Cash flows from operating activities		**556**	399	**179**	223
Cash (utilised in)/generated by investing activities		**(1 063)**	19	**(570)**	(50)
Net investments to maintain operations		**(22)**	(18)	**(14)**	(21)
Replacement of property, plant and equipment		**(82)**	(92)	**(43)**	(51)
Proceeds from disposal of property, plant and equipment		**60**	74	**29**	30
Investments to expand operations		**(1 042)**	(130)	**(556)**	(184)
Acquisition of – property, plant and equipment		**(159)**	(110)	**(95)**	(39)
– investments		**(3)**	(20)	**–**	(9)
– joint ventures		**–**	–	**–**	(2)
– subsidiaries		**(880)**	–	**(461)**	(134)
Proceeds from disposal of investments and businesses		**1**	167	**–**	155
Proceeds from disposal of – subsidiaries		**–**	4	**–**	–
– sale of businesses		**–**	76	**–**	76
– unlisted investments		**–**	79	**–**	79
– listed investments		**1**	8	**–**	–
Expenditure in respect of repurchasing own shares		**–**	(206)	**–**	(175)
Net cash (utilised)/generated		**(507)**	212	**(391)**	(2)
Long-term borrowings – raised		**18**	11	**6**	–
– repaid		**(53)**	(61)	**(45)**	(50)
Movement in short-term borrowings		**44**	(58)	**(100)**	101
Proceeds from shares issued		**340**	4	**340**	4
Cash effects of financing activities		**349**	(104)	**201**	55
(Decrease)/increase in cash and cash equivalents		**(158)**	108	**(190)**	53
Cash and cash equivalents at the beginning of the year		**642**	577	**353**	309
Translation loss on cash and cash equivalents		**(23)**	(43)	**(3)**	(9)
Cash and cash equivalents at the end of the year		**461**	642	**160**	353

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Notes to the cash flow statements

for the year ended 31 December 2003

	Group		Company	
	2003	2002	**2003**	2002
	R millions	R millions	**R millions**	R millions
I. Cash generated by operations				
Net trading profit	**691**	698	**216**	282
Depreciation of property, plant and equipment	**223**	221	**138**	129
Provisions – investments	**(2)**	2	**12**	56
– long-term provisions	**–**	6	**–**	–
– restructuring provisions	**15**	–	**15**	–
Surplus on disposal of property, plant and equipment	**(28)**	(40)	**(3)**	(9)
Translation differences	**3**	9	**3**	10
Change in fair value of investments	**(4)**	3	**–**	–
Other	**–**	–	**2**	–
	898	899	**383**	468
II. Taxes paid				
Owing at the beginning of the year	**65**	62	**32**	36
Current charge for the year – normal activities	**116**	98	**–**	1
– exceptional items	**–**	5	**–**	–
Translation differences	**–**	(4)	**–**	–
Changes in the Group	**2**	(2)	**–**	–
Owing at the end of the year	**64**	65	**30**	32
	119	94	**2**	5
III. Changes in working capital				
Inventory	**78**	(17)	**33**	21
Accounts receivable	**41**	148	**73**	75
Accounts payable	**(92)**	(91)	**(28)**	(70)
	27	40	**78**	26
Translation differences	**(12)**	(65)	**(30)**	(26)
Changes in the Group	**96**	(74)	**–**	(59)
	111	(99)	**48**	(59)
IV. Dividends paid				
Paid during the year	**109**	91	**121**	101
Paid to outside shareholders	**14**	12		
	123	103	**121**	101
V. Changes in the Group				
Property, plant and equipment	**41**	(41)	**–**	(38)
Investments	**1**	(85)	**–**	(4)
Working capital	**96**	(74)	**–**	(59)
Long-term provisions	**(7)**	–	**–**	–
Deferred taxation and taxation	**4**	–	**–**	–
Borrowings	**(15)**	–	**–**	–
Outside shareholders' interest in subsidiaries	**235**	13		
Non-distributable reserves	**1**	–	**–**	–
Net loss/(surplus) on disposal of investments and businesses	**–**	26	**–**	(55)
Goodwill	**524**	1	**–**	–
Net purchase price/(proceeds)	**880**	(160)	**–**	(156)
Cash and cash equivalents acquired	**6**	–	**–**	–
	886	(160)	**–**	(156)

Statements of changes in ordinary shareholders' equity

for the year ended 31 December 2003

	Ordinary share capital	Share premium	**Total ordinary capital**
GROUP			
Balance at 1 January 2002	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**
Net profit attributable to ordinary shareholders			
Ordinary dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Transfers from income statement			
Fair value adjustments taken to reserves			
Deferred taxation on fair value adjustments			
Shares issued during the year:			
Chemical Services Limited minority shareholders	13	322	**335**
Share option scheme	1	4	**5**
Balance at 31 December 2003	**108**	**329**	**437**
COMPANY			
Balance at 1 January 2002	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**
Net profit attributable to ordinary shareholders			
Ordinary dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Fair value adjustments taken to reserves			
Deferred taxation on fair value adjustments			
Shares issued during the year:			
Chemical Services Limited minority shareholders	13	322	**335**
Share option scheme	1	4	**5**
Balance at 31 December 2003	**118**	**329**	**447**

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**
391	182	84	5	662	1 507	2 264
					240	240
					(89)	(89)
	(170)			(170)	1	(169)
	42			42		42
(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**
					239	**239**
					(107)	**(107)**
	(53)			**(53)**	**(14)**	**(67)**
	17			**17**		**17**
(1)			1	**–**	**(7)**	**(7)**
			(10)	**(10)**		**(10)**
			3	**3**		**3**
						335
						5
329	**18**	**1**	**(1)**	**347**	**1 710**	**2 494**
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**
					71	**71**
					(119)	**(119)**
	(50)			**(50)**	**(13)**	**(63)**
	15			**15**		**15**
			(10)	**(10)**		**(10)**
			3	**3**		**3**
						335
						5
310	**(60)**	**–**	**(7)**	**243**	**1 027**	**1 717**

Notes to the financial statements

for the year ended 31 December 2003

	Group		Company	
	2003	2002	**2003**	2002
	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	**4 971**	5 383	**2 674**	2 764
Selling and distribution expenses	**1 203**	1 212	**854**	848
Administrative expenses	**794**	525	**519**	504
	6 968	7 120	**4 047**	4 116
Auditors' remuneration	**11**	10	**5**	4
– Audit fees	**10**	9	**5**	4
– Other services	**1**	1	**–**	–
Change in fair value of investments	**(4)**	3	**–**	–
Depreciation of property, plant and equipment	**223**	221	**138**	129
– Buildings	**16**	19	**9**	8
– Plant and equipment	**207**	202	**129**	121
Directors' emoluments (see note 24)	**8**	6	**7**	5
– Non-executive	**1**	1	**1**	1
– Executive	**7**	5	**6**	4
Foreign exchange gains	**82**	101	**36**	69
– Realised	**50**	84	**30**	60
– Unrealised	**32**	17	**6**	9
Foreign exchange losses	**111**	120	**38**	74
– Realised	**83**	95	**32**	64
– Unrealised	**28**	25	**6**	10
Increase in provisions	**13**	8	**27**	56
– Investments	**(2)**	2	**12**	56
– Post-employment medical aid benefit	**–**	6	**–**	–
– Restructuring	**15**	–	**15**	–
Research expenditure	**8**	13	**3**	2
Surplus on disposal of property, plant and equipment	**28**	40	**3**	9
– Surplus land holdings	**24**	34	**3**	4
– Property	**2**	4	**(1)**	3
– Plant and equipment	**2**	2	**1**	2
Salaries and other staff costs	**1 324**	1 210	**798**	718
Technical fees paid	**–**	4	**–**	–

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
2. Net financing costs				
Interest paid	**(190)**	(201)	**(160)**	(167)
Long-term borrowings	**(147)**	(147)	**(140)**	(138)
Short-term borrowings	**(43)**	(54)	**(20)**	(29)
Interest received	**40**	37	**44**	53
	(150)	(164)	**(116)**	(114)
3. Dividends received				
Dividends from investments	**3**	8	**2**	7
– Listed	**1**	1	**–**	–
– Unlisted	**2**	7	**2**	7
Dividends from joint ventures				
South African				
– Unlisted			**–**	2
Dividends from subsidiaries			**49**	73
South African				
– Listed			**37**	28
– Unlisted			**11**	6
Foreign				
– Unlisted			**1**	39
	3	8	**51**	82
Aggregate income from subsidiaries and joint ventures				
Dividends			**49**	75
Interest			**20**	27
Secretarial and administrative fees			**5**	14
			74	116

Notes to the financial statements continued

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
4. Exceptional items				
(Costs)/income related to restructuring	**(31)**	7	**(31)**	8
– Write-down of assets	**(13)**	(12)	**(13)**	(12)
– Retrenchment costs	**(20)**	(1)	**(20)**	–
– Other closure income	**2**	20	**2**	20
Net (loss)/gain on disposal of investments	**–**	(26)	**–**	55
Exceptional items before taxation	**(31)**	(19)	**(31)**	63
Tax effect	**8**	1	**8**	1
– Normal	**–**	(5)	**–**	–
– Deferred	**8**	6	**8**	1
Exceptional items after taxation	**(23)**	(18)	**(23)**	64
5. Taxation				
South African and foreign taxes				
Normal, secondary and foreign	**(111)**	(102)	**–**	(1)
– Normal activities	**(111)**	(97)	**–**	(1)
– Exceptional items	**–**	(5)	**–**	–
Deferred	**(37)**	(64)	**(24)**	(74)
– Normal activities	**(45)**	(70)	**(32)**	(75)
– Exceptional items	**8**	6	**8**	1
	(148)	(166)	**(24)**	(75)
Adjustment for prior years	**13**	11	**17**	6
– Normal, secondary and foreign	**(5)**	(1)	**–**	–
– Deferred	**18**	12	**17**	6
	(135)	(155)	**(7)**	(69)
Computed tax losses	**838**	734	**565**	465
	%	%	**%**	%
Reconciliation of tax rate computed in relation to profit before exceptional items and investment income				
Effective rate	**27.5**	30.4	**18.8**	47.6
Capital and non-taxable receipts	**4.4**	2.8	**2.3**	0.7
Expenses not allowable	**(0.9)**	(5.5)	**(10.5)**	(21.5)
Secondary and foreign taxes	**(1.3)**	(1.2)	**(1.2)**	(0.6)
Adjustment for prior years	**2.4**	2.1	**21.0**	3.8
Other	**(2.1)**	1.4	**(0.4)**	–
South African standard rate	**30.0**	30.0	**30.0**	30.0

	Group 2003 R millions	Group 2002 R millions
6. Earnings per ordinary share		
Headline earnings are derived from:		
Net profit attributable to ordinary shareholders	**239**	240
Amortisation of goodwill	**75**	59
Transitional provision for post-employment medical aid benefits	**20**	20
Exceptional items (see note 4)	**31**	19
Tax effects of the above items	**(14)**	(7)
Outside shareholders' share of the above items	**(14)**	(13)
Headline earnings	**337**	318

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.

	2003	2002
Earnings per share		
– Attributable earnings	**252**	257
– Headline earnings	**356**	340

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 94 699 439, net of treasury shares (2002 – 93 436 300).

	2003	2002
Diluted earnings per share		
– Diluted attributable earnings	**244**	248
– Diluted headline earnings	**345**	328

At 31 December 2003 there were 5 190 400 (2002 – 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 97 805 677 (2002 – 96 963 085). The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R25.83 (2002 – R21.88) compared with an average exercise price on the outstanding options of R10.36 (2002 – R8.57).

	2003	2002
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**94 699 439**	93 436 300
Number of options available for future exercise	**5 190 400**	5 796 000
Number of shares that would be issued at fair value	**(2 084 162)**	(2 269 215)
Weighted average number of ordinary shares for diluted earnings per share calculation	**97 805 677**	96 963 085

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
7. DIVIDENDS PAID				
Ordinary	**107**	89	**119**	99
Final for previous year: No. 138 of 72 cents (2001 – 55 cents) paid 22 April 2003	**67**	51	**75**	57
Interim for current year: No. 139 of 42 cents (2002 – 40 cents) paid 22 September 2003	**40**	38	**44**	42
Preference				
Nos. 130 and 131 paid 17 June 2003 and 15 December 2003 respectively	**2**	2	**2**	2
	109	91	**121**	101
8. PROPERTY, PLANT AND EQUIPMENT				
Property				
Cost or valuation	**917**	934	**214**	217
At the beginning of the year	**934**	968	**217**	236
Additions	**12**	14	**7**	2
Disposals and transfers	**(29)**	(28)	**(10)**	(13)
Changes in the Group	**7**	(9)	**–**	(8)
Translation differences	**(7)**	(11)	**–**	–
***Less:* depreciation**	**171**	173	**118**	116
At the beginning of the year	**173**	173	**116**	122
Disposals and transfers	**(15)**	(9)	**(7)**	(10)
Changes in the Group	**1**	(5)	**–**	(4)
Translation differences	**(4)**	(5)	**–**	–
Provided during the year	**16**	19	**9**	8
Carrying amount	**746**	761	**96**	101

AECI

	Group		Company	
	2003	2002	**2003**	2002
	R millions	R millions	**R millions**	R millions
8. Property, plant and equipment (continued)				
Plant and equipment				
Cost or valuation	**2 414**	2 327	**1 652**	1 609
At the beginning of the year	**2 327**	2 438	**1 609**	1 658
Additions	**229**	188	**131**	88
Disposals and transfers	**(140)**	(96)	**(88)**	(51)
Changes in the Group	**68**	(96)	**–**	(86)
Translation differences	**(70)**	(107)	**–**	–
***Less:* depreciation**	**1 452**	1 354	**1 113**	1 040
At the beginning of the year	**1 354**	1 323	**1 040**	998
Disposals and transfers	**(111)**	(76)	**(56)**	(27)
Changes in the Group	**33**	(59)	**–**	(52)
Translation differences	**(31)**	(36)	**–**	–
Provided during the year	**207**	202	**129**	121
Carrying amount	**962**	973	**539**	569
Total carrying amount	**1 708**	1 734	**635**	670
Cost of assets which are fully depreciated	**566**	505	**448**	380
Cost or valuation of land included in property	**568**	584	**31**	30
Insured value of property, plant and equipment	**8 056**	7 657	**6 234**	5 880

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	
9. Goodwill				
Cost	**1 193**	655	**417**	417
At the beginning of the year	**655**	654	**417**	417
Additions attributable to the acquisition of				
– Chemical Services Limited	**360**	–	**–**	–
– ImproChem (Pty) Limited	**96**	–	**–**	–
– Senmin (Pty) Limited	**80**	–	**–**	–
– Other	**2**	1	**–**	–
***Less:* amortisation**	**277**	188	**125**	105
At the beginning of the year	**188**	129	**105**	84
Changes in the Group	**14**	–	**–**	–
Provided during the year	**75**	59	**20**	21
Carrying amount	**916**	467	**292**	312

Notes to the financial statements continued

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
10. Investments				
Associated companies				
Unlisted shares at cost				
– Dussek Campbell (Pty) Limited	*	*		
Net indebtedness by associated companies	(1)	–	–	–
Post-acquisition retained income	2	1		
Balance at the beginning of the year	1	84		
Current year's share of associated companies' retained income	1	–		
Reversal on sale of associated company	–	(83)		
Total investment in associated companies	**1**	1	–	–
Other investments				
Joint ventures (see appendix 2)			*	*
Available-for-sale assets				
Listed investments at market value	43	36	–	–
Unlisted investments	43	45	32	33
Shares at fair value				
– Botswana Ash (Pty) Limited	26	26	26	26
– Other	5	12	–	–
Indebtedness of unlisted investments	12	7	6	7
Total other investments	**86**	81	**32**	33
Total investments	**87**	82	**32**	33

* Nominal amount

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
11. Subsidiaries (see appendix 3)				
Shares at cost less amounts written off			855	264
Listed – market value R nil (2002 – R1 228 million)			–	225
Unlisted			855	39
Net indebtedness			730	924
Indebtedness of subsidiaries less amounts written off			1 265	1 456
Indebtedness to subsidiaries			(535)	(532)
			1 585	1 188

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
12. Deferred taxation				
At the beginning of the year	**(346)**	(357)	**(295)**	(319)
Transfer from/(to) net profit – normal activities	**27**	58	**15**	68
– exceptional items	**(8)**	(6)	**(8)**	(1)
– non-distributable reserve	**–**	–	**(6)**	–
Transferred to non-distributable reserve				
– foreign currency	**(17)**	(42)	**(15)**	(43)
– fair value adjustments	**(3)**	–	**(3)**	–
Changes in the Group	**(6)**	1	**–**	–
At the end of the year	**(353)**	(346)	**(312)**	(295)
Analysis by major temporary differences:				
Property, plant and equipment	**97**	114	**66**	76
Provisions	**(239)**	(275)	**(187)**	(233)
Deferred foreign exchange differences	**(24)**	(7)	**(26)**	(7)
Computed tax losses	**(198)**	(184)	**(170)**	(140)
Other	**11**	6	**5**	9
	(353)	(346)	**(312)**	(295)
Comprising:				
Deferred taxation assets	**(399)**	(360)	**(312)**	(295)
Deferred taxation liabilities	**46**	14	**–**	–
	(353)	(346)	**(312)**	(295)
13. Inventory				
Raw and packing materials	**403**	448	**148**	179
Products and intermediates	**653**	694	**303**	299
Merchandise	**4**	8	**–**	–
Specific plant spares	**32**	34	**30**	31
Other spares and stores	**10**	14	**9**	14
Property developments	**68**	50	**–**	–
	1 170	1 248	**490**	523

Notes to the financial statements continued

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
14. Accounts receivable				
Trade	**1 150**	1 118	**592**	616
Other	**130**	203	**68**	117
	1 280	1 321	**660**	733
15. Capital				
Ordinary shares				
Authorised				
180 000 000 shares of R1 each	**180**	180	**180**	180
Issued				
At the beginning of the year	**94**	93	**104**	103
Issued 14 304 010 (2002 – 711 600) shares during the year	**14**	1	**14**	1
At the end of the year				
Group 108 193 098 shares (2002 – 93 889 088)	**108**	94		
Company 118 504 218 shares (2002 – 104 200 208)			**118**	104
Share premium less share issue expenses	**329**	3	**329**	3
At the beginning of the year	**3**	2	**3**	2
Shares repurchased				
Final payment in terms of share repurchase agreement	**–**	(2)	**–**	(2)
Shares issued during the year	**326**	3	**326**	3
	437	97	**447**	107
Unissued shares under the control of the directors until the next annual general meeting: 61 495 782 (2002 – 75 799 792)	**62**	76	**62**	76
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).

	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 R millions
16. Long-term borrowings (see appendix 1)				
Unsecured	**1 052**	1 095	**1 052**	1 095
Secured	**161**	153	**110**	106
	1 213	1 248	**1 162**	1 201
Current portion (see note 19)	**1 004**	52	**993**	47
	209	1 196	**169**	1 154
17. Long-term provisions				
At the beginning of the year	**502**	500	**451**	454
Expenditure incurred during the year	**(21)**	(16)	**(21)**	(16)
Provided during the year	**20**	26	**20**	20
Transferred to accounts payable	**(7)**	(7)	**(7)**	(7)
Translation differences	**–**	(1)	**–**	–
Changes in the Group	**7**	–	**–**	–
At the end of the year	**501**	502	**443**	451
Made up as follows:				
Environmental remediation	**156**	177	**155**	176
Post-employment medical aid benefits	**389**	362	**332**	312
Current portion included in accounts payable (see note 18)	**(44)**	(37)	**(44)**	(37)
	501	502	**443**	451
18. Accounts payable				
Trade	**799**	907	**410**	466
Other	**518**	502	**304**	276
	1 317	1 409	**714**	742
Current portion of long-term provisions (see note 17)	**44**	37	**44**	37
	1 361	1 446	**758**	779
19. Short-term borrowings				
Current portion of long-term borrowings (see note 16)	**1 004**	52	**993**	47
Other	**267**	208	**2**	102
	1 271	260	**995**	149

Notes to the financial statements continued

	Group		Company	
	2003	2002	**2003**	2002
	R millions	R millions	**R millions**	R millions
20. Borrowings and contingent liabilities				
Borrowings	**1 480**	1 456	**1 164**	1 303
Long term	**209**	1 196	**169**	1 154
Short term	**1 271**	260	**995**	149
Contingent liabilities	**45**	–	**–**	–
Dispute with SA Revenue Services in respect of property realisation companies				
– taxation	**33**	–	**–**	–
– interest	**12**	–	**–**	–
Guarantees	**178**	152	**164**	139
	1 703	1 608	**1 328**	1 442
21. Commitments				
Capital expenditure authorised	**189**	243	**148**	58
Contracted for	**23**	51	**23**	40
Not contracted for	**166**	192	**125**	18
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	**158**	147	**112**	103
Payable within one year	**41**	35	**25**	19
Payable thereafter	**117**	112	**87**	84
	347	390	**260**	161

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.

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.

Group	Foreign currency	Foreign amount 2003 millions	2002 millions	Rand amount 2003 millions	2002 millions
22. Financial instruments (continued)					
Transactions in foreign currencies Forward exchange contracts at 31 December 2003, relating to specific balance sheet items.					
– Accounts receivable				**180**	211
	US dollar	**21**	18	**142**	163
	Euro	**3**	4	**29**	34
	Pound sterling	**1**	1	**9**	14
– Accounts payable				**178**	229
	US dollar	**16**	16	**109**	140
	Euro	**3**	5	**28**	46
	Pound sterling	**2**	2	**19**	28
	Swiss franc	**4**	2	**20**	13
	Swedish krona	**1**	–	**1**	–
	Japanese yen	**16**	24	**1**	2
Forward exchange contracts at 31 December 2003, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due.					
– Imports				**37**	74
	US dollar	**2**	4	**16**	46
	Euro	**1**	3	**11**	24
	Pound sterling	**1**	–	**10**	2
	Japanese yen	**5**	21	**–**	2

At 31 December 2003 the Group had utilised US$65 million (2002 – US$65 million) in terms of its syndicated loan facility. This has been swapped into R793 million (2002 – R793 million) by means of cross-currency swaps at floating interest rates.

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 2003, was:

Currency	Total 2003 R millions	Total 2002 R millions	Floating rate financial liabilities 2003 R millions	Floating rate financial liabilities 2002 R millions	Fixed rate financial liabilities 2003 R millions	Fixed rate financial liabilities 2002 R millions
Rand						
Short-term	**1 271**	259	**955**	212	**316**	47
Long-term	**208**	1 195	**142**	1 089	**66**	106
Other – long-term	**1**	2	**1**	2	**–**	–
Total	**1 480**	1 456	**1 098**	1 303	**382**	153

	Fixed rate financial liabilities Weighted average interest rate 2003 %	Fixed rate financial liabilities Weighted average interest rate 2002 %	Weighted average period for which rate is fixed 2003 Months	Weighted average period for which rate is fixed 2002 Months
	8.7	5.8	**13.5**	40.1

The effect of interest rate derivatives in place at 31 December 2003 was as follows:

	2003 R millions	2002 R millions
Unfavourable mark to market adjustment	**13**	4

Notes to the financial statements continued

22. Financial instruments (continued)

(c) Maturity profile of financial instruments at 31 December 2003

	Within 1 year		2 to 3 years		4 to 7 years		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	R millions	R millions	**R millions**	R millions	**R millions**	R millions	**R millions**	R millions
Financial assets								
Cash and cash equivalents	**461**	642	**–**	–	**–**	–	**461**	642
Accounts receivable	**1 280**	1 321	**–**	–	**–**	–	**1 280**	1 321
Investments	**61**	43	**–**	6	**26**	33	**87**	82
Total financial assets	**1 802**	2 006	**–**	6	**26**	33	**1 828**	2 045
Percentage profile (%)	**99**	98	**–**	–	**1**	2	**100**	100
Financial liabilities								
Interest-bearing liabilities	**1 271**	260	**173**	1 045	**36**	151	**1 480**	1 456
Accounts payable	**1 317**	1 409	**–**	–	**–**	–	**1 317**	1 409
Total financial liabilities	**2 588**	1 669	**173**	1 045	**36**	151	**2 797**	2 865
Percentage profile (%)	**93**	58	**6**	37	**1**	5	**100**	100

(d) Fair values of financial assets and liabilities at 31 December 2003

The carrying amounts of cash, accounts receivable and accounts payable approximates fair value because of the short maturity period of these instruments.

The fair value of unlisted investments is based on directors' valuation.

The method and assumptions for determining the fair value of other instruments are stated in the accounting policies and definitions. The carrying values of such instruments equates to fair value.

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 2003, the bulk of the Group's borrowings had a maturity less 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 ensures that adequate 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. Borrowings are restricted in terms of the articles of association to R1 514 million (2002 – R1 766 million).

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.

Income received from associated companies amounted to R nil (2002 – R nil) and there were no loans to associated companies.

Notes to the financial statements continued

R thousands	NC Axelson	S Engelbrecht	LC van Vught*	Total
24. Directors' emoluments				
Executive directors				
Basic salary	1 242	1 467	509	**3 218**
Bonus and performance-related payments	884	936	1 573	**3 393**
Expense allowances, medical aid and insurance contributions	211	216	45	**472**
Leave pay and other material benefits	14	16	27	**57**
Retirement fund contributions	121	144	–	**265**
Aggregate emoluments	2 472	2 779	2 154	**7 405**
Less: paid by subsidiary	–	1 294	–	**1 294**
2003	**2 472**	**1 485**	**2 154**	**6 111**
PAYE thereon				**2 029**
2002	1 831	–	2 577	4 408
PAYE thereon				1 495

* LC van Vught retired as executive director on 31 March 2003.

Non-executive directors

	Directors' fees	Chairman/ committee fees	Additional payments	**2003 Total**	2002 Total
CB Brayshaw	100	100		**200**	80
EK Diack				**–**	38
ZM Jakavula				**–**	38
MJ Leeming	100	50		**150**	12
TH Nyasulu	100			**100**	4
AE Pedder	100	300	391	**791**	1 205
CML Savage	100	50		**150**	50
LC van Vught	100			**100**	–
	600	**500**	**391**	**1 491**	1 427
2002	242	80	1 105		1 427

Notes

1. Share options issued to directors are set out in note 25. LC van Vught exercised 200 000 options which generated a benefit of R5 259 037. None of the other directors exercised any of their options in either the current or the previous 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 director which have a notice period of longer than one month.

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 2003 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. Due to the late publication of the regulations in terms of the Pension Funds Second Amendment Act, 2001, completion of the 2003 statutory valuation of the major fund can only be finalised in the course of 2004.

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

	Pensioner members		Contributing members		Employer contributions	
	2003	2002	**2003**	2002	**2003**	2002
	Number	Number	**Number**	Number	**R millions**	R millions
– AECI Pension Fund	**4 326**	4 396	**1 733**	1 919	**28**	29
– AECI Employees Pension Fund	**2 506**	2 516	**24**	56	*****	*
– AECI Supplementary Pension Fund	**241**	248	**79**	82	**1**	4
– Dulux Employees Pension Fund	**154**	157	**15**	20	*****	*
– AECI Employees Provident Fund	**n/a**	n/a	**3 902**	4 061	**28**	28

Principal actuarial assumptions for the AECI Pension Fund were as follows:	**2003**	2002
	%	%
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 the date of the last actuarial valuation was as follows:

	Group	
	2003	2002
	R millions	R millions
Present actuarial value of obligations	**3 335**	3 335
Actuarial value of plan assets	**4 052**	4 052
Net assets	**717**	717

n/a Not applicable

* Nominal amount

Notes to the financial statements continued

25. Employee benefits (continued)

Retirement benefits (continued)

The defined benefit asset has not been recognised due to the late promulgation of the regulations 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.

Post-employment medical aid benefits

Principal actuarial assumptions for the post-employment medical aid benefits were as follows:

	2003	2002
	%	%
Annual increase in health care costs	**10.0**	10.0
Discount rate	**12.0**	12.0

	Group		Company	
	2003	2002	**2003**	2002
	R millions	R millions	**R millions**	R millions
Actuarial value of obligations	**425**	425	**374**	374

Details of the provision for post-employment medical aid benefits at 31 December 2003 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. However, the Company continues to provide through the income statement for the shortfall identified in the 2001 actuarial valuation.

25. Employee benefits (continued)

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 two years – up to 20 per cent of the shares
After three years – up to 40 per cent of the shares
After four years – up to 60 per cent of the shares
After five 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.

Details of outstanding share options at 31 December 2003:

		Number of shares			
Expiry date	Exercise price	Granted	Exercised	Lapsed	Outstanding
31 December 2008	R4.50	4 804 000	1 852 500	130 000	2 821 500
31 December 2009	R7.00 – R15.80	410 000	104 000	104 000	202 000
31 December 2010	R11.45 – R13.78	477 000	152 000	32 000	293 000
31 December 2011	R17.50	1 460 000	–	–	1 460 000
30 June 2013	R23.60 – R26.30	413 900	–	–	413 900
		7 564 900	**2 108 500**	**266 000**	**5 190 400**

Movements in the number of share options held by employees are as follows:

	2003	2002
Outstanding at the beginning of the year	**5 796 000**	5 041 600
Issued	**413 900**	1 466 000
Exercised	**(1 019 500)**	(711 600)
Outstanding at the end of the year	**5 190 400**	5 796 000

Details of share options issued during the year:

Expiry date	**June 2013**	December 2011
Exercise price per share	**R23.60 – R26.30**	R17.50
Aggregate proceeds if options are exercised (R thousands)	**9 785**	25 655

Details of share options exercised during the year:

Expiry date	**2008 – 2010**	2008 – 2010
Exercise price per share	**R4.50 – R13.45**	R4.50 – R17.50
Aggregate issue proceeds (R thousands)	**5 625**	3 681

Notes to the financial statements continued

	Exercise price	Granted	Exercised	Lapsed	Outstanding
		Number of shares			
25. Employee benefits (continued)					
Share option scheme (continued)					
Included in outstanding share options are the following options granted to executive directors:					
NC Axelson	R4.50	350 000	–	–	350 000
NC Axelson	R23.60	46 000	–	–	46 000
S Engelbrecht	R4.50	50 000	–	–	50 000
S Engelbrecht	R17.50	40 000	–	–	40 000
S Engelbrecht	R23.60	67 600	–	–	67 600
		553 600	**–**	**–**	**553 600**

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.

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Group	2003 R millions	2002 R millions	2003 R millions	2002 R millions	2003 R millions	2002 R millions

26. Industry segment analysis

	Revenue		Net trading profit		Depreciation	
Class of business						
Mining solutions	**2 076**	1 904	**241**	176	**74**	69
Specialty chemicals	**3 197**	3 037	**372**	318	**54**	46
Specialty fibres	**1 714**	2 082	**22**	173	**75**	72
Decorative and packaging coatings	**661**	657	**52**	41	**12**	14
Property	**207**	180	**39**	26	**3**	6
Group services, development and intergroup	**(196)**	(42)	**(35)**	(36)	**5**	14
	7 659	7 818	**691**	698	**223**	221

	Total assets		Total liabilities		Capital expenditure	
Class of business						
Mining solutions	**1 096**	1 118	**279**	249	**93**	68
Specialty chemicals	**2 054**	1 509	**564**	586	**81**	67
Specialty fibres	**960**	1 176	**199**	271	**57**	54
Decorative and packaging coatings	**261**	279	**145**	176	**7**	7
Property	**685**	646	**14**	34	**–**	4
Group services, development and intergroup	**18**	42	**160**	130	**3**	2
	5 074	4 770	**1 361**	1 446	**241**	202

	Revenue		Total assets		Capital expenditure	
Geographical segment analysis						
Region						
Republic of South Africa	**6 279**	5 942	**4 788**	4 323	**200**	161
Rest of Africa	**692**	902	**123**	238	**23**	23
Europe	**182**	360	**–**	–	**–**	–
North America	**140**	213	**163**	209	**18**	18
South America	**83**	85	**–**	–	**–**	–
Rest of the world	**283**	316	**–**	–	**–**	–
	7 659	7 818	**5 074**	4 770	**241**	202

Assets consist of property, plant and equipment, goodwill, inventory and accounts receivable. Liabilities consist of accounts payable.

Appendix 1

Long-term borrowings

	Weighted closing interest rate %	Group 2003 R millions	Group 2002 R millions	Company 2003 R millions	Company 2002 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	**106**	149	**106**	149
Secured					
Local					
2001/2006 (2)	12.30	**103**	103	**103**	103
Loans/other (3)	15.27	**57**	48	**7**	3
Foreign					
Loans – other	17.34	**1**	2	**–**	–
		1 213	1 248	**1 162**	1 201

(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) Secured over plant and equipment having a net book value of R82 million (2002 – R90 million).

(3) Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R16 million (2002 – R24 million) and mortgage over property having a net book value of R25 million (2002 – R28 million).

Summary of repayments

R millions	Year	Local	Foreign	Total
	2004	1 003	1	1 004
	2005	54	–	54
	2006	119	–	119
	2007	2	–	2
	2008	2	–	2
	After 2008	32	–	32
		1 212	1	1 213

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Appendix 2

Significant joint ventures and partnerships

	Effective percentage held by AECI Limited 2003	2002
Crest Chemicals (Pty) Limited	**50**	36
Ondeo-Nalco SA (Pty) Limited	**–**	36
Resinkem (Pty) Limited	**50**	36
Specialty Minerals South Africa (Pty) Limited	**50**	36
Unifi-SANS Technical Fibers LLC	**50**	50

	2003 R millions	2002 R millions
The aggregate of proportionately consolidated amounts included in the consolidated results is as follows:		
Balance sheets		
Property, plant, equipment and investments	**104**	202
Current assets	**96**	157
Total assets	**200**	359
Equity	**151**	241
Long-term borrowings	**–**	5
Current liabilities	**49**	113
Total equity and liabilities	**200**	359
Income statements		
Revenue	**317**	644
Net trading profit	**54**	9
Net profit/(loss)	**7**	(21)
Cash flow statements		
Cash generated by operations	**14**	82
Net interest received/(paid)	**3**	(2)
Taxes paid	**(9)**	(8)
Changes in working capital	**12**	(42)
	20	30
Dividends paid	**12**	4
Cash retained from operating activities	**8**	26
Cash utilised in investing activities	**(23)**	(31)
Increase in funding requirements	**(15)**	(5)
Commitments		
Capital expenditure authorised	**2**	3
Future rentals on property, plant and equipment leased	**8**	12
	10	15

Appendix 3

Principal consolidated subsidiaries

	Issued share capital 2003 R	Effective shareholding 2003 %	Effective shareholding 2002 %	Interest of AECI Limited# Shares 2003 R millions	Shares 2002 R millions	Net indebtedness 2003 R millions	Net indebtedness 2002 R millions
Holding companies							
Directly held							
AECI Treasury Holdings (Pty) Limited	**200**	**100**	100	*****	*	**145**	146
African Explosives Holdings (Pty) Limited	**43 311 779**	**100**	100	*****	*	**–**	–
Athena Paint Investments S.A. (1)	**230 000**	**100**	100	*****	*	*****	*
Capex (Pty) Limited	**10 000**	**100**	100	*****	*	**–**	–
Indirectly held							
Athena Investments Limited S.A. (1)	**24 243 800**	**100**	100	**–**	–	**–**	–
African Explosives International Limited (2)	**1 307**	**100**	100	**–**	–	**–**	–
Insurance							
Directly held							
AECI Captive Insurance Company Limited	**810 000**	**100**	100	**11**	11	**(2)**	(7)
Mining solutions							
Directly held							
African Explosives Limited +	**100**	**100**	100	*****	*	**–**	–
African Explosives (Nigeria) Limited (6)	**352 000**	**100**	100	*****	*	**–**	–
DetNet Solutions (Pty) Limited	**100**	**100**	100	*****	*	**15**	*
Indirectly held							
AEL Chemico-Mali SARL (3)	**8 659**	**100**	90	**–**	–	*****	8
African Explosives (Botswana) Limited (4)	**3**	**100**	100	**–**	–	**–**	1
African Explosives (Ghana) Limited (5)	**8 658 500**	**100**	100	**–**	–	*****	*
African Explosives (Tanzania) Limited (7)	**26**	**100**	100	**–**	–	**–**	26
African Explosives (Zambia) Limited (8)	**71 597 137**	**80**	80	**–**	–	*****	2
AECI Mauritius (13)	**866**	**100**	–	**–**	–	**36**	–
Expert Explosives Limited	**1 000**	**100**	100	*****	*	*****	*
Paints and allied products							
Directly held							
Dulux (Pty) Limited +	**4**	**100**	100	*****	*	**–**	–
Dulux Botswana (Pty) Limited (4)	**1 150 000**	**100**	100	*****	*	**2**	2
Dulux Limited (9)	**500 000**	**100**	100	*****	*	**2**	2
Dulux (Mozambique) Lda (10)	**994 000**	**80**	80	*****	*	**4**	6
Dulux Swaziland (Pty) Limited (11)	**100 000**	**100**	100	*****	*	**1**	1
Property							
Directly held							
Heartland Properties (Pty) Limited	**1**	**100**	100	*****	*	**224**	182
Other property subsidiaries				**3**	3	**212**	229
Specialty chemicals							
Directly held							
Chemical Services Limited	**8 312 795**	**100**	71	**827**	225	**–**	126
Indirectly held							
AECI Coatings (Pty) Limited	**100 000**	**80**	57	**–**	–	**23**	26
Akulu Marchon (Pty) Limited	**410 000**	**100**	71	**–**	–	**–**	–
Atlas Consolidated Industries (Pty) Limited	**200**	**100**	71	**–**	–	**2**	8
Chemical Initiatives (Pty) Limited	**1**	**100**	71	**–**	–	**–**	–
Chemoleo (Pty) Limited	**2 000 000**	**100**	71	**–**	–	**–**	–
Chemserve Perlite (Pty) Limited	**800 000**	**100**	71	**–**	–	**–**	–
Chemserve Polymer Sciences (Pty) Limited	**800 000**	**100**	71	**–**	–	**–**	–
Chemserve Systems (Pty) Limited	**625 000**	**100**	71	**–**	–	**–**	–
Lake International Technologies (Pty) Limited	**13 395**	**100**	71	**–**	–	**3**	–
Chemserve Trio (Pty) Limited	**150 000**	**100**	71	**–**	–	**–**	–
Crest Chemicals (Pty) Limited	**23 500**	**50**	50	**–**	–	*****	–
Industrial Oleochemical Products (Pty) Limited	**4 001**	**100**	71	**–**	–	**–**	–
Metswako Chemicals (Pty) Limited (4)	**671**	**100**	71	**–**	–	**–**	–
Pelichem (Pty) Limited	**500 000**	**100**	71	**–**	–	**–**	–
Plaaskem (Pty) Limited	**400**	**100**	71	**–**	–	**–**	–
Plastamid (Pty) Limited	**128 500**	**100**	71	**–**	–	**4**	3
SA Paper Chemicals (Pty) Limited	**220 443**	**100**	71	**–**	–	**–**	–
Senmin (Pty) Limited	**1 160 000**	**100**	–	**–**	–	**–**	–
ImproChem (Pty) Limited	**401 000**	**100**	–	**–**	–	**–**	–
(Formerly Ondeo-Nalco SA (Pty) Limited)							
Specialty fibres							
Directly held							
SANS Fibres (Pty) Limited +	**17 979 433**	**100**	100	**8**	8	**(13)**	(12)
Indirectly held							
SANS Fibers Incorporated (12)	**663**	**100**	100	**–**	–	**209**	199
SANS Fibres Europe Limited	**1 000**	**100**	100	**–**	–	*****	*
Other				**6**	17	**(137)**	(24)
				855	264	**730**	924

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 the following:
(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 (13) Mauritius.

Notice to shareholders

Notice is hereby given that the 80th 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 24 May 2004 at 09:00 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 AE Pedder and CML Savage 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 page 6 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 and subject further to the limitation that shares may only be allotted and issued in terms of this authority to the extent required to enable the Company to carry out its obligations under the AECI share option scheme;

4. 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, 23 February 2004

Administration

Secretary and registered office

MJF Potgieter

First floor
AECI Place
24 The Woodlands
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London secretary

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Transfer secretaries

Computershare Limited
70 Marshall Street
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and
Computershare Investor Services plc
PO Box 82
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Bridgwater Road
Bristol BS99 7NH
England

Auditors

KPMG Inc.

Bankers

First National Bank of Southern Africa 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, 24 May 2004 at 09:00 ("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 ______ ordinary 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 on a poll (one vote per share)

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

Signed at (place) on (date) 2004

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/her 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 20 May 2004.

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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