AECI

Annual report 2004

Specialty product and service solutions

81st annual report

for the year ended 31 December 2004

AECI Limited; Incorporated in the Republic of South Africa; Registration No. 1924/002590/06.

Contents

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

	2004 **R**	2003 R
Euro	**7.67**	8.36
Pound sterling	**10.85**	11.81
Swiss franc	**4.97**	5.36
US dollar	**5.62**	6.62

Values

Our values guide behaviour to sustain excellent performance

We will

- focus intensely on delivering service excellence to our customers
- operate ethically, with integrity and care for others
- operate safely and with care for our employees, 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 services company which provides value-adding solutions to customers through science, technology and industry knowledge.

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. These businesses are typically of a low to medium capital nature, operate in niche markets, and are supported by leading international technology alliances.

The principal manufacturing sites are located in South Africa near Johannesburg (mining solutions), Cape Town (specialty fibres) and Durban (specialty chemicals and decorative coatings). The mining solutions and decorative coatings businesses have expanded their presence throughout sub-Saharan Africa. Specialty fibres has a joint venture manufacturing facility in the USA and, in mining solutions, the now operational DetNet joint venture aims to be the international leader in the design, production and sale of specialised electronic detonators.

The Group's fifth area of 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. By the end of 2004, 1 100 hectares of the original 3 700 hectares of excess land available had been sold.

AECI has a total employee complement of 7 260, many of whom are engaged in the Group's extensive sales, technical service and distribution networks.

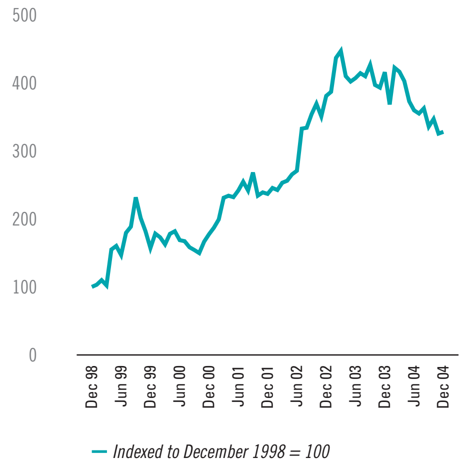
Shareholder information

Group results at a glance

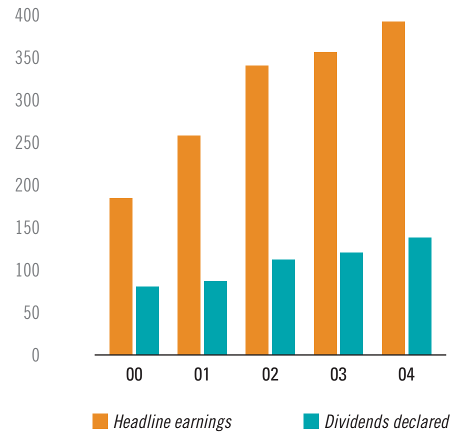
for the year ended 31 December 2004

	2004	2003	% change
Revenue (R millions)	**7 911**	7 659	3
Profit from operations (R millions)	**743**	691	8
Headline earnings (R millions)	**427**	337	27
Net profit attributable to ordinary shareholders (R millions)	**283**	239	18
Headline earnings per ordinary share (cents)	**392**	356	10
Dividends declared per ordinary share (cents)	**138**	120	15
Market capitalisation at 31 December (R millions)	**4 669**	4 029	16
Trading margin (%)	**9.4**	9.0	
Return on net assets (%)	**20.3**	19.3	
Net borrowings as a percentage of shareholders' interest (%)	**24**	40	

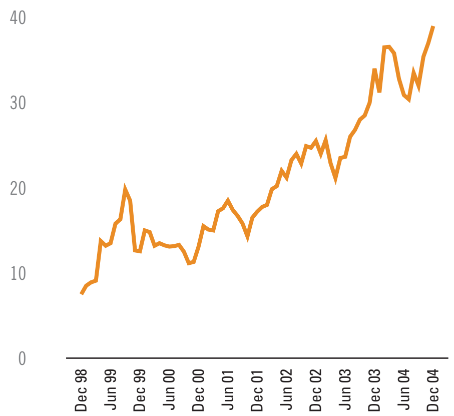
AECI share price adjusted for special dividend relative to JSE Industrial Index



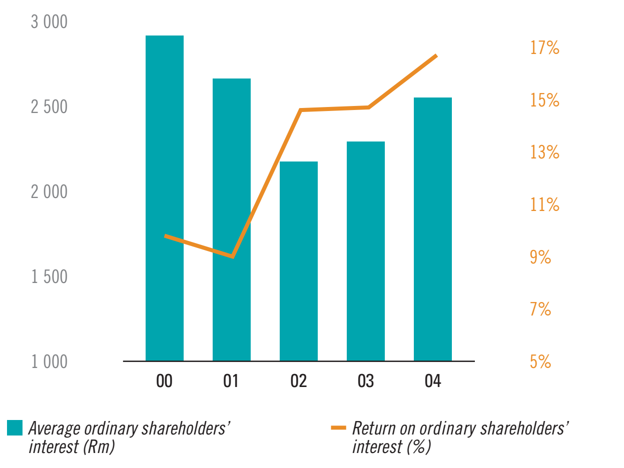
Headline earnings and normal dividends per ordinary share (cents)



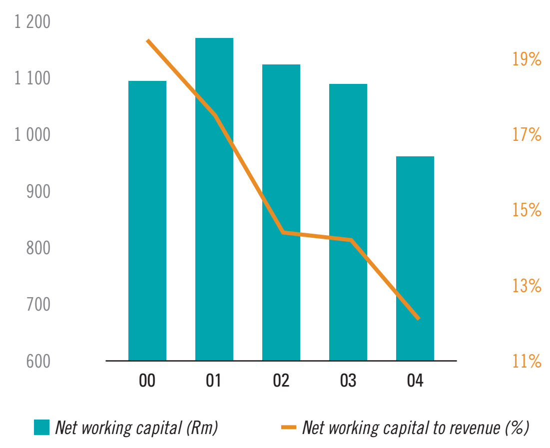
AECI share price (rand)



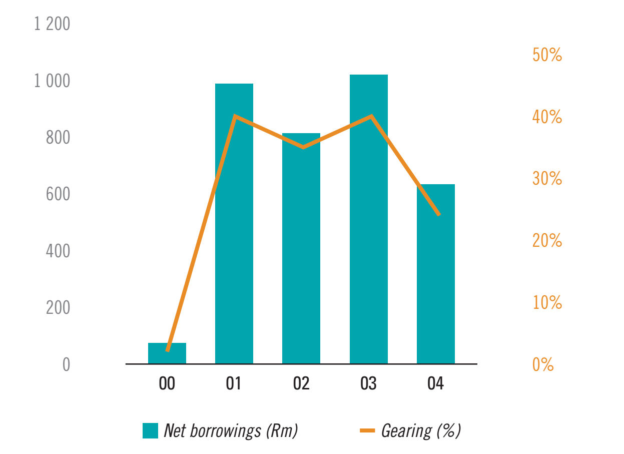
Return on ordinary shareholders' interest



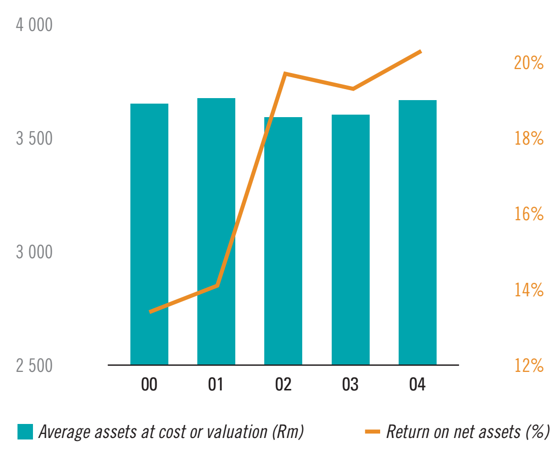
Net working capital to revenue



Net borrowings and gearing



Return on net assets



Analysis of ordinary shareholders December 2004

	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 2004 was as follows:			
AECI Treasury Holdings (Pty) Limited	1	10 311	9
Directors	2	5	0
Non-public	3	10 316	9
Public	4 925	109 408	91
Total	4 928	119 724	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 2004:			
Coronation Asset Management		22 622	18.9
RMB Asset Management		20 447	17.1
Old Mutual Asset Management		12 369	10.3
Stanlib Limited		11 703	9.8
Bernstein Investment Research Management		7 320	6.1

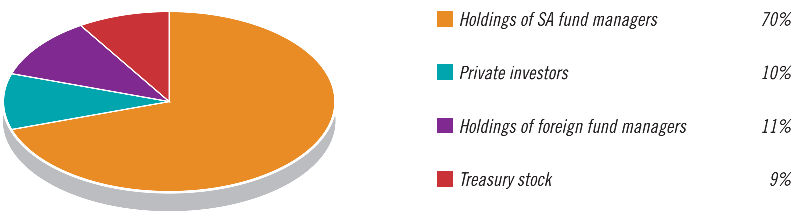
To the best of the directors' knowledge, the percentage of the Company's shares held by non-South African shareholders was 11.2 per cent in December 2004.

		Shares held (thousands)	% of total shares
BENEFICIAL SHAREHOLDERS			
In accordance with 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. The following public shareholders had beneficial holdings of 5 per cent or more of the issued shares in December 2004:			
Public Investment Commissioner		11 093	9.3
Corolife Managed Provident Fund		9 628	8.0
Old Mutual Life Assurance Company Limited		7 177	6.0

PROFILE OF REGISTERED SHAREHOLDERS

Size of shareholding	Number of shareholders	% of total	Shares held (thousands)	% of total shares
1 – 1 000	2 788	57	1 158	1
1 001 – 10 000	1 632	33	5 797	5
10 001 – 100 000	371	7	12 703	11
Over 100 000	137	3	100 066	83
Total	4 928	100	119 724	100

Profile of shareholdings



Financial calendar

AECI

- ## 2004 final ordinary dividend No. 142

Declaration date	21 February
Last date to trade cum dividend	15 April
Ex dividend trade	18 April
Record date	22 April
Payment date	25 April

- ## 5.5% preference shares dividend No. 134

Declaration date	16 May
Last day to trade cum dividend	3 June
Ex dividend trade	6 June
Record date	10 June
Payment date	15 June

- ## 81st annual general meeting — 23 May

- ## 2005 interim ordinary dividend No. 143

Declaration date	25 July
Last date to trade cum dividend	9 September
Ex dividend trade	12 September
Record date	16 September
Payment date	19 September

- ## 2005 interim report released — 26 July

- ## 5.5% preference shares dividend No. 135

Declaration date	14 November
Last day to trade cum dividend	2 December
Ex dividend trade	5 December
Record date	9 December
Payment date	15 December

- ## Financial year-end — 31 December

- ## 2005 audited financial results released — February 2006

- ## 2005 annual report posted — March 2006

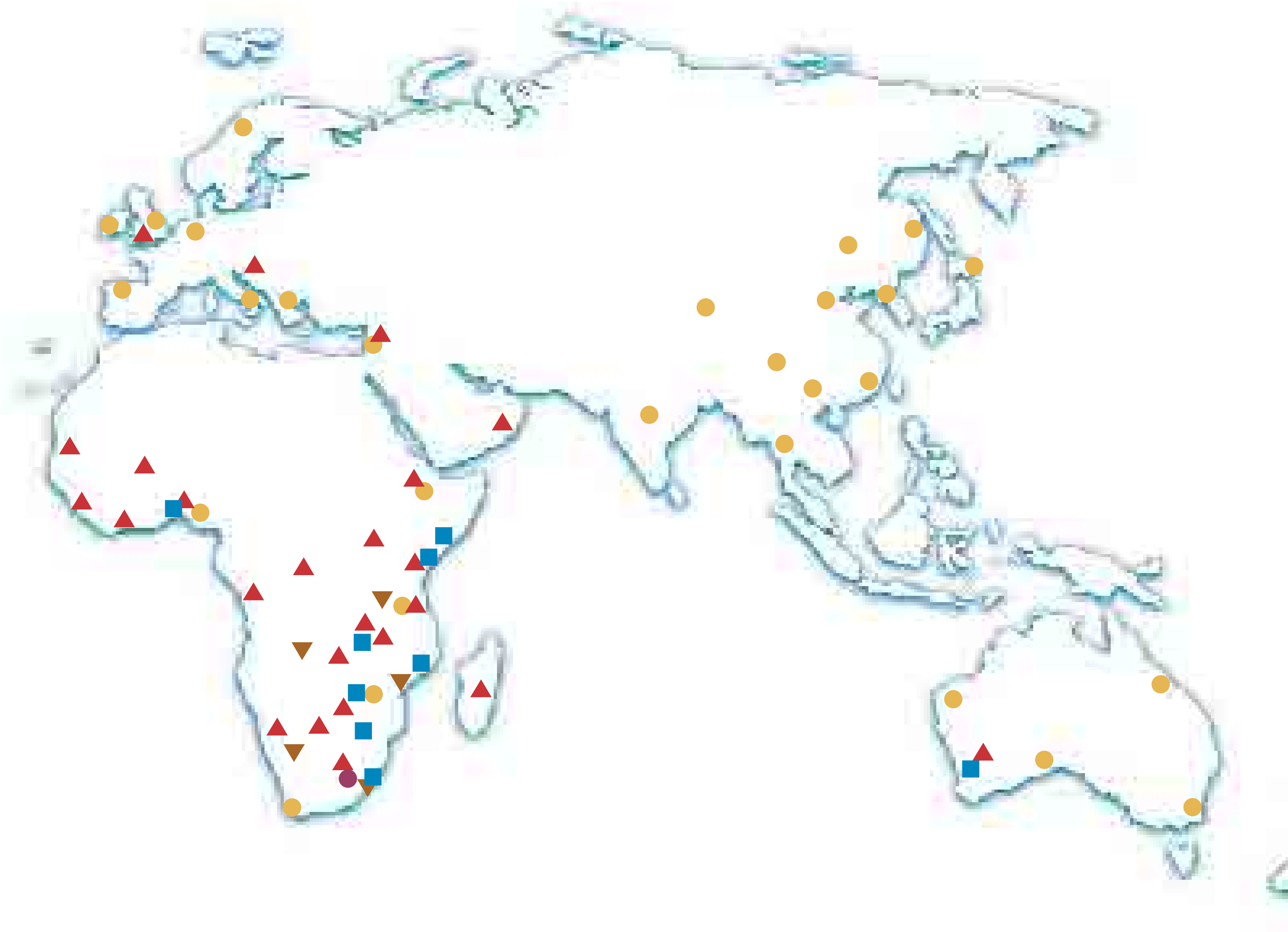
Markets and areas of business

AECI

▲	AEL	African Explosives
■	Chemical Services Limited	Chemical Services
●	SANS FIBRES	SANS Fibres
▼		Dulux
●	HEARTLAND	Heartland Properties

Take a group of

specialty product and



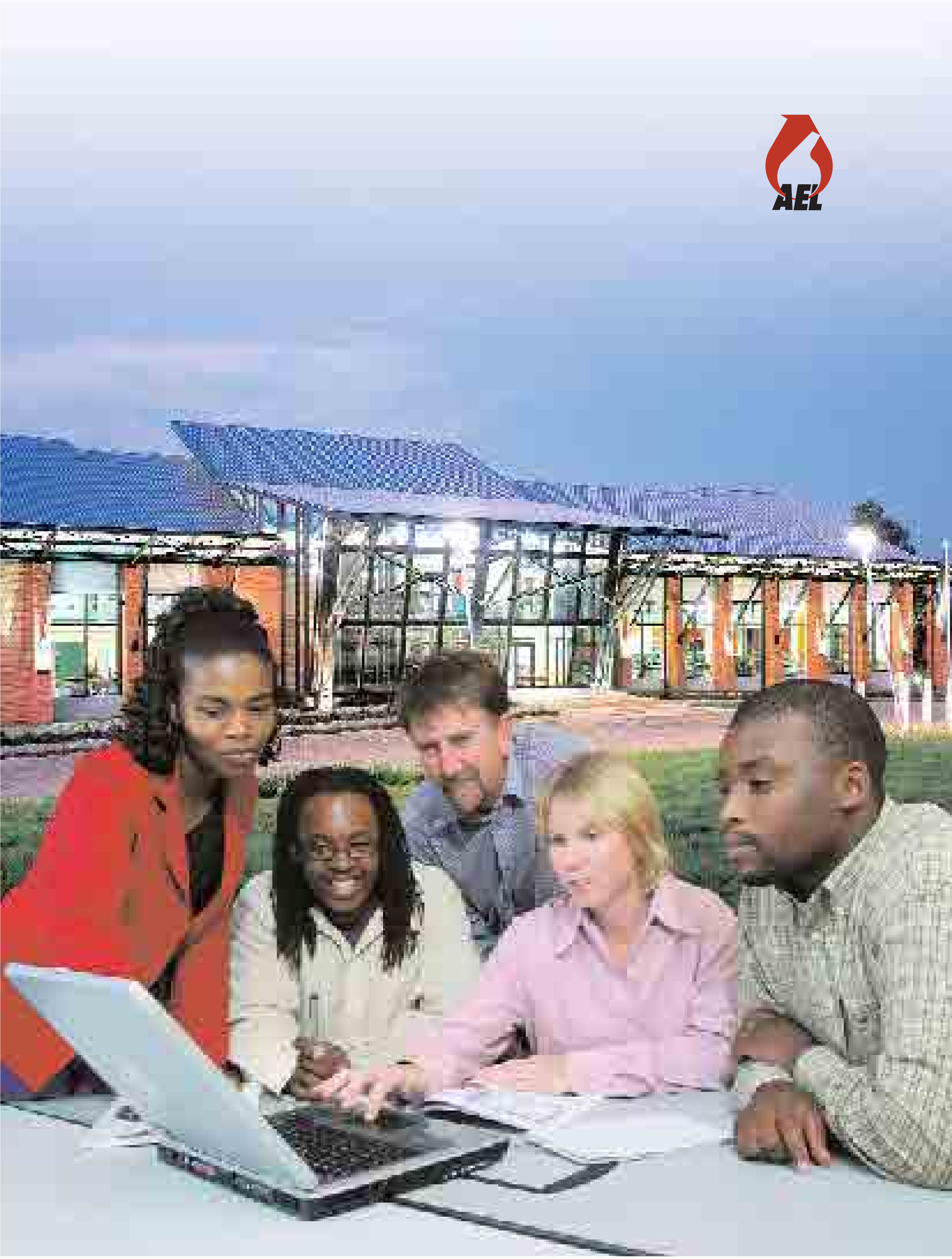
service solutions

businesses...

...with the vision to embrace a transformed South Africa,

In July 2004 the AECI Group, through AEL, became the first major empowered supplier of leading blasting solutions to the South African and African mining industries.

The partnership with the consortium led by the Tiso Group is a significant achievement in the Group's history. It enables AEL to strengthen its relationship with its South African customers in the mining industry by ensuring compliance with their preferred procurement requirements in terms of the Mining Charter.



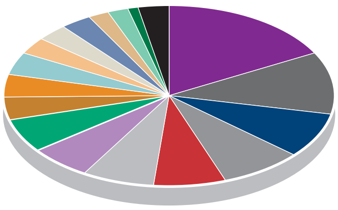
...a proven strategy for sustained growth,

A key contributor to Chemserve's growth record has been this group's impressive ability to grow its businesses both organically and through acquisitions and mergers.

Its formula of adding value to customers through excellent and unwavering service continues to yield highly beneficial results.

In 2004, Chemserve's businesses again found innovative ways to grow and the group returned to the acquisition trail.

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



Mining	*18%*	*Plastics and rubber*	*6%*	*Appliances and furniture*	*3%*
Paper and packaging	*11%*	*Coatings, inks and adhesives*	*6%*	*Oil and refining*	*3%*
Automotive	*8%*	*Food and beverages*	*4%*	*Textiles and tanning*	*2%*
Chemicals industry	*8%*	*Toiletries, cosmetics and pharmaceuticals*	*4%*	*Explosives*	*2%*
Detergents	*7%*	*Engineering and foundry*	*4%*	*Steel and metal*	*1%*
Agriculture	*7%*	*Construction*	*3%*	*Other*	*3%*

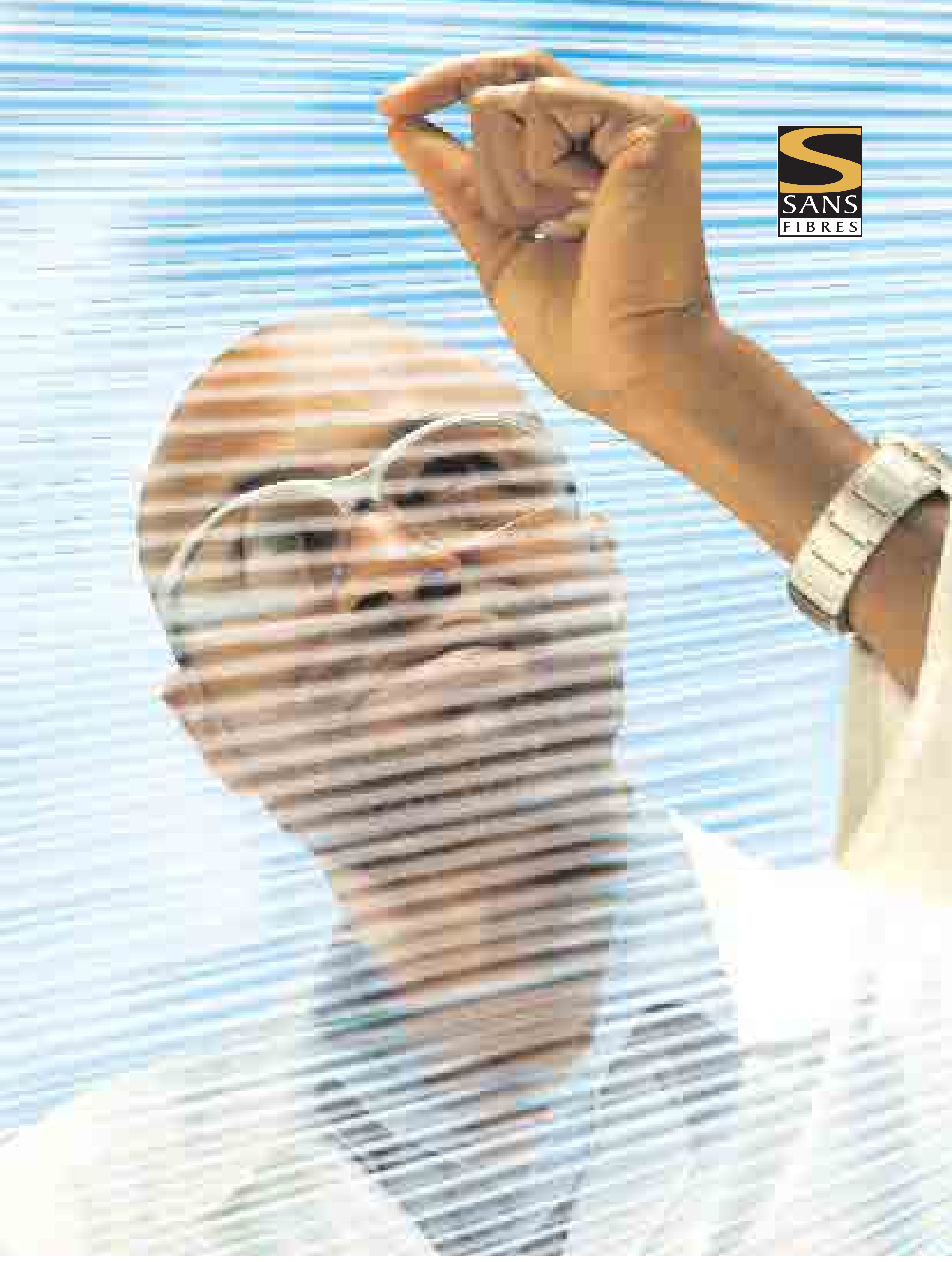
Chemical Services Limited

...the ability to adapt to a changed environment,

With its financial performance severely affected by escalating raw material prices and currency fluctuations, SANS Fibres formulated a recovery plan to deal actively with these external factors.

Key elements are new product development, conversion efficiencies and ongoing cost control measures.

This plan was progressed as scheduled in 2004 and, provided the rand does not appreciate significantly against the US dollar, its benefits will begin to emerge in 2005.



SANS
FIBRES

and with innovative skills and products.

Dulux has continued to build on its reputation as an innovator and supplier of high performance products to a variety of customers in southern Africa's decorative coatings sector.

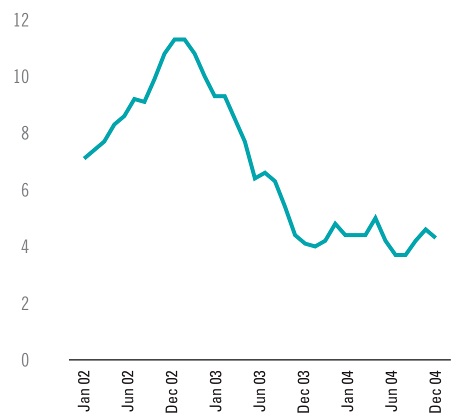
For a leading consumer brand such as Dulux, new and up-to-date products are essential. In 2004, the company again succeeded in doing this and also concluded a marketing and technology support agreement with ICI Paints, owner of the Dulux brand in most countries and the world's largest decorative paint company.

Use these strengths to derive maximum benefit from prevailing market conditions.

In an economic environment characterised by low interest rates and low inflation, the property market was most favourable in 2004. Heartland was able to draw maximum benefit from these conditions owing to its diverse portfolio. There was strong demand for land for residential, commercial and light industrial use at Modderfontein, Somerset West and Umbogintwini.

The leasing division also performed well and, overall, Heartland achieved a record operating profit of R130 million and net cash flow of R270 million.

Inflation rate (%)
CPIX



Prime interest rate (%)

Non-executive directors

From left: Colin Brayshaw, Mike Leeming, Hixonia Nyasulu, Alan Pedder, Cedric Savage, Lex van Vught.

Colin Brayshaw (69)

CA(SA), FCA

He has served on AECI's Board since 1996. Colin 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, he is also a director of several other companies including Anglogold, Anglo Platinum, Highveld Steel, Johnnic, Johnnic Communications and Datatec, and is chairman of Coronation Investments and Trading.

Mike Leeming (61)

BCom, MCom, FCMA, FIBSA, AMP (Harvard)

A retired executive director of Nedcor, he joined AECI's Board in 2002 and is also a member of the Company's audit and corporate citizenship committees. Mike 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 Imperial, Altron, Woolworths and Glenrand MIB.

Hixonia Nyasulu (51)

BA (SocSc)

A non-executive director since 2002, Hixonia chairs the Company's corporate citizenship committee. She is executive chairman of Ayavuna Women's Investments, a second-wave empowerment company. Other directorships of listed companies are Anglo Platinum and the Tongaat-Hulett group. She is also a director of Defy, the Development Bank of Southern Africa (DBSA), and chairs the DBSA's Development Fund.

Alan Pedder CBE (66)

AMIMechE, FCIM

Alan 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 chairmanship of Remploy Limited (the UK's leading supplier of employment opportunities for disabled people) and non-executive director of Baronsmead plc (a venture capital trust fund). Alan has a chemicals background from a long career at ICI plc's leading global businesses, from where he retired as group technology director.

Cedric Savage (66)

BSc (Mech Eng), MBA, ISMP (Harvard)

A member of AECI's audit, nominations and remuneration committees, Cedric has been a non-executive director of the Company since 1997. He is non-executive chairman of the Tongaat-Hulett group, having retired as chief executive of that group in 2002. Other directorships of listed companies include Harmony Gold Mining Company, Datatec, Kumba Resources and Nedcor.

Lex van Vught (61)

BSc (Hons), BCom

Lex retired from his position as AECI's chief executive in 2003 after having led the Group through its transformation programme from 1998. In addition to his continued involvement with the Group as a non-executive director and member of the nominations, remuneration and corporate citizenship committees, he also serves on the boards of Tiger Brands and Impala Platinum.

Executive committee

Neale Axelson, Frank Baker, Charles Betts, Graham Edwards, Schalk Engelbrecht, Thys Loubser, Jacques Pienaar.

Neale Axelson (55)
BSc (Hons)
He joined the Group in 1972 and was appointed an executive director of AECI Limited in 1989. Neale is also AECI's chief financial officer, executive chairman of Heartland Properties and chairman of AECI's Pension Fund. In addition, he has overall responsibility for the Company's accounting and finance, legal and secretarial, and the Group communications functions.

Frank Baker (51)
BSc (Chem Eng)
He joined AECI in 1976 and took up his current position as managing director of Chemical Services in 2003. Having moved to Chemical Services in a management position in 1993, Frank joined that company's executive committee in 1998 and its Board in 1999. From 1993 to 2003 he managed several subsidiaries within the Chemical Services group.

Charles Betts (56)
BSc (Eng), BCom
He is managing director of Dulux. Before moving to the decorative coatings company 10 years ago, he had been part of the Group's strategic planning function for six years. For 14 years before that he worked at various AECI manufacturing sites in process control and also spent time at ICI, in the UK.

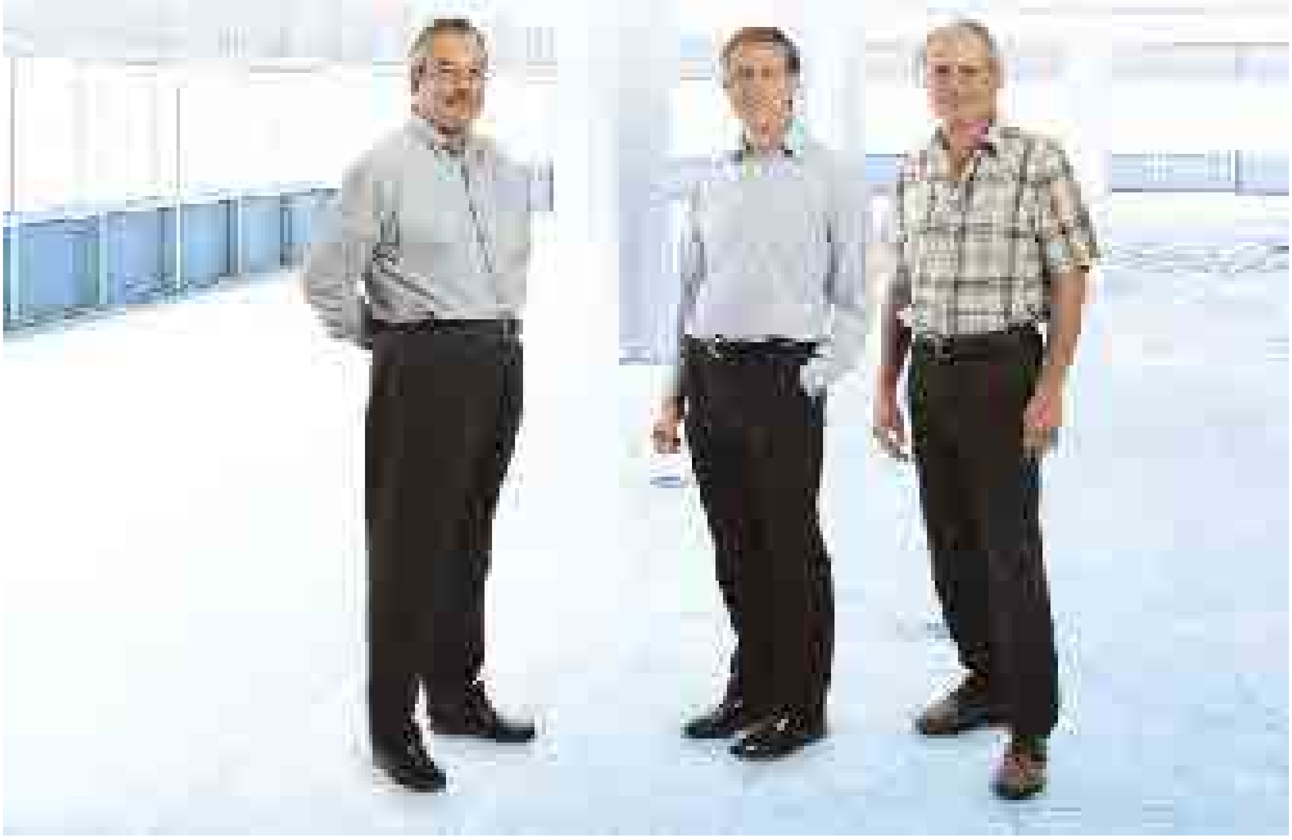
Graham Edwards (50)
BSc (Mech Eng), BCom, MBA, PhD, Pr Eng
He is managing director of AEL and chairman of the DetNet joint venture. Graham joined the Group as a design engineer in 1978 and subsequently worked in areas of production, engineering, buying and strategic planning at Modderfontein. He took up an explosives marketing portfolio in 1988. He was appointed to his current position in 1999, having served on the AEL Board for five years prior to that.

Schalk Engelbrecht (58)
BSc, MBL
He was appointed chief executive of AECI in 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 (51)
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 South Africa's Textile Federation.

Jacques Pienaar (45)
BA
He is general manager, Group human resources and safety, health and environment (SHE). The latter function includes overall responsibility for land remediation activities and became part of his portfolio in January 2005. Jacques joined Chemical Services in 1990 as industrial relations manager and moved to 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



From left: Martin Potgieter, Chris Sinclaire, Louis van der Walt.

Martin Potgieter (54)

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 (55)

CA(SA)

He is Group treasurer. He joined AECI in 1973 and served in a number of the Company's businesses before returning to Group office in 1988 to take up his current position. His portfolio includes the accounting, finance, insurance and taxation functions.

Louis van der Walt (50)

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.

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. To this end the Board undertakes a formal annual review of the Company's strategy and that of its component businesses, and similarly of the budgets proposed by management in respect of the next financial year
- appoints the chief executive 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 2004 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	4
AE Pedder CBE	5	5
CML Savage	5	5
LC van Vught	5	5

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 at least 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 and SHE, 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 CBE (Chairman)
CB Brayshaw
CML Savage
LC van Vught

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 at least three independent non-executive directors. Meetings of the committee are held at least twice a year and additional meetings are held when deemed necessary. The general manager, Group human resources and SHE, 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 CBE (Chairman)
CB Brayshaw
CML Savage
LC van Vught

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

In 2003 the Board established a corporate citizenship committee. The committee is comprised of three non-executive directors. Meetings of the committee are held at least twice a year. The Company secretary attends all meetings of the committee as secretary to the committee and the general manager, Group human resources and SHE, attends by invitation. The responsibilities of the committee include the review and assessment of progress by the Group in areas such as economic empowerment, employment equity, social responsibility investment, education, training, safety, occupational health 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 over a three-year period. These targets incorporate a required rate of real growth in either operating profit after tax or headline earnings per share. 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 per cent 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 either in a share option scheme, as approved by shareholders in 2001, or in a "benefit unit" scheme which emulates the performance of share options. These schemes are intended to align the longer-term interests of executives with those of shareholders. In 2003, the remuneration committee approved an earnings per share-based scheme that supplements the existing option and benefit unit schemes 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 present the state of affairs of the Company and the Group as at the end of the financial year and 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 judgement and estimates. All applicable international and South African accounting standards have been followed. The directors have formally reviewed the budgets and forecasts of the businesses and have concluded that the Group will continue in business for the foreseeable future and, accordingly, the going concern basis of accounting remains appropriate.

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

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

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

The auditors concur with the above statements by the directors.

Ethics

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

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.

Chairman's letter to shareholders

The Group's portfolio of businesses has demonstrated its robustness and has responded effectively to the changing environment of relatively strong commodity prices and rand exchange rate accompanied by low inflation and interest rates.

It is pleasing to report further performance and strategic progress by the AECI Group during 2004. Thanks to the robustness of the portfolio and the exceptional performance of Heartland's property activities, headline earnings per share rose by 10 per cent to 392 cents, the annual dividend was raised by 15 per cent to 138 cents and the balance sheet was significantly strengthened.

Before restructuring charges, the Group's aggregate operating profit excluding property was held at 2003 levels despite higher raw material costs and pressure on local prices and customers' export businesses caused by the ever-strengthening rand. This result reflects the resilience of the Group's performance culture and strategic positioning as a specialty product and service provider in the face of adverse market conditions. Safety performance was sustained at world-class levels whilst further progress was made on other key corporate citizenship issues such as environmental management, economic empowerment and governance.

Trading environment

Global metal and energy prices surged in 2004 in line with strong global growth, led by China, whilst continued turbulence in the Middle East raised the risk premium in oil prices. The US dollar again weakened, undermined by burgeoning trade and budget deficits. The combination of these factors led to a sharp appreciation in the currencies of commodity-rich countries, particularly against the dollar, with the rand appreciating by a further 17 per cent on average following the 28 per cent gain recorded in 2003.

The world's upstream chemical industry has been able to pass on higher energy and oil prices, due to transient high plant occupacities, whilst downstream value added operations, such as AECI, have found it more difficult in low inflation international markets.

AECI's local mining and manufacturing customers suffered from mounting imports and loss of competitiveness for their exports with inevitable consequences on employment, investment and growth in these sectors. This had an impact on all the major businesses, African Explosives, Chemical Services and SANS Fibres. In contrast, suppliers of consumer goods and services were stretched to satisfy booming demand as the stronger rand served to lower inflation expectations and hence interest rates. In turn this impacted favourably on both Heartland and Dulux.

The resultant and growing imbalance in the South African economy is reflected in a rapidly escalating deficit on the current account of the balance of payments which will no doubt in time check and then partly reverse the recent appreciation of the currency. The risk however is that the longer this is delayed, the sharper such an adjustment may be, with potentially disruptive effects on consumer and investor confidence. A more gradual adjustment, accomplished through greater accumulation of foreign reserves for example, could contribute to a better balance between consumption, production and employment and more sustainable long-term growth. Certainly this outcome would be welcomed by the Group in managing its diverse operations and in implementing its growth and investment strategy.

Financial performance

Growth of 10 per cent in headline earnings per share was a creditable result in the trading environment which prevailed last year. This was the result of early performance improvement actions by the three major businesses to combat the surge in the rand, coupled with continuing outstanding management of cash. Year-end working capital to sales was at an all-time low of 12 per cent.

African Explosives did well to maintain underlying operating profit at the much higher level established in 2003 despite a sharp decline in gold mining activity in South Africa. Higher volumes in some markets and tight control of costs offset price erosion and enabled Chemical Services to maintain margins and post an improved result. The radical restructuring programme at SANS Fibres, initiated last year, was successfully delivered to plan with solid progress on both new product development and efficiency improvements, including in the US joint venture. A small profit was achieved notwithstanding the severe impact of the further strengthening of the rand and the surge in intermediates prices.

Dulux was a clear beneficiary of the consumer-friendly trading environment, recording excellent results in South Africa, with higher volumes and an improved mix of its branded products. Similarly, the property activities managed by Heartland delivered outstanding profits and cash flow in what were highly favourable market conditions. More detail on the operational performance of Group businesses is provided in the chief executive's review of operations.

Over R1 billion in growth assets was invested during 2003, of which R700 million was expended in cash. Key elements of this were the high-performing acquisitions of the minorities in Chemical Services, the partner in ImproChem and the mining chemicals company Senmin. The important objective in 2004 of reducing gearing exceeded target with exceptional cash flow of some R270 million from the property activities contributing to a year-end gearing of only 24 per cent of shareholder funds.

In light of this, the Board decided to declare a considerably higher final dividend of 94 cents, making the annual dividend 138 cents, a 15 per cent increase on 2003. The dividend cover ratio was 2.8 times, slightly below our long-term policy objective of 3 times cover. In addition, the Board has resolved to seek approval from shareholders for a general repurchase of up to 10 per cent of the ordinary shares of the Company, subject to market conditions from time to time. The appropriate resolution is included in the notice of annual general meeting of the Company which is to be held on 23 May 2005.

Strategic progress

The empowerment of African Explosives via the sale of a 25.1 per cent interest to a broad-based consortium led by the Tiso Group, and the establishment of a 50:50 joint venture with Dyno Nobel ASA in electronic detonation systems, were the undoubted strategic highlights of 2004. The quality of our partners is most impressive and gives confidence as to the future development of both of these businesses.

African Explosives also advanced its strategy of becoming the lowest cost provider of high quality and high value added blasting solutions with the ongoing transformation of manufacturing operations at Modderfontein and the introduction of new product and service offerings. SANS Fibres made good progress in improving the intrinsic performance of its manufacturing operations and in the development of more technically demanding product lines, including high quality weaving and airbag yarns with trials underway with potential customers.

Chemical Services returned to the acquisition trail with the purchase of UAP, a distributor of agro-chemicals, with effect from January 2005, and of Chemiphos, a producer of food-grade phosphates, for a total consideration of R150 million. The latter transaction remains subject to regulatory approvals.

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.

A corporate citizenship committee, established by the Board in 2003, sets the pace and assesses progress on these issues. Comprehensive chapters on both corporate citizenship and governance are included in this annual report.

Directorate and management

Once again, we were fortunate to have stability in Board composition in 2004. A long-serving senior executive of the Group, Lincoln Partridge, a member of the executive committee and the Group manager, technology retired at the end of last year. I thank him for his valuable contribution to the affairs of AECI over many years and wish him an active and rewarding retirement.

Outlook

The Group's portfolio of businesses has demonstrated its robustness and has responded effectively to the changing environment of relatively strong commodity prices and rand exchange rate accompanied by low inflation and interest rates. This environment is not expected to change significantly in the year ahead and the progressive benefits of actions taken to align each business with these conditions should, accordingly, emerge more fully in 2005.

Assuming no material strengthening of the rand from the 2004 average, and with a further contribution in prospect from property activities, management is targeting an increase in headline earnings for the full 2005 financial year.

Alan Pedder CBE
Chairman

Sandton, 21 February 2005

Corporate citizenship

Corporate citizenship goes beyond legislative compliance. It recognises the rights and responsibilities of businesses within a broader societal context and, therefore, it is concerned not only with any company's economic contribution but also with its social and environmental impacts. These factors are an indicator of how effectively and ethically the company manages its operations, employees, and employment practices.

Citizenship thus focuses on how companies relate to external stakeholders, to the marketplace, to government and to the community, and on how obligations are met to help all citizens become meaningful economic participants.

Group human resources

Labour relations

Group-wide, sound relationships with recognised unions and employee representative forums continued to be sustained. The chemical industry's labour relations environment developed and matured further. Successful utilisation of the National Bargaining Council for the Chemical Industry (NBCCI) for collective bargaining and resolution of disputes was evidence of this. Challenges being met jointly by employers and labour in the NBCCI include formal definition of the industry's bargaining unit and extension of bargaining council jurisdiction over non-party employers. The latter are exempt from centrally negotiated wage and service condition agreements and levy payments. Extension of the NBCCI's jurisdiction is considered important for reasons of employment equity, improvement of working conditions and competitive fairness.

Employment equity

Legislation in this regard, challenging traditional skill and employment patterns in South Africa, continues to require unprecedented levels of consultation and consensus between management, employees and employee representatives. Gradual but recognisable transformation of ethnic and gender representation was evident in the skilled, specialist and management occupational levels of the AECI Group.

All Group companies submitted annual employment equity and income differential reports to the Department of Labour. As a result of continued restructuring and retrenchments in some businesses, the employment equity focus shifted from external recruitment to development and growth of in-house talent.

Skills development

Close attention was paid by management and labour representatives to meeting the challenges of accelerated employee growth and development, as set out in the Department of Labour's National Skills Development strategy. In terms of the Skills Development Act, incentives are offered to employers who systematically train and develop their personnel.

Various AECI programmes have been registered with the Chemical Industries Education and Training Authority (CHIETA), the industry-specific Sectoral Education and Training Authority relevant to AECI. In line with the Skills Development Act, a number of employees are enrolled in learnerships or skills programmes at various National Qualification Framework (NQF) levels. These include:

- 57 team coordinators and technical operators from Chemical Services who are participating in Adult Basic Education Training (ABET)
- a pilot site registered by Dulux for Investors in People Standard accreditation, in partnership with the CHIETA. This programme aims to better align people training and development, and business performance
- receipt by AEL of full CHIETA accreditation for chemical operator, chemical fitter, electrician and instrumentation learnerships. The first NQF intake completed its training during the year and 18 unemployed learners began their next level of training in July 2004
- implementation or sponsorship by AEL of locomotive and truck driving learnerships in the field of procurement. Other learning activities undertaken in 2004 included the team manager development programme, the technical operator development programme and explosives technology courses. In total, 60 learners benefited.

SANS Fibres developed an in-house performance management and development system, whereby key deliverables are identified for each job as is the appropriate management process required to achieve these. The process is complemented by an integrated objectives management system and performance review process, the overall aim being the alignment of company objectives at all levels of the business.

Among several other training initiatives at SANS Fibres, computer-based training continued to be used to good effect for numeracy and literacy training. The company played a leading role in a R7.5 million ABET project. This project was initiated by and funded through the National Skills Fund and was managed by the Clothing Textile Footwear and Leather Sector Education and Training Authority.

Ten students pursued their studies with merit-based bursaries awarded by Chemical Services in relevant fields of chemistry and applied technology. Four of them completed their courses and took up employment in the company.

HIV/Aids

Progress

Meeting the unprecedented threats posed by the HIV/Aids pandemic in a positive and supportive manner has required cooperative effort from many sources. Management, healthcare professionals, labour representatives and a number of dedicated employee volunteers have cooperated in an exceptional manner to address the wide-ranging and tragic effects of the pandemic in AECI's employee community.

Ongoing education programmes in the workplace have contributed to greater awareness among employees. Awareness of the HIV virus, its progression to Aids, and alleviating the HIV/Aids stigma in the workplace continued to underpin Group programmes. Peer educator training continued via accredited training facilities. Gaps in employee knowledge, attitudes and perceptions continued to be monitored and addressed through knowledge, attitude and practices surveys.

Voluntary HIV counselling and testing (VCT) are integral to HIV/Aids prevention and management strategies. One-on-one counselling on individuals' behaviour and exposure to risk facilitates the behavioural changes necessary to prevent the further spread of infection. VCT in AECI businesses is confidential, with pre- and post-test counselling being provided. HIV positive individuals are referred to their preferred health care providers for follow-up and treatment. Via the AECI Medical Aid, infected employees and their registered dependants have access to full disease management programmes, including ART treatment where this is medically advised.

HIV/Aids in the chemical industry

HIV/Aids is seen as a business, social, ethical and legal issue. To mitigate its impact, the CHIETA has developed a multi-pronged programme to support stakeholder companies in managing HIV/Aids in the workplace. Levy-paying CHIETA members were invited to participate in a pilot project that entailed a skills transfer strategy. An independent service provider consulted with companies and, concurrently, facilitated skills transfer to on-site HIV/Aids coordinators. The programme included:

- HIV coordinator training, covering clinical, legal, social and cost impact issues
- a cost impact assessment of HIV/Aids on the workplace
- a compliance audit of the company's policies and procedures
- facilitation of strategy development, and
- the development of programme monitoring and review systems for the workplace.

Several HIV/Aids coordinators from across the AECI Group completed the programme.

Corporate social responsibility

Corporate social responsibility reflects a company's contributions to society and the community that are extraneous to its regular business activities, regardless of whether these inputs are monetary or based on resources or time. As such, it is an important element of corporate citizenship. Strategically, the Group's philosophy includes:

- participating in the creation of learnerships across a broad skills-base, such as are currently available from the different SETAs, leading to sustainable small and medium enterprises that enhance economic empowerment
- contributing to the development of South Africa's people, beyond the needs of sectors in which the Group operates, and
- developing these projects to create self-sufficiency, thereby empowering people in the longer term.

Group companies are encouraged to engage with their local communities with regard to social development, educational and environmental initiatives. Examples of these are the ongoing Ezimbokodweni schools upliftment programme in the Umbogintwini area, support for the Alexandra Education Committee in Gauteng and annual participation in community-based projects, including the schools-based Captain Crimestop initiative.

In 2004, good progress was made in the skills-based and social upliftment projects detailed in 2003's annual report. For example, the beaded dolls, pictures, sculptures and other curios made by women at the Monkeybiz NGO were exhibited in galleries in South Africa as well as in New York, Italy and Sweden. Additional examples of projects being supported by AECI include:

Kuka project

This handcraft training and production project adds to tourist attractions in the Cullinan area, near Pretoria, whilst providing residents of the Refilwe township with an opportunity to learn new skills and earn an income. The project focuses on weaving, knitting, crochet, embroidery and sewing of home décor products and fashion accessories.

Thambani

Thambani was established in 1995 when a small group of Venda women started embroidering scenes from their folktales. For some, this is the only source of income in an area where job opportunities are virtually non-existent. AECI identified the project as an opportunity not only to assist in alleviating severe poverty but also as a means of keeping traditions alive. Subsequent to AECI's initial involvement, the women's work has gained exposure and popularity locally and abroad, and will be exhibited in the USA in 2005.

Sparrow Schools: Sparrow job creation initiative

Continuing its long association with Sparrow Schools, AECI became more involved in the Sparrow job creation initiative in 2004. The initiative aims to empower disabled young people and the unemployed through skills training, sheltered and contractual employment. The initiative provides free training in a variety of skills such as beading, sewing, packaging, soap making and fabric painting. Qualified trainees are encouraged to share what they have learnt with their communities and to use their new skills to supply Sparrow with saleable goods and services.

Business against Crime/Edenvale Police Station

BAC's Support Partnership for Police Stations programme continued to strive for improved service delivery at local level, in an entrepreneurial manner. In 2004, the focus shifted to the core business of the South African Police Services (SAPS) and the efficiency of the policing process in terms of absenteeism, response times, docket integrity, investigation cycle time, and detection rates.

The objective of the partnerships is to transfer skills and build capacity within the SAPS, thereby enabling members to render an improved service. AECI's contribution has included the funding of relevant courses not only for SAPS members but also for reservists and volunteers.

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, 21 February 2005

AECI

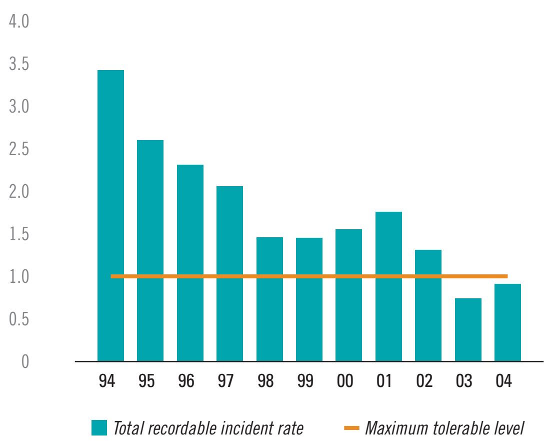
Standards

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. AECI revised its standards and updated its requirements for the Letter of Assurance in 2004 to enhance the quality of reporting.

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 the number of health and safety incidents per 100 employees working for a year. All work-related injuries and illnesses, beyond an initial first aid treatment, are recorded. Having again reviewed the performance of major international companies, AECI concluded that a TRIR of 1.0 continues to represent an appropriate target against which to judge its performance. This will be the subject of ongoing review.

TRIR – AECI employees



A disappointing TRIR of 0.91 was recorded for 2004 which, despite being below the maximum tolerable level, shows deterioration from 2003's TRIR of 0.74. The Group had a particularly poor last quarter with almost 50 per cent of the year's non-lost time incidents in this period. The majority of incidents were attributable to unsafe acts. Injuries from falling, using moving machinery in an unsafe manner and handling objects incorrectly dominated the incidents reported. Notwithstanding the concerns raised in the previous year and subsequent management focus on the issue, the TRIR for contract workers remained of concern at 1.68 (2003 – 1.39). This represents 25 recordable contractor injuries. Regrettably, one of these involved a fatality when a contractor delivering Group products died as a result of a road accident. Clearly, even more attention to the safe working practices of contractors will be required in 2005.

There were no site-based fatalities.

TRIR performance by company

	AECI employees	Contractors	Combined
AEL	0.68	0.84	0.70
Chemical Services	1.47	3.88	1.74
Dulux	0.29	3.18	0.63
SANS Fibres	0.90	1.33	0.98
AECI Group	**0.91**	**1.68**	**1.02**

Causes of injuries and occupational health incidents

	Lost time	Non-lost time	Total
Explosion	2	2	4
Chemical exposure	0	4	4
Chemical burns	4	7	11
Injuries from falling	10	1	11
Injuries from moving machinery	8	7	15
Injuries from handling objects	6	6	12
Injuries from handling tools	3	4	7
Injuries from lifting objects	3	1	4
Noise-induced hearing loss	0	3	3
Heat stroke	1	0	1
Road accidents – Company business	4	1	5
Total	**41**	**36**	**77**

Cost of safety and occupational health incidents

The Group continued to monitor the costs of incidents in an attempt to quantify the cost of failure more accurately. In 2004, the direct cost of the injuries listed amounted to R1.6 million (2003 – R750 000).

Safety, health and environment (SHE) (continued)

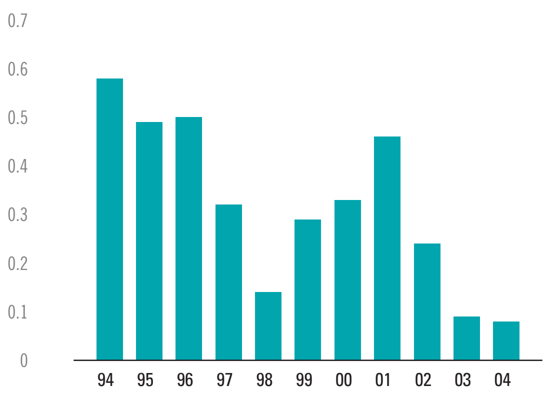
Occupational illnesses

The pleasing trend set in recent years continued. However, two allergic dermatitis and two irritant dermatitis cases were recorded and three employees suffered noise-induced hearing loss. The irritant dermatitis incidents resulted from employees handling chemicals without the specified personal protective equipment. Both cases of allergic dermatitis were caused by a reaction to latex in gloves used by laboratory personnel. Group-wide, the use of alternative protective gloves is being actively encouraged.

The most common cause of noise-induced hearing loss is the lack of employees' understanding of the long-term consequences of not wearing the required protection, coupled with a lack of discipline in enforcing the protection rules.

In 2004, procedures were updated and reissued for audiometric testing during pre-employment, pre-placement and in regular medical surveillance examinations. These measures should assist in identifying the early signs of hearing impairment.

Occupational illness rate – AECI employees



Health promotion

Comprehensive occupational health programmes, dealing with the handling of a broad range of chemicals, noise and ergonomic issues in the workplace, are in place across the diverse AECI Group. These services are provided by occupational medical practitioners, occupational nurses and occupational hygienists. The Group Medical Adviser provides guidance and advice as required.

In addition, voluntary free and confidential basic medical examinations are also provided to employees at no cost. The objectives are to promote a healthy lifestyle and to detect common health problems at an early stage. Nursing and medical staff provide advice and follow-up on any concerns.

The Group's policies and practices for HIV/Aids are discussed elsewhere in this annual report.

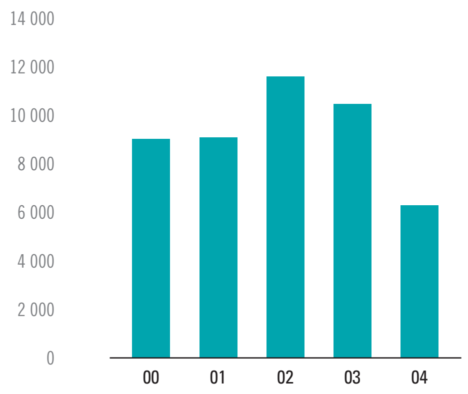
Environmental performance

Hazardous waste

A substantial reduction in the year-on-year generation of hazardous waste was achieved. Contributing factors were:

- an overall increase in awareness, resulting from the Group's drive for its businesses to achieve ISO 14001. Coupled with this was better discipline in dealing with routine and "once-off" waste arisings
- reclassification of waste from the Inorganic Effluent Treatment Plant at the Umbogintwini site, south of Durban, to non-hazardous. Declared waste thus decreased from 705 tons to 31 tons. The sustainability of this reclassification, which is largely beyond AECI's control, is being reviewed by all businesses at the site
- closure of packaged explosives manufacture at Modderfontein contributed in large measure to AEL's 500 ton reduction, and
- Dulux's decision to increase its presence in the water-based paint market.

Hazardous waste (t/year)



Non-hazardous waste

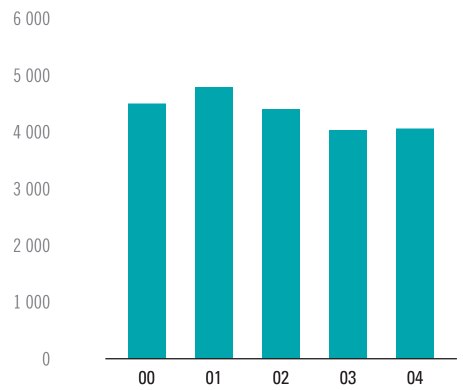
Arisings totalled 26 650 tons (2003 – 35 240 tons), reflecting reduced usages of coal and a reduction of 5 000 tons year-on-year in respect of demolitions at AEL in 2003.

Wherever possible, wastes such as coal ash, metal and paper are recycled Group-wide.

Water

Water savings at SANS Fibres and Umbogintwini Operations Services (UOS) were offset by increased usages at AEL and Dulux. AEL's increase was due to temporary operational problems, which prevented the use of recycled water, whilst the Dulux increase was due to increased volumes of water-based paint.

Water usage (Mℓ/year)

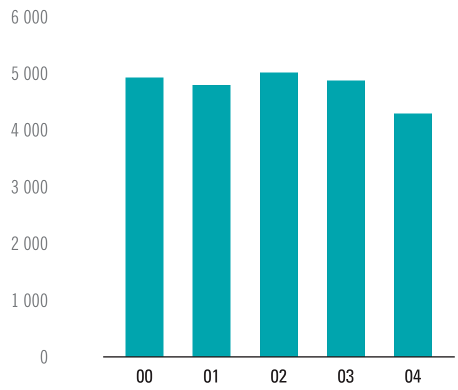


Energy

Usage at 4 286 TJ was down from 2003's 4 875 TJ. Contributing factors included a reduction in coal usage and electricity consumption due to the closure of specific plants within the Group. The electricity consumed by the outsourced supplier of steam to SANS Fibres has been included in the figures above.

As in the case of hazardous waste generation, improvements in energy usage were underpinned by greater awareness Group-wide, in line with ISO 14001 aspirations, and by the focus on per ton usages. This is discussed in more detail later.

Energy usage (TJ/year)



Environmental targets

Since 2003, the performance of all Group businesses has been monitored in terms of usages of energy, water, and waste generation per ton of production. Whilst this is useful for better monitoring of environmental performance at local level, it does not necessarily translate into meaningful AECI Group targets owing to the highly diversified nature of the Company's product mix. This problem notwithstanding, AECI has developed "ranges" within which energy and waste are being evaluated at business level. Opportunities to present consolidated data for the Group as a whole continue to be sought.

Environmental incidents

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

One site emergency plan was activated. This occurred at the Umbogintwini site but the impacts of the gas emission were contained within the site's boundaries.

Safety, health and environment (SHE) (continued)

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. It is gaining increasing recognition in terms of reporting from a sustainability perspective. 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 was 4 070 tons of sulphur dioxide equivalent, up from 3 730 tons the previous year. The increase is attributable largely to more diligent reporting.

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 2004, AECI had an EB of 339 320 tons of CO_2 equivalent (2003 – 361 500 tons), reflecting the lower usage of coal.

Marine effluent pipelines at Umbogintwini

UOS, an AECI company, operates a pipeline that discharges to sea off Umbogintwini. Huntsman Tioxide operates a second pipeline that discharges close to the UOS outlet. The two companies cooperate closely to identify and minimise negative impacts of these outfalls. 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's results showing particularly significant year-on-year improvements. In 2003 the results indicated the presence of metals as significant ecological factors. Coincident with this finding was evidence of a drop in the numbers of species per sampling site, indicative of a loss of species less tolerant of their environment. At the time it was postulated that this change had been brought about due to flooding in the Umbogintwini area and the washing of soil from the land to the sea. The 2004 study largely confirmed this hypothesis. There is clear evidence that, due to the action of strong underwater currents, the sea bed has returned to normality. Sea life in and around the pipeline continues to grow both in terms of the number of species and their density.

Since Huntsman Tioxide upgraded equipment and systems associated with its pipeline, incidents of effluent-related sea discolouration have shown a dramatic decline.

Land remediation

The focus remained on ensuring the legislative compliance of the Group's older manufacturing facilities and on the release of land for potential alternative use. Expenditure was thus concentrated at Modderfontein, Somerset West and Umbogintwini.

Expenditure on land remediation totalled R16 million. At year-end, the Group provision for the future remediation of soil and groundwater was R149 million.

ISO 14001

This internationally accepted standard assists companies in managing production plants such that environmental impacts are better understood, and thus minimised. AECI had set end-2004 as the deadline for its implementation at all major sites. Seven businesses in the Chemical Services group met the deadline, as did UOS. Dulux is on course for a listing in the first quarter of 2005, with AEL following in the third quarter of the year. SANS Fibres is aiming to achieve an "internal certification" by the third quarter. Owing to the nature and requirements of markets served, this business has no current plans to seek formal certification. AEL has also commenced ISO 14001 implementation at its African operations.

"Responsible Care"

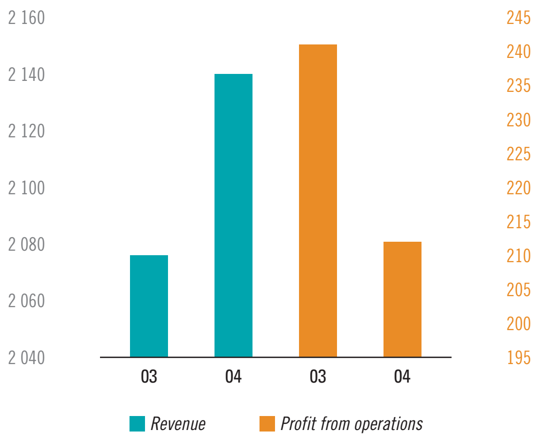
"Responsible Care" is a public commitment to continuous improvement in SHE-related matters. AECI is a founding member of this initiative in South Africa. Group companies cooperate closely with the Chemical and Allied Industries' Association (CAIA), reporting against "Responsible Care" protocols and enhancing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

Review of operations

Mining solutions

A solid performance was recorded and strategies in place will be rewarded in 2005 and beyond.

Financial performance (Rm)



African Explosives Limited (AEL)

Amid challenging economic and market conditions, AEL continued to progress its strategy to be the lowest cost, best quality supplier of blasting solutions in South Africa and in Africa as a whole. The company concentrated on value-adding operational projects and on new service offerings to compete with imports.

Financial performance

In a difficult environment sales of R2 140 million were achieved, a 3 per cent increase on 2003. Factors constraining sales included a 7 per cent decline in gold mining volumes, mining industry strikes in the second six months, competition from imports, lost market share in Zimbabwe, a slowdown on new projects in the platinum sector, and the strong rand. These negative effects were partly offset by gold mining growth in Ghana.

Excluding a R33 million restructuring charge, fixed costs were well contained. Operating profit of R212 million was 12 per cent less than 2003's R241 million, with operating profit to sales declining from 12 per cent to 10 per cent. Actual operating profit, before the restructuring charge, was R245 million.

Capital expenditure totalled R149 million and average working capital to sales was contained at a most pleasing 16 per cent, compared with 18 per cent the previous year.

Operations

The transformation of manufacturing operations at Modderfontein continued and, by year-end, good progress had been made towards creating a world-class facility. Projects included the overall upgrading, modernising and automation of detonator manufacturing, construction of new Anfex* and bulk plants, upgrading of mobile manufacturing units, new magazines off site, and shrinking of the operational "footprint" as a result of packaged explosives manufacture being outsourced.

Difficult market conditions were exacerbated by competition from low cost imports from China. In response, AEL launched a new shock tube product to compete directly with these. Additional achievements were cost control, quality improvements and waste reduction. These were handled successfully, with the first phase of related projects completed and the second phase scheduled for 2005. The company maintained its near perfect "on time in full" delivery record, whilst product quality improved across the whole portfolio.

In pursuit of cost competitiveness, a proactive decision was taken to rightsize the business from a personnel perspective. The staff complement was reduced by 15 per cent and although this resulted in an understandable yet temporary drop in morale, the process was completed without disruption and overall good relations with unions were maintained.

Economic empowerment

The change in AEL's ownership was arguably the most significant event of 2004. Effective 1 July, an economic empowerment consortium, led by the Tiso Group, acquired 25.1 per cent of AEL from AECI Limited for a cash consideration of about R401 million. As a result of the transaction, the AECI Group, via AEL, became the first empowered supplier of explosives, initiating systems and services to South Africa's mining industry.

AEL's customer base is dominated by the South African and African mining industry. Domestically, this industry has adopted the Mining Charter and, as a major supplier, AEL wished to strengthen its relationship with its customers by ensuring compliance with their preferred procurement requirements. The transaction with Tiso meets this objective.

From left: Piet Halliday, Cyril Gamede, Graham Edwards, Colin Rilley, Gys Landman, Danie Richards.

AEL's executive committee

Piet Halliday (52)
Piet joined the company in 1980 after he had completed a PhD in the synthesis of high-energy sensitisers for explosives. As director: products, research and technology, he has overall responsibility for the technical aspects of AEL's products worldwide. He is also responsible for the product management function.

Cyril Gamede (41)
He is operations director, appointed to this position when he joined AEL in 2002. He has an MSc (Eng) degree and a qualification in labour law. Cyril's background and experience are in engineering, projects, manufacturing and operations.

Graham Edwards (50)
Managing director. See page 19. Within the Group, Graham is also a non-executive director of Chemical Services.

Colin Rilley (53)
He is an executive director of AEL, responsible for the company's strategic projects. He joined the AECI Group as a laboratory assistant in 1969 and his qualifications include a BCom and a Master's degree in business leadership.

Gys Landman (43)
His qualifications include a PhD (Eng) and degrees in business management and economics. Prior to joining AEL in 1984, Gys had lectured at the University of the Witwatersrand, and had gained extensive experience in production management in the mining industry. At AEL, he is executive director: markets.

Danie Richards (42)
A Chartered Accountant with an Honours degree in accounting, Danie is AEL's financial controller. He joined AECI as Group accountant in 1992 before moving to AEL. He then spent four years overseas in ICI's businesses before returning to assume his current position in 2001.

DetNet

Christopher "Tiff" Whitehose (40)
He is chief executive officer of DetNet. With degrees in engineering and commerce, Tiff joined AECI as a process engineer in 1988. He was managing director of Nitrogen Products, tasked with shutting Modderfontein's chemical business as part of AECI's transformation, and was a director of AEL prior to the DetNet joint venture being implemented.

AEL's non-executive directors from left: David Adomakoh (executive director of the Tiso Group), Mark Dytor, Nkululeko Sowazi (executive director of the Tiso Group), Neale Axelson, Schalk Engelbrecht.

Owing to the nature of its business, AEL sought an empowerment partner with knowledge of and relationships in the mining industry, and with an understanding of the dynamics of the mining services industry. Tiso has stated its intention to focus on these areas. It already operates in the natural resources, financial services and industrial services sectors. The transaction, therefore, satisfies the strategies of both parties and provides a stable platform for a long-term partnership.

The Tiso Group is 20 per cent owned by the Tiso Foundation, a public benefit organisation that aims to ensure broad-based equity participation in Tiso beyond its management and employees. This base was expanded with the establishment of the AEL Community Development Trust as part of the empowerment transaction. The trust is a shareholder in the business and this has increased further the effective participation of broad-based shareholders. The trust's focus will be on deploying income from the AEL investment in support of communities where the majority of AEL's employees live, principally Tembisa and Alexandra.

Outlook

AEL's performance for 2004 remained solid, notwithstanding a difficult business climate, and would have been more impressive had it not been for additional costs associated with restructuring.

The company remains confident that its strategies, focused on adding value not only to its customers but also to the mining and mining solutions sectors as a whole, will be rewarded in 2005 and beyond.

DetNet

In December 2003, it was announced that a joint venture (JV) with Dyno Nobel ASA of Norway would be formed, aimed at establishing the international leader in the design, production and sale of specialised electronic detonators. An independent DetNet JV was duly established, with operating companies in Ireland and South Africa. For AECI, therefore, 2004 was a key year for the Group to begin realising the benefits of its past investment in electronic initiation systems (EIS) research and development.

The technologies of both companies were transferred successfully into DetNet and the JV was implemented without disruption to the continuity of the business. Good progress was made on technology development and exports of the HotShot* product began late in the year. Building on this, it is expected that a range of EIS products will be distributed globally in 2005.

The increase in demand for and acceptance of these hi-tech products by the mining industry in all parts of the world has exceeded expectations and their continued growth and success in Africa demonstrates long-term market viability.

With an established technology base, improved positioning of its product range, a global market and excellent distribution channels, driven by strong shareholder support, DetNet is well placed for 2005.

* Trademark

Specialty chemicals

Chemical Services Limited

Across the Chemserve group, companies continued to find ways to grow.

Financial performance (Rm)

Chemical Services

The specialty chemical operations of AECI are consolidated in Chemical Services (Chemserve). Chemserve's success has been built on its proven formula of managing specialist business units that are service driven, have an intense customer focus and add value to their customers via their products and services.

Each business operates as an autonomous entity, concentrating on its area of expertise. Traditionally, Chemserve's technology has been sought from global partners, with the group operating under licence in specified territories, mainly sub-Saharan Africa. In recent years, Chemserve has also developed its own application technologies and approach for certain industries and the group will be seeking to broaden its geographic reach in these markets. Historically, Chemserve's growth has been both organic and as a result of acquisitions and merger activities. This trend continued in 2004.

Business environment

The 2004 financial year was characterised by the strong rand, low inflation and reduced interest rates. For the first time in a decade, product and raw material shortages were reported in a range of business sectors. Conditions were conducive to consumer spending, the construction industry and asset investment, and purchases of more affordable imported products. South Africa's economy as a whole benefited from this environment, although foreign exchange earners, particularly the manufacturing and mining sectors, had to concentrate on cost reduction and on formulating new business models to maintain their viability and growth. The Chemserve group has a large customer base in these markets and, with most customers having a domestic as well as an export base, Chemserve's own businesses had to undergo a review process to enhance or develop operations with an internationally competitive cost base.

Financial performance

Revenue for the year increased by 3 per cent, assisted by the full year contribution of Senmin and 100 per cent ownership of ImproChem. Volumes grew by 3 per cent and average selling prices by 1 per cent. Gross margins improved by 1 per cent as a result of excellent buying strategies and practices and solid manufacturing performances. The profit margin was maintained thanks to tight cost control. Cash generation was most pleasing, boosted again by improved working capital management. The working capital ratio in 2004 was half that achieved in the early 1990s.

Challenges

In addition to managing currency effects, Chemserve's key challenges were to complete the reinvention of AECI Coatings and to ensure that the group remains well placed for success in a changed economic environment.

Since early 2003, Chemserve's focus has been on profit margins, costs and continued growth. Had these issues not received close attention at the time, the group would have been severely affected by lower margins, in rand terms, and escalating South African costs. Careful buying, improved manufacturing efficiencies and processes, the consolidation of manufacturing sites, shared facilities and new customer service business models assisted in preserving margins and reduced the impact of domestic inflation. Working capital management reduced currency-related impacts.

From left: Trevor Street, Mark Dytor, Stuart Hughes, Frank Baker, Chris Povall, Chris Kotze, Alan Roth.

Chemserve's management team

Trevor Street (57)
He started his Chemserve career as a sales representative more than 28 years ago. Several management positions followed and he was appointed an executive director on the group's Board in 1991. Since 1997, he has served as chairman of a number of Chemserve subsidiaries.

Mark Dytor (43)
Having joined the Chemserve group as a sales representative in 1984, Mark 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 1993 and then of SA Paper Chemicals in 1996, which position he still holds.

Stuart Hughes (38)
He practised as an attorney before joining AECI's legal department in 1994 and then moving to Chemserve to take up his appointment as group secretary in 2001. Stuart is a BA LLB graduate and also has a Constitutional Litigation Certificate.

Frank Baker (51)
Managing director. See page 19. Within the AECI Group, he is also a non-executive director of SANS Fibres.

Chris Povall (47)
Chris joined the company seven years ago and is group financial manager. Prior to this, he had gained experience in the auditing field and had been financial director of a major media company. He has a BCom degree and is a qualified Chartered Accountant.

Chris Kotze (39)
Chris joined Chemserve's quality assurance department in 1990. He has held his current position as group information technology manager since 1998. His qualifications include a BSc degree and a diploma in Datametrics.

Alan Roth (61)
He has held a number of portfolios in the chemistry, technical and production fields since joining the group in 1968. An MSc graduate, Alan is currently general manager, technology and an alternate director on Chemserve's Board.

Specialty chemicals (continued)

AECI Coatings exited some business areas and closed manufacturing operations where raw materials are better sourced from global principals. By year-end, the company had finalised a portfolio of products and services for the automotive industry, supported by international technology suppliers to automotive manufacturers in South Africa. With this in place, and operating off a much lower cost base, AECI Coatings is expected to record a marked improvement in 2005.

Businesses

Across the Chemserve group, companies continued to find creative and pragmatic ways to grow. Industrial Oleochemical Products sustained its investment in higher value added derivatives from its range of commodity oleo chemicals and, consequently, survived downturns in the commodity cycle which would have been damaging in the past. The strong rand and technology sourced from a new provider in the East enabled the company to carry out a particularly cost-effective expansion.

Plastamid entered the specialised polypropylene compounding market, for the automotive industry, in partnership with Dow. This complements the highly successful relationship with DuPont in the area of nylon for the same industry.

ImproChem invested in a water treatment facility at Milnerton, Western Cape, to improve the quality of treated sewage effluent for industrial use at a local refinery. As a result of this project, municipal water previously required by the refinery has been released for domestic use by tens of thousands of households in the area.

Chemserve Systems consolidated its manufacturing operations at Chloorkop, Gauteng, as part of Chemserve's overall site consolidation plan. Lake International Technologies developed a new explosives emulsion technology which it has licensed to a partner who will market it in the USA. SA Paper Chemicals and Specialty Minerals South Africa (SMSA) both secured significant new business in the pulp and paper industry. SMSA is currently doubling its domestic capacity to meet this increased demand. Senmin and Pelichem operated as one unit, focused on providing specialty services to the mining industry. Their service model was well received at pilot sites and will form the basis for future expansion plans. The formal merger of the two businesses will take place in 2005 and will strengthen the basis for Chemserve's pursuit of additional growth in the mining services sector.

In 2004, Chemserve continued to build on its good record in terms of growing, in part, by means of acquisitions and mergers. Agreements were concluded, for a combined consideration of about R175 million, for Chemserve to acquire businesses in the general and agricultural chemical distribution arenas and in specialty phosphoric acid. First Chemicals already operates successfully within Crest Chemicals, UAP within Plaaskem from January 2005, and the Chemiphos transaction is currently awaiting approval from the competition authorities. A decision is expected in the first quarter of 2005. Several other opportunities for acquisitions were investigated during the year and some of these may yet be progressed in future.

Outlook

Chemserve will continue to focus on at least maintaining margins, reducing costs and pursuing growth in 2005. Specific areas for group attention in the year ahead will be mining chemicals and the water treatment sector. As always, individual companies will seek their own specific areas for expansion.

Indications are that the stimuli from lower rand prices, low inflation and lowered interest rates have outweighed the stresses imposed on the South African economy by a strong currency. The better than hoped for final quarter of 2004 for Chemserve bodes well for 2005 and the strong focus on margins and costs over the last two years will provide a solid platform for the business, notwithstanding currency effects.

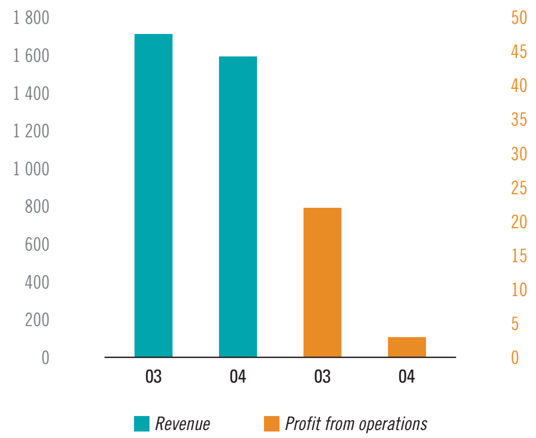
Recent acquisitions are expected to be earnings enhancing and some of the businesses that were restructured in 2004 should make a significant contribution to Chemserve's overall financial performance in the year ahead.

Specialty fibres

SANS FIBRES

SANS' recovery plan provides a clear strategy for restoring acceptable levels of financial performance.

Financial performance (Rm)



SANS Fibres

SANS Fibres (SANS) is a US dollar-based operation. Most of its sales into export and domestic markets are dollar denominated and all major raw materials are sourced in US currency. Consequently, the further strengthening of the rand as well as sharp escalations in raw material prices had a marked effect on the company's performance. In response to this, a strategy was finalised based on new product development, conversion efficiencies and cost reduction. Implementation had progressed in line with plan by year-end and an improving performance is expected in 2005.

Sales volumes increased by 5 per cent and, in US dollar (US$) terms, revenue increased by 8 per cent to US$247 million. Contribution to overheads decreased by 2 per cent to US$78 million, reflecting higher raw material costs and difficulties in adequately adjusting selling prices. In rand terms, revenue decreased by 7 per cent whilst contribution decreased by 16 per cent.

The benefits of the restructuring programme launched in 2003 were evident in a R60 million year-on-year decrease in fixed costs. However, this was insufficient to offset adverse trading account variances, and operating profit before exceptional items decreased from R22 million in 2003 to R3 million.

Markets

As in 2003, growth was evident in the strategically important nylon light decitex industrial (LDI) sector and this trend is expected to continue. Sales volumes increased by 8 per cent, due mostly to the improved performance of the joint venture plant at Stoneville, USA, where contribution margins in US$ terms were significantly better, owing to enhanced plant performance and conversion efficiencies. The business successfully increased its prices to offset higher nylon polymer raw material prices.

In polyester markets, LDI volumes remained static due to capacity limitations at SANS' Bellville operations and some increase in competitor activity. Future growth will be contingent upon investment in additional spinning capacity, via the conversion of existing assets.

US$ contribution margins from LDI polyester declined sharply as a direct consequence of escalations in raw material prices. Input costs for polyester polymer increased by more than 50 per cent during the year and it was not possible to pass on the full increase to customers. The effects of this were compounded by currency issues.

There was good growth in heavy decitex industrial (HDI) polyester yarn sales, with volumes up 11 per cent. After several years of oversupply in global markets, the supply/demand balance tightened significantly and resulted in better prices. Particularly encouraging was the higher demand in domestic markets, with downstream customers increasing their volumes for higher value added indirect exports.

Rapid growth in local and international polyethylene teraphthalate (PET) packaging markets continued. SANS' Bellville PET plant remains fully occupied, with sales to the South African market steadily replacing capacity-filling exports. Selling prices were adjusted to match increased raw material inputs, allowing contribution to overheads to increase by some 6 per cent in US$ terms. Notwithstanding negative currency effects, rand denominated operating profit for PET remains satisfactory.

Specialty fibres (continued)

From left: Brad Page, Gerhard van Niekerk, Samir Mukhopadhyay, Thys Loubser, Denver Dreyer.

SANS' senior management team

Brad Page (41)
In 2004, Brad took up his position as business director. He joined SANS as a process engineer in 1987, working in the areas of product and process development, capital projects and production management. After a two-year break with an international company, he returned to SANS in 2001 as manufacturing director. In 2003, the responsibility of leading the manufacturing team towards world-class status was added to his portfolio. Brad is a BSc (Chem Eng) graduate of the University of Cape Town and has also completed that university's Executive Management Programme.

Gerhard van Niekerk (35)
Having joined AECI in 1994 as an accountant, Gerhard subsequently worked in the accounting field within Group companies before moving to AECI Coatings as financial director in 2000. He transferred to SANS as financial executive in 2004. He has a BCom (Hons) degree and is a registered Chartered Accountant as well as a registered Management Accountant.

Samir Mukhopadhyay (47)
A physicist and fibre scientist by education and training, Samir's numerous qualifications include a PhD in fibre physics from the University of Manchester Institute of Science and Technology. He has worked as an academic and has consulted widely to private business and other bodies including the United Nations. The youngest recipient of the prestigious SG Smith Memorial medal for internationally recognised work on nylon and polyester fibres, he has published 110 research- and technology-oriented papers in European and American journals. Samir joined SANS in 2004 as head of research and technology.

Thys Loubser (51)
Chief executive. See page 19. Within the Group, he is also a non-executive director of Dulux.

Denver Dreyer (29)
He was appointed manufacturing executive in 2004. Having joined SANS in 1997 as an engineer-in-training, he worked in several engineering and project management positions. Prior to his current position, Denver was site engineering manager for the company's Bellville facility. He has a BSc (Elec Eng) degree and has completed the University of Cape Town's Executive Development Programme.

Operations

In addition to the financial benefits of restructuring already referred to, plant operating performance and conversion efficiencies also continued to improve. Better raw material conversion led to cost savings in excess of R12 million, customer claims were at an all-time low and high standards in safety performance were maintained.

In a major environmental improvement initiative, steam-raising requirements for Bellville were outsourced. In the process, the site's coal-fired steam boiler was replaced by an electrically heated plant that has a far superior performance in terms of gaseous emissions. In addition to the obvious environmental benefits, some positive financial advantages will also accrue.

Joint venture

SANS' joint venture investment in the USA continued its dramatic improvement in performance. The focus on enhanced plant operating procedures resulted in plant output and sales increasing by 1 400 tons to 5 400 tons. A 46 per cent gain in contribution was achieved and, at operating profit level, the US$2.9 million loss in 2003 was reduced to a loss of US$0.4 million, with a profit forecast for 2005.

Recovery plan

The ZAR/US$ exchange rate's impact on SANS' recent financial performance cannot be overstated. Through restructuring and enhanced operational efficiencies, SANS' breakeven point on the ZAR/US$ exchange rate curve has been lowered from 7.60 in 2002 to 6.10 for the 2005 financial year. These interventions notwithstanding, the sustained strength of the rand has required additional strategies to restore SANS' profitability. The recovery plan, launched in 2004, comprises three main elements:

Volume growth and product mix

Opportunities for further organic growth in nylon and polyester LDI markets exist in the sewing thread sector, SANS' predominant market for LDI products, and in new end uses. Penetration of new markets requires more technically demanding products. In this regard, the strengthening of SANS' technological capability through the recruitment of international experts is yielding results. Several new product lines are at an advanced stage of development and, in some instances, trials are under way with potential customers. Benefits in terms of sales and profit should begin to emerge in 2005.

Importantly, only moderate capital expenditure will be required to achieve targeted volume growth. Additional volumes will flow from filling spare capacity, switching plant-filling marginal exports to strategic products, improving asset utilisation and, where essential, through judicious capital outlays. The most significant capital cost will be the conversion of certain existing assets to polyester LDI production.

In polyester HDI, the focus will be on product mix rather than volumes. The technology effort to develop higher value added products, such as the Colorcord* range, is beginning to show results and, over the next three years, higher value added products will displace commodity yarns. SANS will continue to include the latter in its product offering through its trading operations.

The company is well placed to increase output to meet growing demand in the domestic PET market. The original plant, mothballed when the new facility was installed in 2000, can be recommissioned at minimal cost although feedstock will require de-bottlenecking upstream. A plan for this is in place and will be implemented when appropriate, with significant benefits for SANS' financial performance.

Asset utilisation and operational efficiency

Further improvements in asset utilisation and productivity are imperative for cost efficient volume growth in LDI yarns. This work will involve a multi-disciplinary technical team and objectives include increasing the capacity of selected assets through appropriate machine upgrades and product improvements to increase process speeds.

Significant progress already made in improving raw material to finished goods conversion efficiency will be built on.

Operating cost performance

Subsequent to restructuring, opportunities for further savings have been identified. Actions to effect these are in progress and the benefits will be realised in 2005/6.

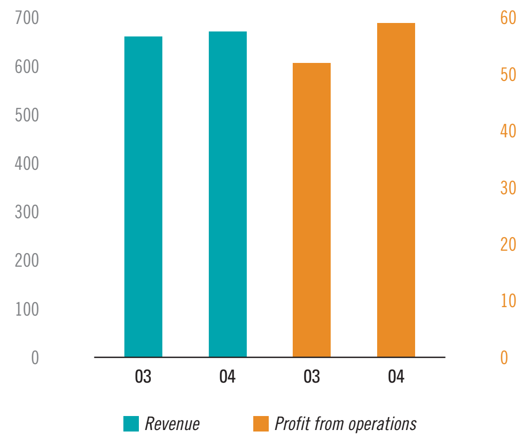
SANS' recovery plan is a three-year programme. Whilst its benefits may not be discernible in the immediate future, it provides a clear strategy for restoring the company to acceptable levels of financial performance in a stronger exchange rate environment.

* Trademark

Decorative and packaging coatings

Thanks to the South African business, a most pleasing improvement in overall performance was achieved.

Financial performance (Rm)



Dulux

Dulux is a purely decorative paint company in South Africa with operating subsidiaries in Botswana, Malawi, Mozambique, Namibia, Swaziland and Zimbabwe.

The pleasing improvement in overall performance was entirely attributable to the South African business where sales and volumes grew, margins improved and costs continued to be tightly controlled.

Strategy

Decorative paint markets offer a variety of products to end users in the DIY and home improvement sector as well as to contractors in the construction industry. The product range is broad and varies from low performance commodity-style products to high performance branded products for discerning users and specialist applications.

In South Africa, Dulux focuses its marketing effort on the higher quality Dulux* branded lines. These are supported by mid-range lines in the Rockgrip* and Bergermaster* brands, thus ensuring that customers in the retail sector are, in turn, able to offer a complete range of products to their customers.

Building the Dulux brand and growing the sales of Dulux branded product lines is a critical part of the business strategy. Ongoing consumer research shows that Dulux remains the most recognised paint brand in South Africa, a position which is supported by a dynamic and award-winning advertising campaign. This research guides much of the product development work and 2004 saw the launch of a new range of fashion colours in the leading product lines of Dulux Wash 'n Wear*, and Dulux Weatherguard*, as well as a range of innovative new products, such as water-based Woodguard*. New and up-to-date products are an essential element of any leading consumer brand, such as Dulux.

Growth

During the year a long-term marketing and technology support agreement was concluded with ICI Paints, owner of the Dulux brand in most countries and the world's largest decorative paint company. This enabled Dulux to include two of ICI's new products in its 2004 launch. These are Magic White*, which is pink when applied and dries white, and Once*, a single coat, water-based, child-friendly trim paint. Substantial further benefits are expected to flow from this agreement in the years ahead.

Dulux continued to expand its presence in retail markets, with a strong position in paint specialist stores and significant growth in upmarket hardware stores, as well as in national chain stores. This resulted in pleasing volume growth in key branded lines and should continue to deliver volume growth in 2005.

The aerosol plant and business in underground marking paint for the mining industry were sold to an empowerment company. This company continues to pack Ducospray*, Dulux's decorative aerosol products.

Subsidiaries in other African countries saw little growth, other than for the business started in Namibia. Whilst these territories are the company's logical growth area, their markets are small by South African standards. Therefore, expansion will be guided by the size of opportunity and the availability of resources, rather than by any strategic imperative.

Packaging Coatings SA

The smaller component of this sector continued to deliver a most pleasing performance and is expected to grow in 2005 by implementing its strategy to broaden the product range offered to customers.

* Trademark

From left: Gary van der Merwe, Mike McDermott, Prejay Lalla, Rae McGraw, Penny Reed, Rakesh Sithu, Charles Betts.

Dulux's management team

Gary van der Merwe (42)
When he joined the company in 2001, Gary brought with him management experience in disciplines such as projects, production, logistics and general business. He has qualifications in engineering and business management. He was Dulux's operations director before taking up his current position, in 2003, as director of foreign operations.

Mike McDermott (46)
Before joining Dulux as financial director four years ago, Mike had gained experience in diverse industries including cement, catering, and food and beverages. He is an Associate Chartered Management Accountant.

Prejay Lalla (35)
A BSc graduate in mathematics and chemistry, he joined Dulux's research and development department in 1991. He then broadened his experience in various disciplines in the company, including marketing. His other qualifications include a Master's degree in business leadership and a marketing management diploma. He took up his current position as sales director in 2003.

Rae McGraw (41)
She is marketing director and has held this position since joining Dulux in 2000. Prior to this, she had gained experience in the research, pharmaceutical and FMCG sectors. Rae's qualifications are diverse and range from an MBA to a degree in applied music from Auburn University, Alabama, USA.

Penny Reed (41)
A graduate of the University of Natal, with majors in industrial psychology and industrial sociology, Penny moved to Dulux in 1997 after having worked at SANS Fibres for seven years. She is company human resources manager, with experience in all aspects of the human resources function.

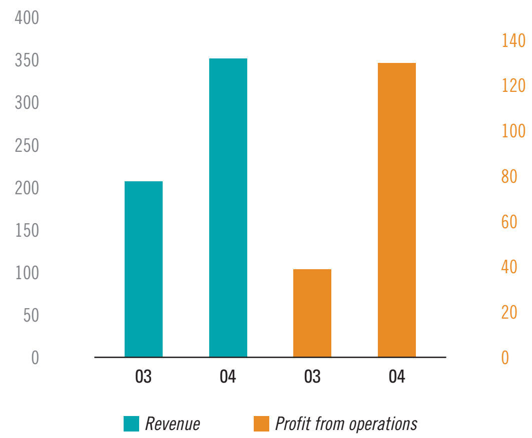
Rakesh Sithu (37)
With BSc (Chemistry and Biochemistry) and MBA degrees, Rakesh is operations director. He joined Dulux as a graduate chemist in 1991 and then gained experience in technical, manufacturing and executive management functions. He was appointed to his current position in 2003.

Charles Betts (56)
Managing director. See page 19.

Property

Outstanding results were achieved in 2004 and a strong, albeit lower, result is expected in 2005.

Financial performance (Rm)



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. Outstanding results were achieved in 2004, with record operating profit of R130 million and net cash flow of R270 million. Revenue from sales of some 340 hectares of property exceeded R270 million whilst gross income on leased assets increased to more than R80 million, compared with R73 million the previous year.

Following a further reduction in AEL's operating footprint at Modderfontein, Heartland has responsibility for some 2 600 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 2004.

At Modderfontein the Longmeadow Business Estate again attracted strong demand in the industrial market and Extensions 4, 5 and 6 of the development were sold out in 2004. Since sales commenced five 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 7 and 8 of the development will be launched in 2005.

Also at Modderfontein, sales of land for residential use gathered pace at Greenstone Hill whilst the sale of a 20 hectare site for a regional shopping centre at Greenstone Park was concluded in 2004. The Greenstone node has attracted considerable market demand and further portions for residential and commercial use will be released in 2005.

At Somerset West, the sale of a 71 hectare residential and neighbourhood retail site was concluded during the year. The balance of The Links project was sold out whilst The Triangle commercial/retail node continued to attract considerable demand.

In KwaZulu-Natal, an unsolicited offer for the 93 hectare site occupied by the Umbogintwini Village and Club was received in September with transfer being effected in December. Market interest in land at Southgate Industrial Park increased through the year and additional phases will be offered for sale in 2005.

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 was maintained at 15 per cent at year-end. Securing more lucrative leases, achieving a further reduction in the vacancy rate and tight cost control will remain the focus in 2005.

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 larger land portions to developers and the potentially higher value to be derived through the delayed sale of serviced sites. The company's enhanced ability to manage this balance for maximum benefit was demonstrated in 2004 and is expected to support a strong, albeit somewhat lower, result in 2005.

From left: Jeremy Clowes, Charl Marais, Paul McAfee, Neale Axelson.

Heartland's management team

Jeremy Clowes (53)
Since joining AECI's treasury in 1979, Jeremy has held a variety of positions in project and corporate finance. He moved to Heartland as financial director in 2001 from the Group's strategic resources function. He has a BCom degree and is a qualified Chartered Accountant.

Charl Marais (37)
He is general manager of Heartland's leasing activities. He worked at AECI for four years in what was then the Group's property department before establishing CF Marais Projects in 1999. In 2002, he contracted his services to Heartland. Charl's qualifications include a BSc (Quantity Surveying) and an MSc (Real Estate).

Paul McAfee (46)
Heartland's development and sales director is a structural engineer by profession and he was a partner in a civil/structural and project management practice before assuming his current position in 2002. Paul is a graduate of Queens in Belfast, Northern Ireland, the University of the Witwatersrand and the Wits Business School.

Neale Axelson (55)
Executive chairman. See page 19.

Conclusion

In 2004, significant progress was made to establish a new "footprint" for AECI after the major transformation programme initiated in 1998. The improving trend in many performance criteria supports the chosen vision to focus on specialty products and services for niche markets. These results were achieved in spite of major external negative factors, particularly volatile and increasing raw material prices and the strengthening of the rand.

Our employees have fully embraced the performance-oriented culture, with emphasis on innovation and service excellence to customers. This cultural transformation undoubtedly made a significant contribution to the Group's results and I wish to thank all employees for their dedication and loyalty.

Schalk Engelbrecht
Chief executive

Sandton, 21 February 2005

Historical review

Abridged financial statements

R millions	**2004**	2003	2002	2001	2000	1999
Income statements						
Revenue	**7 911**	7 659	7 818	6 745	6 009	7 311
Local	**6 405**	6 176	5 943	4 962	4 820	5 977
Foreign	**1 506**	1 483	1 875	1 783	1 189	1 334
Profit from operations	**743**	691	698	492	474	568
Net financing costs	**139**	150	164	141	27	120
Taxation	**173**	135	155	(3)	121	117
Net profit/(loss) attributable to ordinary shareholders	**283**	239	240	(88)	244	974
Headline earnings	**427**	337	318	240	285	299
Balance sheets						
Total shareholders' interest	**2 646**	2 521	2 315	2 475	3 238	3 065
Deferred taxation (net)	**(327)**	(353)	(346)	(342)	(322)	(367)
Net interest-bearing debt	**633**	1 019	814	987	74	124
Capital employed	**2 952**	3 187	2 783	3 120	2 990	2 822
Represented by:						
Property, plant, equipment, goodwill and investments	**2 575**	2 711	2 283	2 606	2 482	2 657
Current assets, excluding cash, less interest-free liabilities	**377**	476	500	514	508	165
Employment of capital	**2 952**	3 187	2 783	3 120	2 990	2 822
Cash flow statements						
Cash generated by operations(1)	**705**	634	649	447	527	610
Reduction/(investment) in working capital	**120**	109	(99)	(72)	(149)	(207)
Expenditure relating to exceptional items and long-term provisions	**(57)**	(64)	(48)	(88)	(210)	(242)
Net investments to maintain operations(2)	**(112)**	(22)	(18)	(96)	6	(51)
	656	657	484	191	174	110
Normal dividends paid	**(135)**	(123)	(103)	(87)	(134)	(99)
	521	534	381	104	40	11
Investment in expansion of assets(2)	**(184)**	(1 042)	(130)	(374)	(218)	(148)
Proceeds from disposal of investments and businesses	**58**	1	167	65	224	2 432
Special dividend paid	**–**	–	–	–	–	(928)
Net cash generated/(utilised)(3)	**395**	(507)	418	(205)	46	1 367
Depreciation charges	**224**	223	221	221	205	286
Commitments						
Capital expenditure authorised	**294**	189	243	102	235	181
Future rentals on property, plant and equipment leased	**196**	158	147	179	162	173
	490	347	390	281	397	354

(1) Profit from operations 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

	2004	2003	2002	2001	2000	1999
Profitability and asset management						
Profit from operations to revenue (%)	**9.4**	9.0	8.9	7.3	7.9	7.8
Trading cash flow to revenue (%)	**12.2**	11.9	11.8	10.6	11.3	11.7
Return on average net assets (%)(1)	**20.3**	19.3	19.7	14.1	13.4	13.4
Return on average ordinary shareholders' interest (%)	**16.7**	14.7	14.6	9.0	9.8	10.6
Net working capital to revenue (%)(2)	**12.1**	14.2	14.4	17.5	19.5	16.4
Stock cover (days)	**68**	67	70	81	74	52
Average credit extended to customers (days)	**59**	55	52	66	65	53
Liquidity						
Cash interest cover(3)	**7.0**	6.1	5.7	5.1	25.2	7.2
Interest-bearing debt to cash generated by operations	**0.7**	1.1	0.9	1.5	0.1	0.1
Gearing (%)(4)	**23.9**	40.4	35.2	39.9	2.3	4.0
Current assets to current liabilities	**1.6**	1.1	1.8	1.6	1.4	1.3
Employees						
Number of employees at year-end(5)	**7 260**	8 167	8 001	8 164	8 412	9 850
Employee remuneration (R millions)	**1 395**	1 324	1 210	1 123	1 043	1 314
Value added per rand of employee remuneration (rand)	**1.71**	1.72	1.80	1.68	1.72	1.79

(1) Profit from operations plus investment income related to average property, plant, equipment and goodwill, investments, inventory and trade and other receivables less trade and other payables.
(2) Excluding businesses sold and equity accounted.
(3) Ratio of profit from operations plus depreciation plus dividends received to net interest paid.
(4) Interest-bearing debt less cash and cash equivalents as a percentage of total shareholders' interest.
(5) Includes proportional share of joint venture employees.

JSE Securities Exchange SA and share performance

	2004	2003	2002	2001	2000	1999
Securities exchange performance						
Market price (cents per share)						
High	**3 942**	3 400	2 650	1 890	1 675	2 050
Low	**2 900**	2 114	1 720	1 275	1 050	650
31 December	**3 900**	3 400	2 550	1 720	1 310	1 255
Earnings yield (%)	**10.1**	10.5	13.3	15.0	14.1	15.4
Dividend yield (%)*	**3.5**	3.5	4.4	5.1	6.1	6.3
Dividend cover*	**2.8**	3.0	3.0	3.0	2.3	2.4
In issue (millions)	**119.7**	118.5	104.2	103.5	154.7	154.7
Value traded (R millions)	**1 476.1**	995.0	1 135.8	865.6	585.1	1 043.7
Volume traded (millions)	**44.2**	38.2	51.1	52.7	44.3	77.4
Volume traded (%)	**36.9**	32.2	49.0	51.0	28.6	50.0
Market capitalisation (R millions)	**4 669.2**	4 029.1	2 657.1	1 780.0	2 026.1	1 941.1
Ordinary share performance						
(cents per share)						
Headline earnings	**392**	356	340	258	184	193
Normal dividends declared*	**138**	120	112	87	80	80
Special dividend declared	**–**	–	–	–	–	600
Net asset value	**2 381**	2 305	2 222	2 430	1 979	1 888

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

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.

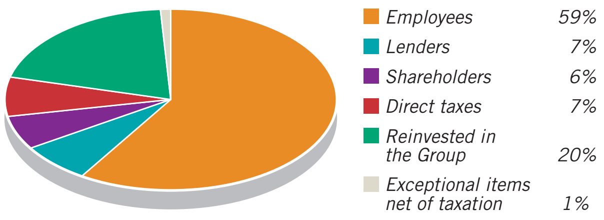
	2004 R millions	**%**	2003 R millions	%
Revenue	**7 911**	**100**	7 659	100
Purchased materials and services	**5 569**	**70**	5 421	71
Value added through operations	**2 342**	**30**	2 238	29
Other income	**39**	**–**	44	1
Total value added	**2 381**	**30**	2 282	30
Distributed to:				
Employees	**1 395**	**59**	1 324	58
Lenders	**175**	**7**	190	8
Shareholders	**135**	**6**	123	5
Direct taxes	**170**	**7**	156	7
Reinvested in the Group	**477**	**20**	466	21
Exceptional items net of taxation	**29**	**1**	23	1
	2 381	**100**	2 282	100

Monetary exchanges with the state

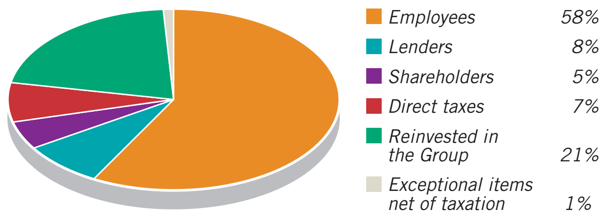
The following monetary exchanges with the state took place during the year:

	2004 R millions	2003 R millions
Direct taxes	**170**	156
Employees' tax collected on behalf of the state	**219**	203
Property taxes paid to local authorities	**32**	32
RSC levies paid to local authorities	**15**	15
Skills development levies paid to SA Revenue Services	**7**	7
VAT collected on behalf of the state	**165**	157
Channelled through the Group	**608**	570

Distribution of value added
2004



Distribution of value added
2003



81st annual report

for the year ended 31 December 2004

Financial statements

Contents

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

	2004 R	2003 R
Euro	**7.67**	8.36
Pound sterling	**10.85**	11.81
Swiss franc	**4.97**	5.36
US dollar	**5.62**	6.62

Report of the independent auditors

To the members of AECI Limited
We have audited the financial statements and Group annual financial statements of AECI Limited, set out on pages 51 to 86, for the year ended 31 December 2004. 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 International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, as well as 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 2004, and the results of their operations in accordance with South African Statements of Generally Accepted Accounting Practice, the International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

KPMG Inc

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

Sandton, 21 February 2005

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 equity
Notes to the financial statements
Appendices to the financial statements

For and on behalf of the Board

AE Pedder CBE
Chairman

S Engelbrecht
Chief executive

Sandton, 21 February 2005

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, 21 February 2005

Directors' report

The activities and results of the Group have been reviewed on pages 25 to 45.

Statutory information

Share capital
The issued ordinary share capital of the Company as at 31 December 2004 was R119 723 538 (2003 – R118 504 218), comprising shares of R1 each.

The Company also has in issue 3 000 000, 5.5 per cent redeemable preference shares of R2 each.

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 +27 0861 100 950.

Dividends
Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2004 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 18 to 20.

The following directors retire in terms of the Company's articles of association at the annual general meeting on 23 May 2005:

In terms of article 25(c)(i):
NC Axelson
CB Brayshaw

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

At 31 December 2004, the directors had beneficial interests in 4 450 ordinary shares of the Company (2003 – 5 250). 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 85 and 86.

The aggregate net profits and losses after taxation of South African subsidiaries and joint ventures attributable to the Company for the year 2004 were as follows:

Profits:	R381 million (2003 – R365 million)
Losses:	R70 million (2003 – R129 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 economic benefits from their activities.

The Group consolidated 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. 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.

Impairment

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

The recoverable amount is the higher of its net selling price and its value in use.

Inventory

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

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

Spares not specific to particular plants 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)

Trade receivables
Trade receivables 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.

Investment 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 financed 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 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 2004

	Notes	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
Revenue		**7 911**	7 659	**3 183**	4 263
Profit from operations	1	**743**	691	**67**	216
Net financing costs	2	**(139)**	(150)	**(23)**	(116)
Investment income	3	**2**	3	**154**	51
Share of associated companies' income		**1**	1		
		607	545	**198**	151
Transitional provision for post-employment medical aid benefits		**(20)**	(20)	**(20)**	(20)
Amortisation of goodwill	9	**(104)**	(75)	**(10)**	(20)
Exceptional items	4	**(23)**	(31)	**915**	(31)
Profit before taxation		**460**	419	**1 083**	80
Taxation	5	**(173)**	(135)	**(31)**	(7)
Profit from ordinary activities		**287**	284	**1 052**	73
Attributable to preference and outside shareholders		**(4)**	(45)	**(2)**	(2)
Net profit attributable to ordinary shareholders		**283**	239	**1 050**	71
Per ordinary share (cents)					
– Attributable earnings	6	**260**	252		
– Diluted attributable earnings	6	**254**	244		
– Headline earnings	6	**392**	356		
– Diluted headline earnings	6	**383**	345		
– Ordinary dividends paid	7	**122**	114		
– Ordinary dividends declared but not provided for	7	**94**	78		

Balance sheets

at 31 December 2004

	Notes	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
ASSETS					
Non-current assets		**2 935**	3 110	**3 454**	2 856
Property, plant and equipment	8	**1 659**	1 708	**398**	635
Goodwill	9	**822**	916	**–**	292
Investments	10	**94**	87	**65**	32
Investment in subsidiaries	11			**2 702**	1 585
Deferred taxation assets	12	**360**	399	**289**	312
Current assets		**2 942**	2 911	**828**	1 310
Inventory	13	**1 160**	1 170	**380**	490
Trade and other receivables	14	**1 420**	1 280	**393**	660
Cash and cash equivalents		**362**	461	**55**	160
Total assets		**5 877**	6 021	**4 282**	4 166
EQUITY AND LIABILITIES					
Ordinary capital and reserves		**2 605**	2 494	**2 648**	1 717
Issued capital	15	**445**	437	**455**	447
Non-distributable reserves		**289**	347	**221**	243
Distributable reserves		**1 871**	1 710	**1 972**	1 027
Preference capital	15	**6**	6	**6**	6
Outside shareholders' interest in subsidiaries		**35**	21		
Total shareholders' interest		**2 646**	2 521	**2 654**	1 723
Non-current liabilities		**1 426**	756	**895**	612
Deferred taxation liabilities	12	**33**	46	**–**	–
Long-term borrowings	16	**899**	209	**520**	169
Long-term provisions	17	**494**	501	**375**	443
Current liabilities		**1 805**	2 744	**733**	1 831
Trade and other payables	18	**1 619**	1 361	**636**	758
Provision for restructuring		**9**	48	**9**	48
Short-term borrowings	19	**96**	1 271	**68**	995
Taxation		**81**	64	**20**	30
Total equity and liabilities		**5 877**	6 021	**4 282**	4 166

Cash flow statements

for the year ended 31 December 2004

	Notes	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
Cash generated by operations	i	**957**	898	**125**	383
Dividends received		**2**	3	**154**	51
Net financing costs		**(126)**	(148)	**(10)**	(114)
Taxes paid	ii	**(128)**	(119)	**(11)**	(2)
Changes in working capital	iii	**120**	109	**(27)**	46
Expenditure relating to long-term provisions		**(21)**	(21)	**(17)**	(21)
Expenditure relating to restructuring		**(36)**	(43)	**(22)**	(43)
Cash available from operating activities		**768**	679	**192**	300
Dividends paid	iv	**(135)**	(123)	**(148)**	(121)
Cash flows from operating activities		**633**	556	**44**	179
Cash flows from investing activities		**(238)**	(1 063)	**420**	(570)
Net investments to maintain operations		**(112)**	(22)	**(31)**	(14)
Replacement of property, plant and equipment		**(120)**	(82)	**(43)**	(43)
Proceeds from disposal of property, plant and equipment		**8**	60	**12**	29
Investments to expand operations		**(184)**	(1 042)	**10**	(556)
Acquisition of – property, plant and equipment		**(157)**	(159)	**(85)**	(95)
– investments		**(11)**	(3)	**(51)**	–
– subsidiaries		**(16)**	(880)	**146**	(461)
Proceeds from disposal of investments and businesses		**58**	1	**441**	–
Proceeds from disposal of – subsidiaries		**27**	–	**–**	–
– businesses		**30**	–	**441**	–
– listed investments		**1**	1	**–**	–
Net cash generated/(utilised)		**395**	(507)	**464**	(391)
Long-term borrowings – raised		**780**	18	**400**	6
– repaid		**(1 016)**	(53)	**(991)**	(45)
Movement in short-term borrowings		**(249)**	44	**15**	(100)
Proceeds from shares issued		**8**	340	**8**	340
Cash effects of financing activities		**(477)**	349	**(568)**	201
Decrease in cash and cash equivalents		**(82)**	(158)	**(104)**	(190)
Cash and cash equivalents at the beginning of the year		**461**	642	**160**	353
Translation loss on cash and cash equivalents		**(17)**	(23)	**(1)**	(3)
Cash and cash equivalents at the end of the year		**362**	461	**55**	160

Notes to the cash flow statements

for the year ended 31 December 2004

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
I. CASH GENERATED BY OPERATIONS				
Profit from operations	**743**	691	**67**	216
Adjusted for non-cash movements:				
Depreciation	**224**	223	**98**	138
Provisions – investments	**–**	(2)	**(34)**	12
– long-term provisions	**9**	–	**4**	–
– restructuring provisions	**(7)**	15	**(7)**	15
Surplus on disposal of property, plant and equipment	**(4)**	(28)	**(3)**	(3)
Translation differences	**1**	3	**1**	3
Change in fair value of investments	**(8)**	(4)	**–**	–
Other	**(1)**	–	**(1)**	2
	957	898	**125**	383
II. TAXES PAID				
Owing at the beginning of the year	**64**	65	**30**	32
Current charge for the year	**145**	116	**–**	–
Changes in the Group	**–**	2	**1**	–
Owing at the end of the year	**81**	64	**20**	30
	128	119	**11**	2
III. CHANGES IN WORKING CAPITAL				
Decrease in inventory	**10**	78	**110**	33
(Increase)/decrease in trade and other receivables	**(140)**	41	**267**	73
Increase/(decrease) in trade and other payables	**233**	(92)	**(147)**	(28)
	103	27	**230**	78
Translation differences	**(14)**	(14)	**(11)**	(32)
Changes in the Group	**31**	96	**(246)**	–
	120	109	**(27)**	46
IV. DIVIDENDS PAID				
Paid during the year	**135**	109	**148**	121
Paid to outside shareholders	**–**	14		
	135	123	**148**	121
V. CHANGES IN THE GROUP				
Property, plant and equipment	**(71)**	41	**(259)**	–
Investments	**–**	1	**1 198**	–
Working capital	**31**	96	**(246)**	–
Long-term provisions	**–**	(7)	**60**	–
Deferred taxation and taxation	**9**	4	**16**	–
Borrowings	**–**	(15)	**–**	–
Outside shareholders' interest in subsidiaries	**(12)**	235		
Non-distributable reserves	**–**	1	**–**	–
Net surplus on disposal of investments and businesses	**(8)**	–	**(928)**	–
Goodwill	**10**	524	**(282)**	–
Net (proceeds)/purchase price	**(41)**	880	**(441)**	–
Cash and cash equivalents acquired	**–**	6	**–**	–
	(41)	886	**(441)**	–

Statements of changes in equity

for the year ended 31 December 2004

R millions	Ordinary share capital	Share premium	**Total ordinary capital**
GROUP			
Balance at 1 January 2003	94	3	97
Net profit for the year			
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**
Net profit for the year			
Dividends paid			
Changes in the Group			
Sale of portion of subsidiary company			
Currency translation differences			
Deferred taxation on currency translation differences			
Transfers to income statement			
Fair value adjustments taken to reserves			
Deferred taxation on fair value adjustments			
Shares issued during the year	1	7	**8**
Balance at 31 December 2004	**109**	**336**	**445**
COMPANY			
Balance at 1 January 2003	104	3	107
Net profit for the year			
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**
Net profit for the year			
Dividends paid			
Currency translation differences			
Deferred taxation on currency translation differences			
Transfers to income statement			
Fair value adjustments taken to reserves			
Deferred taxation on fair value adjustments			
Shares issued during the year	1	7	**8**
Balance at 31 December 2004	**119**	**336**	**455**

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Surplus arising on revaluation of property	Foreign currency translation reserve	Retained earnings of associated companies	Other non-distributable reserves	**Total non-distributable reserves**	**Retained income**	**Total**	**Outside shareholders**	**Preference share capital**	**Total equity**
330	54	1	5	390	1 599	2 086	223	6	2 315
					239	239	43	2	284
					(107)	(107)	(14)	(2)	(123)
	(53)			(53)	(14)	(67)	(3)		(70)
	17			17		17			17
(1)			1	–	(7)	(7)			(7)
			(10)	(10)		(10)			(10)
			3	3		3			3
						335	(228)		107
						5			5
329	**18**	**1**	**(1)**	**347**	**1 710**	**2 494**	**21**	**6**	**2 521**
					283	**283**	**2**	**2**	**287**
					(133)	**(133)**		**(2)**	**(135)**
							(12)		**(12)**
							25		**25**
	(16)			**(16)**	**(31)**	**(47)**	**(1)**		**(48)**
	(5)			**(5)**		**(5)**			**(5)**
(41)			(1)	**(42)**	**42**	**–**			**–**
			8	**8**		**8**			**8**
			(3)	**(3)**		**(3)**			**(3)**
						8			**8**
288	**(3)**	**1**	**3**	**289**	**1 871**	**2 605**	**35**	**6**	**2 646**
310	(25)			285	1 088	1 480		6	1 486
					71	71		2	73
					(119)	(119)		(2)	(121)
	(50)			(50)	(13)	(63)			(63)
	15			15		15			15
			(10)	(10)		(10)			(10)
			3	3		3			3
						335			335
						5			5
310	**(60)**		**(7)**	**243**	**1 027**	**1 717**		**6**	**1 723**
					1 050	**1 050**		**2**	**1 052**
					(146)	**(146)**		**(2)**	**(148)**
	16			**16**	**1**	**17**			**17**
	(5)			**(5)**		**(5)**			**(5)**
(40)				**(40)**	**40**	**–**			**–**
			10	**10**		**10**			**10**
			(3)	**(3)**		**(3)**			**(3)**
						8			**8**
270	**(49)**		**–**	**221**	**1 972**	**2 648**		**6**	**2 654**

Notes to the financial statements
for the year ended 31 December 2004

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
1. Profit from operations				
Profit from operations has been arrived at after taking into account:				
Cost of sales	**5 155**	4 971	**1 965**	2 674
Selling and distribution expenses	**1 195**	1 203	**734**	854
Administrative expenses	**818**	794	**417**	519
	7 168	6 968	**3 116**	4 047
Auditors' remuneration	**12**	11	**4**	5
– Audit fees	**11**	10	**4**	5
– Other services	**1**	1	**–**	–
Change in fair value of investments	**(8)**	(4)	**–**	–
Depreciation of property, plant and equipment	**224**	223	**98**	138
– Buildings	**14**	16	**5**	9
– Plant and equipment	**210**	207	**93**	129
Directors' emoluments (see note 24)	**16**	8	**7**	7
– Non-executive	**1**	1	**1**	1
– Executive	**15**	7	**6**	6
Foreign exchange gains	**84**	82	**38**	36
– Realised	**63**	50	**26**	30
– Unrealised	**21**	32	**12**	6
Foreign exchange losses	**99**	111	**85**	38
– Realised	**50**	83	**50**	32
– Unrealised	**49**	28	**35**	6
Increase/(decrease) in provisions	**2**	13	**(37)**	27
– Investments	**–**	(2)	**(34)**	12
– Environmental remediation	**5**	–	**–**	–
– Restructuring provision	**(7)**	15	**(7)**	15
– Other	**4**	–	**4**	–
Research expenditure	**10**	8	**3**	3
Surplus on disposal of property, plant and equipment	**4**	28	**3**	3
– Surplus land holdings	**–**	24	**–**	3
– Property	**–**	2	**–**	(1)
– Plant and equipment	**4**	2	**3**	1
Salaries and other staff costs	**1 395**	1 324	**614**	798
Technical fees paid	**5**	–	**–**	–

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
2. Net financing costs				
Interest paid	**(162)**	(188)	**(129)**	(158)
Long-term borrowings	**(118)**	(147)	**(92)**	(140)
Short-term borrowings	**(44)**	(41)	**(37)**	(18)
Interest received	**36**	40	**119**	44
	(126)	(148)	**(10)**	(114)
Fair value adjustments on derivative instruments	**(13)**	(2)	**(13)**	(2)
	(139)	(150)	**(23)**	(116)
3. Investment income				
Dividends from investments	**2**	3	**–**	2
– Listed	**2**	1	**–**	–
– Unlisted	**–**	2	**–**	2
Dividends from subsidiaries			**154**	49
South African				
– Listed			**–**	37
– Unlisted			**154**	11
Foreign				
– Unlisted			**–**	1
	2	3	**154**	51
Aggregate income from subsidiaries and joint ventures				
Dividends			**154**	49
Net interest			**82**	20
Secretarial and administrative fees			**2**	5
			238	74

Notes to the financial statements (continued)

for the year ended 31 December 2004

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
4. Exceptional items				
Long-term provisions				
– Environmental remediation	**(10)**	–	**(10)**	–
(Costs)/income related to restructuring	**(14)**	(31)	**6**	(31)
– Impairment of property, plant and equipment	**(7)**	(13)	**–**	(13)
– Retrenchment costs	**(16)**	(20)	**(3)**	(20)
– Other	**9**	2	**9**	2
Net surplus on disposal of investments and businesses	**15**	–	**928**	–
Impairment of investments, property, plant and equipment	**(14)**	–	**(9)**	–
Exceptional items before taxation	**(23)**	(31)	**915**	(31)
Deferred tax effect	**(6)**	8	**(33)**	8
Exceptional items after taxation	**(29)**	(23)	**882**	(23)
Attributable to outside shareholders	**1**	–		
Net exceptional items	**(28)**	(23)	**882**	(23)
5. Taxation				
South African and foreign taxes				
Normal, secondary and foreign	**(141)**	(111)	**–**	–
Deferred	**(31)**	(37)	**(31)**	(24)
Normal activities	**(25)**	(45)	**2**	(32)
Exceptional items	**(6)**	8	**(33)**	8
	(172)	(148)	**(31)**	(24)
Adjustment for prior years	**(1)**	13	**–**	17
Normal, secondary and foreign	**(4)**	(5)	**–**	–
Deferred	**3**	18	**–**	17
	(173)	(135)	**(31)**	(7)
Computed tax losses	**773**	838	**470**	565
	%	%	**%**	%
Reconciliation of tax rate computed in relation to profit before exceptional items and investment income				
Effective rate	**28.5**	27.5	**(7.9)**	18.8
Capital and non-taxable receipts	**1.5**	4.4	**3.3**	2.3
Expenses not allowable	**1.1**	(0.9)	**36.1**	(10.5)
Secondary and foreign taxes	**(1.3)**	(1.3)	**(1.1)**	(1.2)
Adjustment for prior years	**(0.1)**	2.4	**–**	21.0
Other	**0.3**	(2.1)	**(0.4)**	(0.4)
South African standard rate	**30.0**	30.0	**30.0**	30.0

	Group	
	2004	2003
	R millions	R millions

6. Earnings per ordinary share

Headline earnings are derived from:		
Net profit attributable to ordinary shareholders	**283**	239
Amortisation of goodwill	**104**	75
Transitional provision for post-employment medical aid benefits	**20**	20
Exceptional items before tax (see note 4)	**23**	31
Tax effects of the above items	**–**	(14)
Outside shareholders' share of the above items	**(3)**	(14)
Headline earnings	**427**	337

The transitional provision for post-employment medical aid benefits has been excluded from the calculation of headline earnings in accordance with the specific transitional provisions of AC116 (Revised), "Employee benefits".

	Group	
	2004	2003
Earnings per share (cents)		
– Attributable earnings	**260**	252
– Headline earnings	**392**	356
Weighted average number of shares in issue	**119 133 597**	105 010 559
Deduct treasury shares held	**10 311 120**	10 311 120
	108 822 477	94 699 439

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 108 822 477, net of treasury shares (2003 – 94 699 439).

	Group	
	2004	2003
Diluted earnings per share (cents)		
– Diluted attributable earnings	**254**	244
– Diluted headline earnings	**383**	345

At 31 December 2004 there were 3 971 080 (2003 – 5 190 400) 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 111 464 896 (2003 – 97 805 677). The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R33.94 (2003 – R25.83) compared with an average exercise price on the outstanding options of R11.35 (2003 – R10.36).

	Group	
	2004	2003
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**108 822 477**	94 699 439
Number of options available for future exercise	**3 971 080**	5 190 400
Number of shares that would be issued at fair value	**(1 328 661)**	(2 084 162)
Weighted average number of ordinary shares for diluted earnings per share calculation	**111 464 896**	97 805 677

Notes to the financial statements (continued)

for the year ended 31 December 2004

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
7. DIVIDENDS PAID				
Ordinary	**133**	107	**146**	119
Final for previous year: No. 140 of 78 cents (2003 – 72 cents) paid 26 April 2004	**85**	67	**93**	75
Interim for current year: No. 141 of 44 cents (2003 – 42 cents) paid 20 September 2004	**48**	40	**53**	44
Preference				
Nos. 132 and 133 paid 15 June 2004 and 15 December 2004 respectively	**2**	2	**2**	2
	135	109	**148**	121
Proposed final dividend for the year ended 31 December 2004 of 94 cents (2003 – 78 cents) per share is payable on 25 April 2005	**103**	85	**113**	93
8. PROPERTY, PLANT AND EQUIPMENT				
Property				
Cost or valuation	**894**	917	**167**	214
At the beginning of the year	**917**	934	**214**	217
Additions	**41**	12	**37**	7
Disposals and transfers	**(3)**	(29)	**(3)**	(10)
Changes in the Group	**(60)**	7	**(81)**	–
Translation differences	**(1)**	(7)	**–**	–
***Less:* accumulated depreciation and impairment**	**180**	171	**66**	118
At the beginning of the year	**171**	173	**118**	116
Disposals and transfers	**(3)**	(15)	**–**	(7)
Changes in the Group	**–**	1	**(57)**	–
Translation differences	**(2)**	(4)	**–**	–
Provided during the year	**14**	16	**5**	9
Carrying amount	**714**	746	**101**	96

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
8. Property, plant and equipment (continued)				
Plant and equipment				
Cost or valuation	**2 553**	2 414	**1 085**	1 652
At the beginning of the year	**2 414**	2 327	**1 652**	1 609
Additions	**236**	229	**91**	130
Disposals and transfers	**(45)**	(140)	**(13)**	(87)
Changes in the Group	**(16)**	68	**(645)**	–
Translation differences	**(36)**	(70)	**–**	–
***Less:* accumulated depreciation and impairment**	**1 608**	1 452	**788**	1 113
At the beginning of the year	**1 452**	1 354	**1 113**	1 040
Disposals and transfers	**(38)**	(111)	**(7)**	(56)
Changes in the Group	**(5)**	33	**(410)**	–
Translation differences	**(15)**	(31)	**–**	–
Impairment	**4**	–	**(1)**	–
Provided during the year	**210**	207	**93**	129
Carrying amount	**945**	962	**297**	539
Total carrying amount	**1 659**	1 708	**398**	635
Cost of assets which are fully depreciated	**606**	566	**403**	448
Cost or valuation of land included in property	**510**	568	**54**	31
Insured value of property, plant and equipment	**7 262**	6 963	**4 235**	5 650

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 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
9. Goodwill				
Cost	**1 203**	1 193	**–**	417
At the beginning of the year	**1 193**	655	**417**	417
Additions	**–**	538	**–**	–
Changes in the Group	**10**	–	**(417)**	–
***Less:* accumulated amortisation and impairment**	**381**	277	**–**	125
At the beginning of the year	**277**	188	**125**	105
Changes in the Group	**–**	14	**(135)**	–
Provided during the year	**104**	75	**10**	20
Carrying amount	**822**	916	**–**	292

Notes to the financial statements (continued)
for the year ended 31 December 2004

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
10. Investments				
Associated companies				
Dussek Campbell (Pty) Limited				
– Unlisted shares at fair value	*****	*	**–**	–
– Indebtedness	**(3)**	(1)	**–**	–
Post-acquisition retained income	**2**	2		
Balance at the beginning of the year	**2**	1		
Current year's share of associated companies' retained income	*****	1		
Total investment in associated companies	**(1)**	1	**–**	–
Joint ventures (see appendix 2)			**42**	*
Available-for-sale investments				
Listed investments at market value	**60**	43	**–**	–
Unlisted investments at fair value	**35**	43	**23**	32
Shares				
– Botswana Ash (Pty) Limited	**17**	26	**17**	26
– Other	**2**	5	**–**	–
Indebtedness of unlisted investments	**16**	12	**6**	6
Total other investments	**95**	86	**65**	32
Total investments	**94**	87	**65**	32
11. Investment in subsidiaries (see appendix 3)				
Unlisted shares at cost less amounts written off			**930**	855
Net indebtedness			**1 772**	730
Indebtedness of subsidiaries less amounts written off			**2 134**	1 265
Indebtedness to subsidiaries			**(362)**	(535)
Total investment in subsidiaries			**2 702**	1 585

* Nominal amount

	Group		Company	
	2004	2003	**2004**	2003
	R millions	R millions	**R millions**	R millions
12. Deferred taxation				
At the beginning of the year	**(353)**	(346)	**(312)**	(295)
Transfer from/(to) net profit – normal activities	**22**	27	**(2)**	15
– exceptional items	**6**	(8)	**33**	(8)
– non-distributable reserve	**–**	–	**–**	(6)
Transferred to non-distributable reserve				
– foreign currency translation reserve	**5**	(17)	**5**	(15)
– fair value adjustments	**3**	(3)	**3**	(3)
Changes in the Group	**(10)**	(6)	**(16)**	–
At the end of the year	**(327)**	(353)	**(289)**	(312)
Analysis by major temporary differences:				
Property, plant and equipment	**105**	97	**47**	66
Provisions	**(264)**	(239)	**(175)**	(187)
Deferred foreign exchange differences	**(24)**	(24)	**(21)**	(26)
Computed tax losses	**(171)**	(198)	**(149)**	(170)
Other	**27**	11	**9**	5
	(327)	(353)	**(289)**	(312)
Comprising:				
Deferred taxation assets	**(360)**	(399)	**(289)**	(312)
Deferred taxation liabilities	**33**	46	**–**	–
	(327)	(353)	**(289)**	(312)
13. Inventory				
Raw and packing materials	**440**	403	**125**	148
Products and intermediates	**672**	653	**221**	303
Merchandise	**10**	4	**–**	–
Spares and stores	**37**	42	**34**	39
Property developments	**1**	68	**–**	–
	1 160	1 170	**380**	490

Notes to the financial statements (continued)

for the year ended 31 December 2004

	Group		Company	
	2004	2003	**2004**	2003
	R millions	R millions	**R millions**	R millions
14. Trade and other receivables				
Trade	**1 278**	1 150	**356**	592
Other	**142**	130	**37**	68
	1 420	1 280	**393**	660
15. Capital				
Ordinary shares				
Authorised				
180 000 000 shares of R1 each	**180**	180	**180**	180
Issued				
At the beginning of the year	**108**	94	**118**	104
Issued 1 219 320 (2003 – 14 304 010) shares during the year	**1**	14	**1**	14
At the end of the year				
Group 109 412 418 shares (2003 – 108 193 098)	**109**	108		
Company 119 723 538 shares (2003 – 118 504 218)			**119**	118
Share premium less share issue expenses	**336**	329	**336**	329
At the beginning of the year	**329**	3	**329**	3
Shares issued during the year	**7**	326	**7**	326
	445	437	**455**	447
Unissued shares under the control of the directors				
Shares reserved to meet the requirements of the Company's share option scheme (see note 25)	**4**	5	**4**	5
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 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
16. Long-term borrowings (see appendix 1)				
Unsecured	**828**	1 052	**463**	1 052
Secured	**149**	161	**108**	110
	977	1 213	**571**	1 162
Current portion (see note 19)	**78**	1 004	**51**	993
	899	209	**520**	169
17. Long-term provisions				
At the beginning of the year	**501**	502	**443**	451
Expenditure incurred during the year	**(21)**	(21)	**(17)**	(21)
Provided during the year	**39**	20	**34**	20
Transferred to accounts payable	**(25)**	(7)	**(25)**	(7)
Changes in the Group	**–**	7	**(60)**	–
At the end of the year	**494**	501	**375**	443
Made up as follows:				
Environmental remediation	**149**	156	**148**	155
Post-employment medical aid benefits	**410**	389	**292**	332
Other	**4**	–	**4**	–
Current portion included in trade and other payables (see note 18)	**(69)**	(44)	**(69)**	(44)
	494	501	**375**	443
18. Trade and other payables				
Trade	**1 023**	799	**351**	410
Other	**527**	518	**216**	304
	1 550	1 317	**567**	714
Current portion of provisions (see note 17)	**69**	44	**69**	44
	1 619	1 361	**636**	758
19. Short-term borrowings				
Current portion of long-term borrowings (see note 16)	**78**	1 004	**51**	993
Other	**18**	267	**17**	2
	96	1 271	**68**	995

Notes to the financial statements (continued)

for the year ended 31 December 2004

	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
20. Borrowings and contingent liabilities				
Borrowings	**995**	1 480	**588**	1 164
Long-term	**899**	209	**520**	169
Short-term	**96**	1 271	**68**	995
Contingent liabilities	**81**	45	**–**	–
Dispute with SA Revenue Services in respect of property realisation companies				
– taxation	**62**	33	**–**	–
– interest	**19**	12	**–**	–
Guarantees*	**197**	178	**378**	165
	1 273	1 703	**966**	1 329
21. Commitments				
Capital commitments authorised	**294**	189	**127**	148
Contracted for	**25**	23	**16**	23
Not contracted for	**269**	166	**111**	125
The expenditure will be financed from funds on hand and internally generated, supplemented by borrowings against facilities available to the Group.				
The above includes the Group's share of capital commitments of joint ventures.				
Future rentals on property, plant and equipment leased	**196**	158	**114**	112
Payable within one year	**43**	41	**17**	25
Payable thereafter	**153**	117	**97**	87
	490	347	**241**	260

* Company – inclusive of guarantee as described in appendix 1.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2004

	Foreign currency	Foreign amount 2004 millions	Foreign amount 2003 millions	Rand amount 2004 millions	Rand amount 2003 millions
22. Financial instruments (continued)					
Transactions in foreign currencies					
Forward exchange contracts at 31 December 2004, relating to specific balance sheet items.					
– Trade and other receivables				**183**	180
	US dollar	**25**	21	**154**	142
	Euro	**2**	3	**19**	29
	Pound sterling	**1**	1	**10**	9
– Trade and other payables				**266**	178
	US dollar	**33**	16	**191**	109
	Euro	**5**	3	**39**	28
	Pound sterling	**2**	2	**26**	19
	Swiss franc	**2**	4	**10**	20
	Swedish krona	**–**	1	**–**	1
	Japanese yen	**2**	16	*****	1
Forward exchange contracts at 31 December 2004, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due.					
– Imports				**47**	37
	US dollar	**5**	2	**28**	16
	Euro	**2**	1	**18**	11
	Pound sterling	*****	1	**1**	10
	Japanese yen	**–**	5	**–**	*
– Exports				**18**	–
	US dollar	**3**	–	**18**	–

* Nominal amount

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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 rate 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 2004, was:

	Total		Floating rate financial liabilities		Fixed rate financial liabilities	
Currency	**2004 R millions**	2003 R millions	**2004 R millions**	2003 R millions	**2004 R millions**	2003 R millions
Rand						
Short-term	**96**	1 271	**45**	955	**51**	316
Long-term	**899**	208	**881**	142	**18**	66
Other – long-term	**–**	1	**–**	1	**–**	–
Total	**995**	1 480	**926**	1 098	**69**	382

	Fixed rate financial liabilities		Weighted average interest rate		Weighted average period for which rate is fixed	
	2004 R millions	2003 R millions	**2004 %**	2003 %	**2004 Months**	2003 Months
Rand						
Short-term	**51**	316	**4.9**	9.2	**7.7**	6.8
Long-term	**18**	66	**6.3**	5.6	**29.8**	31.4
	69	382	**5.2**	8.7	**19.5**	13.5

The effect of interest rate derivatives in place at 31 December 2004 was as follows:

	2004 R millions	2003 R millions
Unfavourable mark-to-market adjustment	**13**	13

Notes to the financial statements (continued)

for the year ended 31 December 2004

22. Financial instruments (continued)

(c) Maturity profile of financial instruments at 31 December 2004

	Within 1 year		2 to 3 years		4 to 7 years		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	R millions	R millions	**R millions**	R millions	**R millions**	R millions	**R millions**	R millions
Financial assets								
Cash and cash equivalents	**362**	461	**–**	–	**–**	–	**362**	461
Trade and other receivables	**1 420**	1 280	**–**	–	**–**	–	**1 420**	1 280
Investments	**77**	61	**–**	–	**17**	26	**94**	87
Total financial assets	**1 859**	1 802	**–**	–	**17**	26	**1 876**	1 828
Percentage profile (%)	**99**	99	**–**	–	**1**	1	**100**	100
Financial liabilities								
Interest-bearing liabilities	**96**	1 271	**567**	173	**332**	36	**995**	1 480
Trade and other payables	**1 550**	1 317	**–**	–	**–**	–	**1 550**	1 317
Total financial liabilities	**1 646**	2 588	**567**	173	**332**	36	**2 545**	2 797
Percentage profile (%)	**65**	93	**22**	6	**13**	1	**100**	100

(d) Fair values of financial assets and liabilities at 31 December 2004

The carrying amounts of cash, trade and other receivables and trade and other payables 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, trade and other 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 2004 the major portion of the Group's borrowings had a maturity greater than 12 months.

(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 715 million (2003 – R1 514 million).

Some of the Group's loan agreements contain 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 (2003 – R nil) and there were no loans to associated companies. Loans to joint ventures amounted to R30 million (2003 – R nil).

24. Directors' emoluments

Executive directors

R thousands	NC Axelson	S Engelbrecht	LC van Vught*	Total
Basic salary	1 368	1 920	–	**3 288**
Bonus and performance-related payments	708	1 511	–	**2 219**
Benefit unit payment by subsidiary(1)	–	8 753	–	**8 753**
Expense allowances, medical aid and insurance contributions	235	244	–	**479**
Retirement fund contributions	133	187	–	**320**
Aggregate emoluments	2 444	12 615	–	**15 059**
Less: paid by subsidiary	–	(8 753)	–	**(8 753)**
2004	**2 444**	**3 862**	**–**	**6 306**
PAYE on aggregate emoluments				**5 524**
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 on aggregate emoluments				2 547

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

Non-executive directors

	Directors' fees	Chairman/ committee fees	Additional payments	**2004 Total**	2003 Total
CB Brayshaw	100	100		**200**	200
MJ Leeming	100	50		**150**	150
TH Nyasulu	100			**100**	100
AE Pedder CBE	100	300	129	**529**	791
CML Savage	100	50		**150**	150
LC van Vught	100			**100**	100
	600	**500**	**129**	**1 229**	1 491
2003	600	500	391	**–**	1 491

Notes

(1) Share options issued to directors are set out in note 25. LC van Vught exercised 100 000 options (2003 – 200 000) which generated a benefit of R3 350 000 (2003 – R5 259 037). None of the other directors exercised any of their options in either the current or the previous year. S Engelbrecht received R8 753 200 (2003 – nil) from a subsidiary company in respect of share options and benefit units in terms of a long-term incentive scheme.

(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.

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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 2004 the following funds were in existence:

	Date of last statutory valuation
Defined benefit funds	
– AECI Pension Fund	1 March 2003
– AECI Employees Pension Fund	1 March 2001
– AECI Supplementary Pension Fund	1 March 2002
– 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 Funds 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.

Principal actuarial assumptions at 31 December 2004 were as follows:

	Group	
	2004	2003
	%	%
Discount rate	**8.25**	9.00
Expected return on plan assets	**8.25**	9.00
Future salary increases	**5.25**	6.00
Future pension increases	**3.40**	4.00

The total cost charged to income of R28 million (2003 – R28 million) in respect of the defined contribution fund represents contributions payable by the Group at the rate specified in the rules of the scheme. Amounts charged to income in respect of the defined benefit funds were as follows:

	Group	
	2004	2003
	R millions	R millions
Current service cost	**73**	68
Interest cost	**407**	433
Expected return on plan assets	**(475)**	(475)
Net actuarial loss recognised in year	**27**	4
Charge to income in respect of defined benefit funds	**32**	30
Actual return on plan assets	**896**	749
Based on interim valuations by the funds' actuaries, the funded status of the defined benefit funds at 31 December 2004 was as follows:		
Fair value of scheme assets	**5 553**	4 896
Present actuarial value of defined benefit obligations	**4 191**	3 964
Net assets	**1 362**	932

The surplus of assets over liabilities has not been recognised in the Group financial statements because a substantial portion thereof is required to meet the solvency reserves determined to be necessary by the funds' actuaries.

25. Employee benefits (continued)

Post-employment medical aid benefits

The Group provides medical aid benefits for all its permanent employees, principally via the AECI Medical Aid Society. Historically, qualifying employees were granted a subsidy on their medical aid contributions after retirement. The obligation of the employer to continue to subsidise medical aid contributions after retirement is no longer a condition of employment for new employees.

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

	Group		Company	
	2004	2003	**2004**	2003
	%	%	**%**	%
Annual increase in health care costs	**8.0**	8.5	**8.0**	8.5
Discount rate	**10.0**	11.0	**10.0**	11.0

	Group		Company	
	2004	2003	**2004**	2003
	R millions	R millions	**R millions**	R millions
Actuarial value of obligations	**425**	425	**314**	374
Provided at 31 December 2004	**410**	389	**292**	332

The liability in respect of those employees and past employees of the Group entitled to post-employment medical aid benefits has been provided for in terms of AC116. Details of the provision at 31 December 2004 are disclosed in note 17. The directors are of the opinion that the Company has no contractual obligation to increase current levels of employer contributions 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. 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 2 years – up to 20 per cent of the shares
After 3 years – up to 40 per cent of the shares
After 4 years – up to 60 per cent of the shares
After 5 years – up to 100 per cent of the shares

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

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

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

Details of outstanding share options at 31 December 2004:

		Number of shares			
Expiry date	Exercise price	Granted	Exercised	Lapsed	Outstanding
31 December 2008	R4.50	4 804 000	2 744 820	130 000	1 929 180
31 December 2009	R7.00 – R15.80	410 000	178 000	104 000	128 000
31 December 2010	R11.45 – R13.78	477 000	231 000	32 000	214 000
31 December 2011	R17.50	1 460 000	174 000	–	1 286 000
30 June 2013	R23.60 – R26.30	413 900	–	–	413 900
		7 564 900	**3 327 820**	**266 000**	**3 971 080**

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

	2004	2003
Outstanding at the beginning of the year	**5 190 400**	5 796 000
Issued during the year	**–**	413 900
Exercised during the year	**(1 219 320)**	(1 019 500)
Outstanding at the end of the year	**3 971 080**	5 190 400

Details of share options issued during the year:		
Expiry date	**–**	June 2013
Exercise price per share	**–**	R23.60 – R26.30
Aggregate proceeds if options are exercised (R thousands)	**–**	9 785
Details of share options exercised during the year:		
Expiry date	**2008 – 2012**	2008 – 2010
Exercise price per share	**R4.50 – R17.50**	R4.50 – R13.45
Aggregate issue proceeds (R thousands)	**8 719**	5 625

Notes to the financial statements (continued)

for the year ended 31 December 2004

	Exercise price	Number of shares Granted	Exercised	Lapsed	Outstanding
25. Employee benefits (continued)					
Share option scheme (continued)					
Included in outstanding share options are the following options granted to 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
LC van Vught	R4.50	500 000	300 000	–	200 000
		1 053 600	**300 000**	**–**	**753 600**

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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26. Industry segment analysis

	2004 R millions	2003 R millions	2004 R millions	2003 R millions	2004 R millions	2003 R millions
	Revenue		Profit from operations		Depreciation	
Class of business						
Mining solutions	**2 140**	2 076	**212**	241	**68**	74
Specialty chemicals	**3 302**	3 197	**380**	372	**68**	54
Specialty fibres	**1 595**	1 714	**3**	22	**72**	75
Property	**352**	207	**130**	39	**2**	3
Decorative and packaging coatings	**671**	661	**59**	52	**10**	12
Group services, development and intergroup	**(149)**	(196)	**(41)**	(35)	**4**	5
	7 911	7 659	**743**	691	**224**	223

	2004 R millions	2003 R millions	2004 R millions	2003 R millions	2004 R millions	2003 R millions
	Assets		Liabilities		Capital expenditure	
Class of business						
Mining solutions	**1 160**	1 096	**318**	279	**148**	93
Specialty chemicals	**2 087**	2 054	**628**	564	**96**	81
Specialty fibres	**936**	960	**269**	199	**24**	57
Property	**586**	685	**66**	14	**–**	–
Decorative and packaging coatings	**288**	261	**166**	145	**9**	7
Group services, development and intergroup	**4**	18	**172**	160	**–**	3
	5 061	5 074	**1 619**	1 361	**277**	241

	2004 R millions	2003 R millions	2004 R millions	2003 R millions	2004 R millions	2003 R millions
	Revenue		Assets		Capital expenditure	
Geographical segment analysis						
Region						
Republic of South Africa	**6 505**	6 279	**4 753**	4 788	**261**	200
Rest of Africa	**752**	692	**192**	123	**16**	23
Europe	**212**	182	**–**	–	**–**	–
North America	**148**	140	**116**	163	**–**	18
South America	**101**	83	**–**	–	**–**	–
Rest of the world	**193**	283	**–**	–	**–**	–
	7 911	7 659	**5 061**	5 074	**277**	241

Assets consist of property, plant and equipment, goodwill, inventory and trade and other receivables. Liabilities consist of trade and other payables.

Appendix 1

Long-term borrowings

	Weighted closing interest rate %	Group 2004 R millions	Group 2003 R millions	Company 2004 R millions	Company 2003 R millions
Unsecured					
Local					
Loans					
1998/2012	9.00	**3**	3	**3**	3
2001/2006	4.60	**60**	106	**60**	106
2004/2006	8.40	**400**	–	**400**	–
Repaid	–	**–**	943	**–**	943
Secured					
Local					
2001/2006(1)	6.30	**103**	103	**103**	103
Loans – other(2)	13.31	**45**	57	**5**	7
Foreign					
Loans – other	17.19	**1**	1	**–**	–
		612	1 213	**571**	1 162
Minority shareholder loan to subsidiary					
2004/2012(3)	9.07	**365**	–	**–**	–
		977	1 213	**571**	1 162

(1) Secured over plant and equipment having a net book value of R75 million (2003 – R82 million).

(2) Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R15 million (2003 – R16 million) and mortgages over property having a net book value of R28 million (2003 – R25 million).

(3) Equity loan from empowerment consortium to AEL Holdco Limited. Interest and capital repayments on R201 million of the loan have been guaranteed by the Company.

Summary of repayments

R millions	Year	Local	Foreign	Total
	2005	77	1	78
	2006	542	*	542
	2007	25	*	25
	2008	30	*	30
	2009	24	*	24
	After 2009	278	*	278
		976	1	977

* Nominal amount

Appendix 2

Significant joint ventures

	Effective percentage held by AECI Limited	
	2004	2003
Crest Chemicals (Pty) Limited	**50**	50
DetNet International Limited[(1)]	**50**	–
DetNet South Africa (Pty) Limited	**50**	–
Resinkem (Pty) Limited	**50**	50
Specialty Minerals South Africa (Pty) Limited	**50**	50
Unifi-SANS Technical Fibers LLC[(2)]	**50**	50

	2004 R millions	2003 R millions
The aggregate of proportionately consolidated amounts included in the consolidated results is as follows:		
Balance sheets		
Property, plant, equipment and investments	**74**	104
Current assets	**161**	96
Total assets	**235**	200
Equity	**117**	151
Long-term borrowings	**39**	–
Current liabilities	**79**	49
Total equity and liabilities	**235**	200
Income statements		
Revenue	**363**	317
Net trading profit	**73**	54
Net (loss)/profit	**(1)**	7
Cash flow statements		
Cash generated by operations	**28**	14
Net interest received	**2**	3
Taxes paid	**(6)**	(9)
Changes in working capital	**(14)**	12
	10	20
Dividends paid	**–**	12
Cash retained from operating activities	**10**	8
Cash utilised in investing activities	**(68)**	(23)
Increase in funding requirements	**(58)**	(15)
Commitments		
Capital expenditure authorised	**33**	2
Future rentals on property, plant and equipment leased	**2**	8
	35	10

(1) Ireland

(2) United States of America

Appendix 3

Principal subsidiaries

	Issued share capital 2004 R	Effective shareholding 2004 %	Effective shareholding 2003 %	Interest of AECI Limited# Shares 2004 R millions	Shares 2003 R millions	Net indebtedness 2004 R millions	Net indebtedness 2003 R millions
Holding companies							
Directly held							
AECI International Limited(1)	**8**	**100**	–	*	*	**–**	–
AECI Treasury Holdings (Pty) Limited	**200**	**100**	100	*	*	**150**	145
Athena Paint Investments S.A.(3)	**230 000**	**100**	100	*	*	*	*
Capex (Pty) Limited	**10 000**	**100**	100	*	*	**–**	–
Indirectly held							
African Explosives Holdings (Pty) Limited	**43 311 779**	**75**	100	*	*	**–**	–
African Explosives International Limited(2)	**1 307**	**100**	100	**–**	–	**–**	–
Athena Investments Limited S.A.(3)	**24 243 800**	**100**	100	**–**	–	**–**	–
Insurance							
Directly held							
AECI Captive Insurance Company Limited	**810 000**	**100**	100	**11**	11	**–**	(2)
Chemrisk Services (Pty) Limited	**20**	**100**	100	*	*	**–**	–
Mining solutions							
Directly held							
AEL Holdco Limited	**99 800 000**	**75**	–	**75**	–	**1 188**	–
African Explosives (Nigeria) Limited(6)	**352 000**	**75**	100	*	*	**–**	–
African Explosives Limited ++	**100**	**75**	100	*	*	**–**	–
AEL Chemico-Mali SARL(14)	**8 659**	**75**	90	**–**	–	*	*
AEL (Mauritius) Limited(13)	**866**	**75**	100	**–**	–	**–**	36
African Explosives (Botswana) Limited(4)	**3**	**75**	100	**–**	–	**–**	–
African Explosives (Ghana) Limited(5)	**8 658 500**	**75**	100	**–**	–	*	*
African Explosives (Tanzania) Limited(7)	**26**	**75**	100	**–**	–	**–**	–
African Explosives (Zambia) Limited(8)	**71 597 137**	**60**	80	**–**	–	*	*
DetNet Solutions (Pty) Limited	**100**	**100**	100	*	*	**7**	15
Expert Explosives Limited	**1 000**	**100**	100	*	*	*	*
Paints and allied products							
Directly held							
Dulux (Mocambique) Lda(10)	**994 000**	**80**	80	*	*	**6**	4
Dulux (Pty) Limited +	**4**	**100**	100	*	*	**–**	–
Dulux Namibia (Pty) Limited	**100**	**100**	–	**–**	–	**4**	–
Dulux Swaziland (Pty) Limited(11)	**100 000**	**100**	100	*	*	**2**	1
Indirectly held							
Dulux Botswana (Pty) Limited(4)	**1 150 000**	**100**	100	**–**	–	**4**	2
Dulux Limited(9)	**500 000**	**100**	100	**–**	–	**1**	2
Property							
Heartland Properties (Pty) Limited	**1**	**100**	100	*	*	**179**	224
Other property subsidiaries				**3**	3	**162**	212
Specialty chemicals							
Directly held							
Chemical Services Limited	**8 312 795**	**100**	100	**818**	827	**63**	–
Indirectly held							
AECI Coatings (Pty) Limited	**100 000**	**100**	80	**–**	–	**92**	23
Akulu Marchon (Pty) Limited	**410 000**	**100**	100	**–**	–	**–**	–
Atlas Consolidated Industries (Pty) Limited	**200**	**100**	100	**–**	–	**–**	2
Chemical Initiatives (Pty) Limited	**1**	**100**	100	**–**	–	**–**	–
Chemserve Perlite (Pty) Limited	**800 000**	**100**	100	**–**	–	**–**	–
Chemserve Systems (Pty) Limited	**1 250 000**	**100**	100	**–**	–	**–**	–
ImproChem (Pty) Limited	**401 000**	**100**	100	**–**	–	**–**	–
Industrial Oleochemical Products (Pty) Limited	**4 001**	**100**	100	**–**	–	**–**	–
Lake International Technologies (Pty) Limited	**26 790**	**100**	100	**–**	–	**–**	3
Metswako Chemicals (Pty) Limited(4)	**740**	**100**	100	**–**	–	**–**	–
Pelichem (Pty) Limited	**50 000**	**100**	100	**–**	–	**–**	–
Plaaskem (Pty) Limited	**400**	**100**	100	**–**	–	**–**	–
Plastamid (Pty) Limited	**128 500**	**100**	100	**–**	–	**–**	4
SA Paper Chemicals (Pty) Limited	**220 443**	**100**	100	**–**	–	**–**	–
Senmin (Pty) Limited	**1 160 000**	**100**	100	**–**	–	**–**	–
Specialty fibres							
Directly held							
SANS Fibres (Pty) Limited+	**17 979 433**	**100**	100	**8**	8	**(14)**	(13)
Indirectly held							
SANS Fibers Incorporated(12)	**663**	**100**	100	**–**	–	**169**	209
SANS Fibres (Europe) Limited(2)	**1 000**	**100**	100	**–**	–	*	*
Other				**15**	6	**(241)**	(137)
				930	855	**1 772**	730

\# Cost less amounts written off
\+ Trading as an agent on behalf of AECI Limited
++ Trading as an agent on behalf of AEL Holdco Limited
* Nominal amount

All companies are incorporated in the Republic of South Africa except for the following:
(1) Ireland (2) United Kingdom (3) Grand Duchy of Luxembourg (4) Botswana (5) Ghana (6) Nigeria
(7) Tanzania (8) Zambia (9) Malawi (10) Mozambique (11) Swaziland (12) United States of America
(13) Mauritius (14) Mali

Administration

Secretary and registered office

MJF Potgieter

First floor
AECI Place
24 The Woodlands
Woodlands Drive
Woodmead
Sandton (no mail deliveries to this address)

Postal address

Private Bag X21
Gallo Manor
2052

Telephone: +27 11 806 8700
Telefax: +27 11 806 8701

Web address

www.aeci.co.za

London secretary

St James's Corporate Services Limited
6 St James's Place
London SW1A 1NP
England

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street
Johannesburg
and
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
England

Auditors

KPMG Inc.

Bankers

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

Notice of annual general meeting

Notice is hereby given that the 81st 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 Monday, 23 May 2005, at 09:00 for the following purposes:

1. to receive and consider the annual financial statements for the year ended 31 December 2004;

2. to elect directors in place of Messrs NC Axelson and CB Brayshaw who are required to retire in terms of the provisions of the articles of association but, being eligible, offer themselves for re-election. Condensed biographies of these directors appear on pages 19 and 18 respectively of this annual report;

3. to consider, and resolve if deemed fit, to continue to place the unissued 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 Listing Requirements 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 consider, and if deemed fit, to resolve that the fees payable to the non-executive directors be determined as shown in the table below.

5. to consider, and resolve if deemed fit, to adopt the following special resolutions:

Special resolution number 1

"That the articles of association of the Company be cancelled and that in place thereof the draft articles of association appended hereto as "Appendix A" and tabled at the meeting at which this special resolution is proposed and initialled by the chairman of the meeting for purposes of identification be and are hereby adopted as the new articles of association of the Company".

The reason for special resolution number 1 is to introduce new articles of association (a copy of which is distributed together with this annual report) to replace the existing articles of association which have been the subject of numerous amendments as company law, the Listing Requirements of the JSE Securities Exchange SA (hereinafter in this notice the "JSE") and the needs of the Company have changed. The proposed new articles of association:

- include new provisions required by the introduction of STRATE;
- allow electronic communications and odd-lot offers; and
- exclude provisions contained in the existing articles of association limiting the borrowing powers of directors, which limitations were required by the JSE at the time that AECI was a subsidiary company.

Role	Current fee (per annum)	Proposed fee (per annum)
Non-executive directors serving on the Board	R100 000	R120 000
Chairperson of the Board, in addition to above	R300 000	R360 000
Non-executive directors serving on the audit sub-committee, in addition to above	R50 000	R60 000
Chairperson of the audit sub-committee, in addition to above	R50 000	R60 000
Non-executive directors serving on the remuneration/nominations sub-committee, in addition to above	Nil	R35 000
Chairperson of the remuneration/nominations sub-committee, in addition to above	Nil	R35 000
Non-executive directors serving on the corporate citizenship sub-committee, in addition to above	Nil	R35 000
Chairperson of the corporate citizenship sub-committee, in addition to above	Nil	R35 000

Special resolution number 2

"That the directors of the Company be and they are hereby authorised at their discretion to procure that the Company, or the Group, acquire the Company's shares, subject to the Companies Act of 1973, as amended, and subject to the rules and requirements of the JSE by the purchase on the JSE of ordinary shares issued by the Company provided that:

(i) the number of ordinary shares acquired in any one financial year shall not exceed 10 per cent of the ordinary shares in issue at the date on which this resolution is passed;
(ii) this authority shall lapse on the earlier of the date of the next annual general meeting of the Company or the date 15 months after the date on which this resolution is passed;
(iii) the price paid per ordinary share may not be greater than 10 per cent above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which a purchase is made;
(iv) the number of shares purchased by subsidiaries of the Company shall not exceed 10 per cent in the aggregate of the number of issued shares in the Company at the relevant times."

The reason for this special resolution number 2 is to authorise the directors, if they deem it appropriate in the interests of the Company, to procure that the Company or the Group acquire or purchase ordinary shares issued by the Company subject to the restrictions contained in the above resolution.

The effect of this special resolution will be to authorise the directors of the Company to procure that the Company or the Group acquire or purchase shares issued by the Company on the JSE. Such purchases:

(i) may not in any financial year exceed 10 per cent of the Company's ordinary shares in issue at the date of passing the above resolution;
(ii) must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;
(iii) may not be made at prices in excess of 10 per cent above the weighted average of the market value of the ordinary shares for the five days preceding the date of purchase;
(iv) must comply with the requirements of the JSE;
(v) if made by a subsidiary or subsidiaries may not exceed 10 per cent in the aggregate of the issued shares in the Company.

The general authority granted by this resolution will lapse on the earlier of the date of the next annual general meeting of the Company or the date 15 months after the date on which this resolution was passed.

At the present time the directors have no specific intention with regard to the utilisation of this authority which will only be used if the circumstances are appropriate. If the authority is exercised the ordinary shares will be purchased on the JSE.

The directors, after considering the effect of a repurchase of up to 10 per cent of the Company's issued ordinary shares, are of the opinion that if such repurchase is implemented:

(i) the Company and the Group will be able to pay their debts in the ordinary course of business for a period of 12 months after the date of this notice;
(ii) recognised and measured in accordance with the accounting policies used in the latest audited annual Group financial statements, the assets of the Company and the Group will exceed the liabilities of the Company and the Group for a period of 12 months after the date of this notice;
(iii) the ordinary capital and reserves of the Company and the Group will be adequate for the purposes of the business of the Company and the Group for the period of 12 months after the date of this notice;
(iv) the working capital of the Company and the Group will be adequate for the purposes of the business of the Company and the Group for the period of 12 months after the date of this notice.

The Company will ensure that its sponsor will provide the necessary letter on the adequacy of the working capital in terms of the JSE Listing Requirements, prior to the commencement of any purchase of the Company's shares on the open market.

In terms of the JSE Listing Requirements for special resolution number 2 the following general information is included in the annual report which is distributed together with this notice of annual general meeting:
(i) Directors (pages 18 and 19)
(ii) Major shareholders (page 4)
(iii) Directors' interest in securities (page 51)
(iv) Share capital of the Company (page 70)

There have been no material changes in the financial or trading position of the Company and the Group since 31 December 2004.

The Company is not party to any material litigation or arbitration proceedings nor is it aware of any pending material litigation or arbitration proceedings to which it may become a party.

Notice of annual general meeting (continued)

The directors whose names appear on pages 18 and 19 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this notice of the annual general meeting contains all information required by law and the JSE Listing Requirements.

Voting and proxies

On a show of hands every member present in person or represented in terms of section 188 of the Companies Act, 1973, shall have one vote and on a poll every member present in person or by proxy or so represented shall have one vote for every share held by such member.

A member entitled to attend, speak and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend, speak and vote in place of that member. A proxy need not be a member of the Company.

Registered holders of certificated AECI shares and holders of dematerialised AECI shares in their own name and who are unable to attend the annual general meeting and who wish to be represented at the meeting, must complete and return the enclosed form of proxy in accordance with the instructions contained in the form of proxy so as to be received by the share registrars, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, England by no later than 09:00 on Thursday, 19 May 2005.

Holders of AECI shares (whether certificated or dematerialised) through a nominee should timeously make the necessary arrangements with that nominee or, if applicable, their Central Securities Depository Participant ("CSDP") or broker to enable them to attend and vote at the annual general meeting or to enable their votes in respect of their AECI shares to be cast at the annual general meeting by that nominee or a proxy or a representative.

By order of the Board

MJF Potgieter
Secretary

Sandton, 21 February 2005

Form of proxy

AECI LIMITED
Incorporated in the Republic of South Africa
(Registration No. 1924/002590/06)
Share code: AFE ISIN code: ZAE000000220

Only for the use of registered holders of certificated ordinary shares in the Company and the holders of dematerialised ordinary shares in the capital of the Company in "own name" form, at the annual general meeting to be held at 09:00 on Monday, 23 May 2005, on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton.

Holders of ordinary shares in the Company (whether certificated or dematerialised) through a nominee must not complete this form of proxy but should timeously inform that nominee, or, if applicable, their Central Securities Depository Participant ("CSDP") or stock broker of their intention to attend the annual general meeting and request such nominee, CSDP or stock broker to issue them with the necessary authorisation to attend or provide such nominee, CSDP or stock broker with their voting instructions should they not wish to attend the annual general meeting in person but wish to be represented thereat. Such ordinary shareholders must not return this form of proxy to the transfer secretaries or to the registered office of the Company.

I/we ______________________________ of ______________________________

(name and address in block letters)

being a member/s of the above Company, holding ______________________ shares in the Company, hereby

appoint ______________________________of ______________________ or, failing him, the chairman of

the meeting as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual

general meeting of the Company to be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead,

Sandton, at 09:00 on Monday, 23 May 2005, and at any adjournment of that meeting as follows:

Proposed resolution	For	Against	Abstain
1. Adoption of the annual financial statements			
2. Election of directors 2.1 Mr NC Axelson			
2.2 Mr CB Brayshaw			
3. Shares under the control of the directors			
4. Increase in non-executive directors' fees			
Special 1: Adoption of new articles of association			
Special 2: Authority for share repurchases			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of ordinary shares than you own in the Company, insert the number of ordinary shares held in respect of which you desire to vote (see note 2).

Signed at ______________________________ on ______________________________ 2005

Signature/s ______________________________

Assisted by (where applicable)

Each member is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote in place of that member at the annual general meeting.

Please read the notes on the reverse side of this form of proxy.

Notes to the form of proxy

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

2. Please insert an "X" in the relevant space according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable at the annual general meeting. A shareholder or his/her proxy is not obliged 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 number of the votes exercisable by the shareholder or by his/her proxy.

3. To be valid, the completed form of proxy must reach the offices of the Company's share registrars by no later than 48 hours prior to the annual general meeting (excluding Saturdays, Sundays and public holidays).

4. Where there are joint holders of any shares, only that holder whose name appears first in the register in respect of such shares need sign this form of proxy.

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

6. Any alteration to this form of proxy must be signed in full and not initialled.

7. If this form of proxy is signed under a power of attorney, then such power of attorney or a notarially certified copy thereof must be sent with this form of proxy for noting (unless it has already been noted by the transfer secretaries).

8. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

9. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these notes if he is satisfied as to the manner in which the shareholder wishes to vote.

AECI

Take a group of specialty product and service solutions businesses with the vision to embrace a transformed South Africa, a proven strategy for sustained growth, the ability to adapt to a changed environment, and with innovative skills and products. Use these strengths to derive maximum benefit from prevailing market conditions.

www.aeci.co.za