AECI

annual report 2005

specialty product and service solutions

AECI

Contents

Foreign currencies

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

	2005	2004
	R	R
Euro	**7.51**	7.67
Pound sterling	**10.92**	10.85
Swiss franc	**4.82**	4.97
US dollar	**6.34**	5.62

82nd annual report
for the year ended 31 December 2005

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

AECI

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 among 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. All four businesses are exploring opportunities to take their proven products and service packages to niche markets in countries beyond their traditional areas of activity.

The Group's fifth area of business is the **realisation of surplus land and the management of surplus assets**, by Heartland. 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 2005, 1 300 hectares of the original 3 700 hectares of excess land available had been sold.

AECI has a total employee complement of 7 250, many of whom are engaged in the Group's extensive sales, technical service and distribution networks.

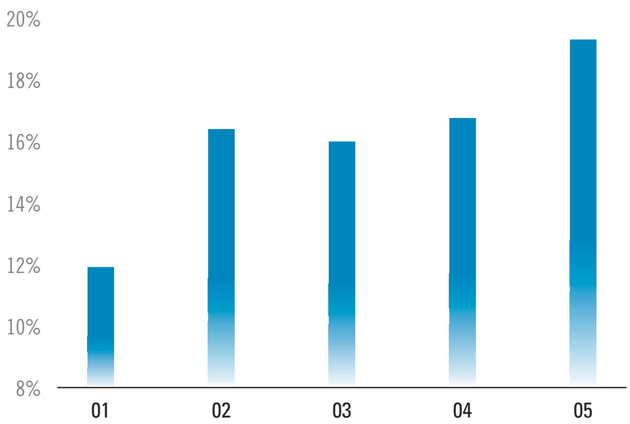
Shareholder information

Group results at a glance

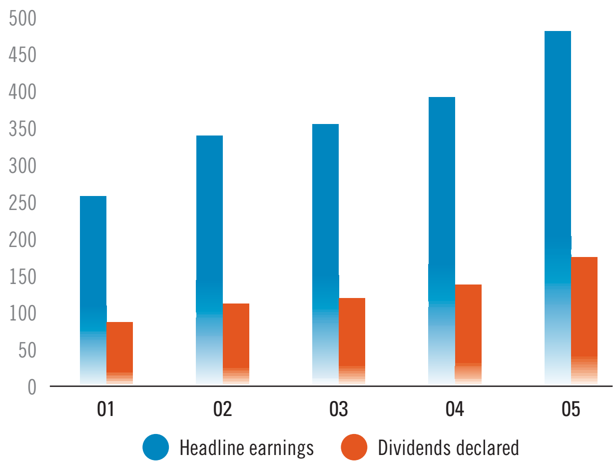
for the year ended 31 December 2005

	2005	2004	% change
Revenue (R millions)	**8 768**	7 911	11
Profit from operations (R millions)	**887**	743	19
Headline earnings (R millions)	**530**	427	24
Net profit attributable to ordinary shareholders (R millions)	**486**	283	72
Headline earnings per ordinary share (cents)	**482**	392	23
Dividends declared per ordinary share (cents)	**175**	138	27
Market capitalisation at 31 December (R millions)	**6 399**	4 669	37
Trading margin (%)	**10.1**	9.4	
Return on net assets (%)	**23.4**	20.4	
Net borrowings as a percentage of shareholders' interest (%)	**27**	23	

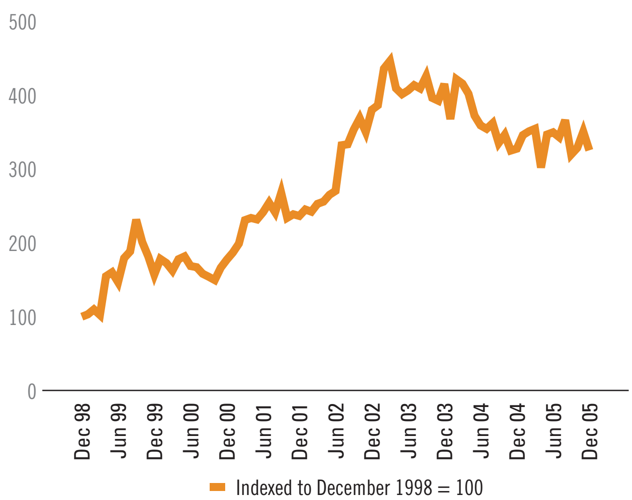
Return on invested capital



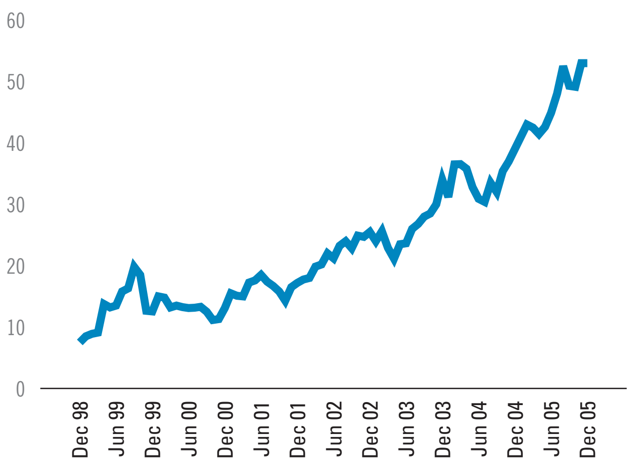
Headline earnings and normal dividends per ordinary share (cents)



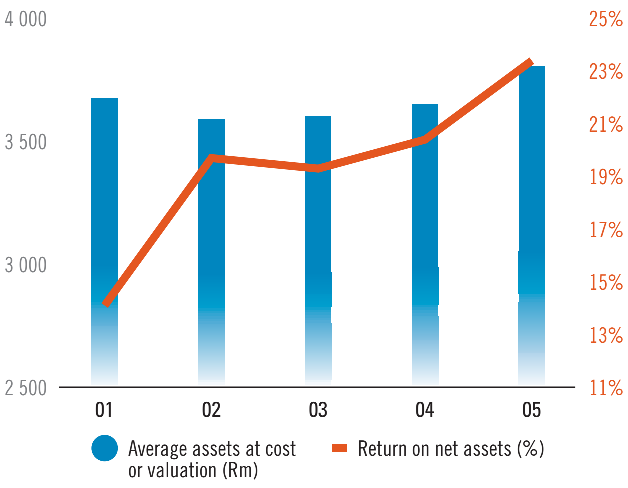
AECI share price adjusted for special dividend relative to JSE Industrial Index



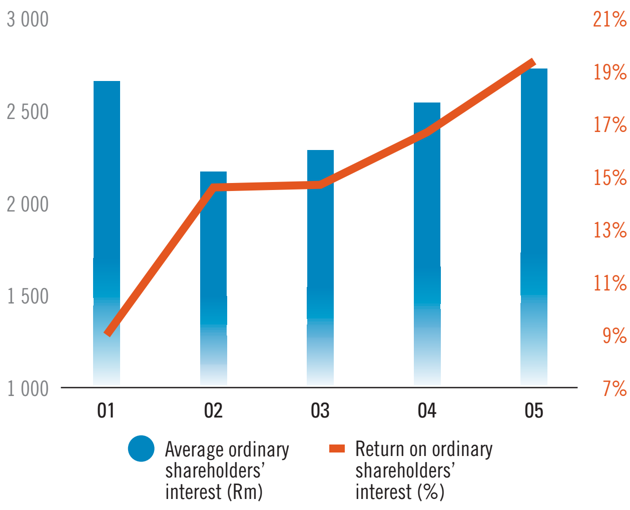
AECI share price (rand)



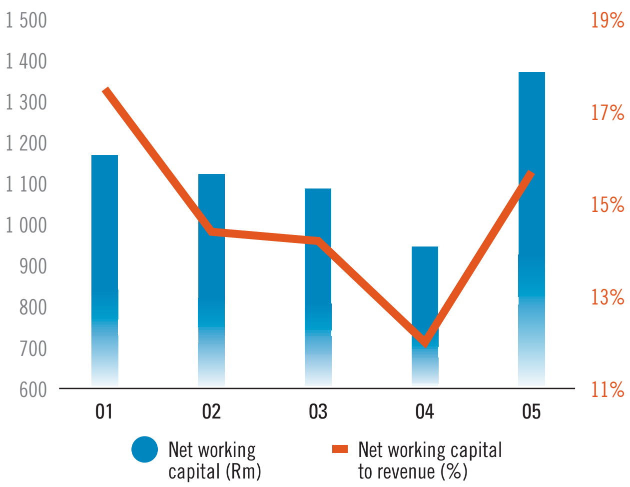
Return on net assets



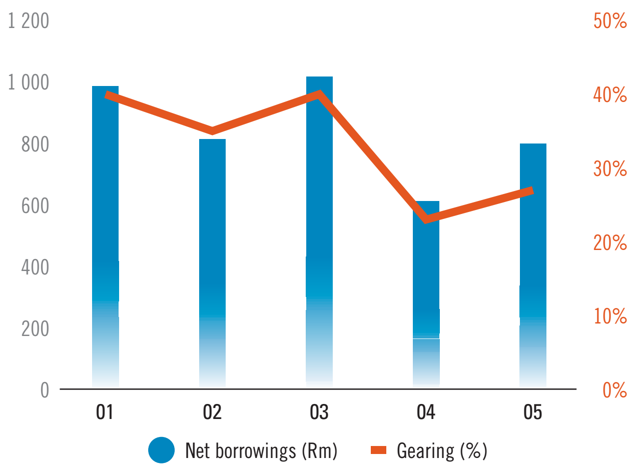
Return on ordinary shareholders' interest



Net working capital to revenue



Net borrowings and gearing



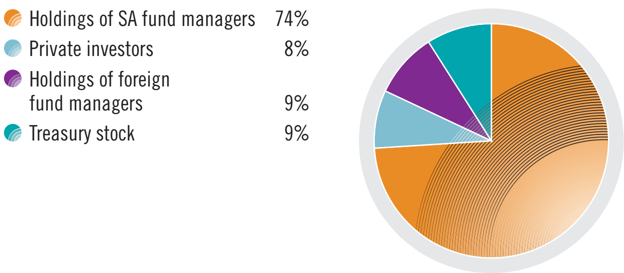
Analysis of ordinary shareholders December 2005

	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 2005 was as follows:			
AECI Treasury Holdings (Pty) Limited	1	10 311	9
Directors	4	15	–
Non-public	5	10 326	9
Public	4 991	110 417	91
Total	4 996	120 743	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 2005:			
RMB Asset Management		22 264	18.4
Coronation Fund Managers		18 247	15.1
Investec Asset Management		15 443	12.8
Stanlib Asset Management		10 528	8.7
Old Mutual Asset Management		7 111	5.9
Sanlam Investment Management		6 661	5.5
To the best of the directors' knowledge, the percentage of the Company's shares held by non-South African shareholders was 8.8 per cent in December 2005.			
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 2005:			
Public Investment Commissioner		9 913	8.2
Investment Solutions		7 487	6.2

Profile of registered shareholders

Size of shareholding	Number of shareholders	% of total	Shares held (thousands)	% of total shares
1 – 1 000	2 833	57	1 202	1
1 001 – 10 000	1 570	31	5 420	5
10 001 – 100 000	401	8	13 544	11
Over 100 000	192	4	100 577	83
Total	4 996	100	120 743	100

Profile of shareholdings



Financial calendar

AECI

2005 final ordinary dividend No. 144	
Declaration date	20 February
Last date to trade cum dividend	12 April
Ex dividend trade	13 April
Record date	21 April
Payment date	24 April
5.5% preference shares dividend No. 136	
Declaration date	15 May
Last day to trade cum dividend	2 June
Ex dividend trade	5 June
Record date	9 June
Payment date	15 June
82nd annual general meeting	22 May
2006 interim ordinary dividend No. 145	
Declaration date	24 July
Last date to trade cum dividend	8 September
Ex dividend trade	11 September
Record date	15 September
Payment date	18 September
2006 interim report released	25 July
5.5% preference shares dividend No. 137	
Declaration date	13 November
Last day to trade cum dividend	1 December
Ex dividend trade	4 December
Record date	8 December
Payment date	15 December
Financial year-end	31 December
2006 audited financial results released	February 2007
2006 annual report posted	March 2007

Non-executive directors

Colin Brayshaw | Mike Leeming | Fani Titi | Alan Pedder | Lex van Vught

Colin Brayshaw (70)
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 Communications and Datatec, and is chairman of Coronation Investments and Trading, and Freestone Properties.

Mike Leeming (62)
BCom, MCom, FCMA, FIBSA, AMP (Harvard)
He joined AECI's Board in 2002 and is also a member of the Company's audit and corporate citizenship committees. Mike is a retired executive director of Nedcor and has served as chairman of the Banking Council of South Africa and president of this country's Institute of Bankers. He currently serves on the boards of five JSE-listed companies in a non-executive capacity.

Fani Titi (43)
BSc (Hons), MA, MBA
Fani joined AECI's Board in 2005 and is a member of the audit committee and chairman of the corporate citizenship committee. He is chairman of the Tiso Group, a former founding director of Kagiso Trust Investment Company, founding chief executive of Kagiso Media Limited and a former executive director of African Bank Investments Limited.

Alan Pedder CBE (67)
AMIMechE, FCIM
Alan is the Company's chairman and also chairs its nominations and remuneration committees. In addition, he is a director of SANS Fibres. He joined the AECI Board in 1994. 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 global businesses, from where he retired as group technology director.

Lex van Vught (62)
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 serves as chairman of Tiger Brands and on the boards of Impala Platinum and some unlisted companies.

Executive committee

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

Neale Axelson (56)
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 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 (52)
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 (57)
BSc (Eng), BCom
He is managing director of Dulux. Before moving to the decorative coatings company 11 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 (51)
BSc (Mech Eng), BCom, MBA, PhD, Pr Eng
He is managing director of African Explosives (AEL) and a non-executive director 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 (59)
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 (52)
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 (46)
BA
He is general manager, Group human resources and safety, health and environment (SHE). The latter function includes overall responsibility for land remediation activities. 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

Martin Potgieter | Chris Sinclaire | Louis van der Walt

Martin Potgieter (55)
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 (56)
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 tax functions.

Louis van der Walt (51)
BIuris, LLB, CFP
He has been manager of AECI's Retirement Funds since 1999. He joined AECI as a legal adviser in 1991, having worked in similar capacities elsewhere. He is an Advocate of the High Court and a Certified Financial Planner.

Corporate governance

AECI has long espoused high standards of ethical behaviour and corporate governance. The Group is committed to conducting all its activities honestly and with integrity.

compliance

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 to "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 five non-executive directors, of whom three 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 officer and ensures that succession is planned
- ensures that the Company complies with all relevant laws, regulations and codes of best business practice and that it communicates with its shareholders and relevant stakeholders openly with substance prevailing over form
- assesses at least annually the key risk areas of the business and determines the policies and processes necessary to ensure the integrity of internal controls and risk management in the Company
- develops the framework, policies and guidelines for safety, health and environmental 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 2005 during their tenure as directors is shown in the table below:

	Meetings held	Meetings attended
NC Axelson	6	6
CB Brayshaw	6	6
S Engelbrecht	6	6
MJ Leeming	6	6
TH Nyasulu	5	4
AE Pedder CBE	6	6
CML Savage	2	2
F Titi	5	5
LC van Vught	6	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 non-executive directors, a majority of whom are independent. 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
F Titi

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

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

Nominations committee

The Board established a formal nominations committee in 2002. The committee is comprised of three non-executive directors, a majority of whom are independent. 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
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 three non-executive directors, a majority of whom are independent. 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
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. Current members of the committee are:
F Titi (Chairman)
MJ Leeming
LC van Vught

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.

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 while 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 and 50 per cent for executive directors and the leaders of operating businesses. Outperformance of financial targets yields a higher percentage bonus.

Executives and senior management also participate in a "benefit unit" scheme which emulates the performance of share options. This scheme is 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 benefit unit scheme and links long-term executive wealth accumulation more directly to the actual financial performance of the Company.

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

Accountability and internal control

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

(IFRS). 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 IFRS.

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 Limited'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

It is pleasing once again to report on another year of good performance and strategic progress by the AECI Group during 2005. All components of the Group's portfolio delivered improved results, enabling a 23 per cent increase in headline earnings per share to 482 cents. The annual dividend was raised by 27 per cent to 175 cents and the balance sheet remained sound.

Profit from operations other than property rose by 16 per cent despite the effect of high oil prices on many raw material costs and continued pressure on local prices and customers' export businesses caused by sustained strength in the rand. Achievement of this result in a low inflation environment reaffirms the robustness of the Group's core portfolio and its strategic positioning as a specialty product and service provider. Safety performance was again at world-class levels while other key corporate citizenship issues such as environmental management, economic empowerment and governance remained an important focus of Board attention. The Company has now set itself specific improvement targets for environmental performance.

Trading environment

Energy and metal prices were driven yet higher in 2005 by strong global growth, led by China, and renewed fears of growing instability in the Middle East. The currencies of commodity-rich countries consequently appreciated further on a trade-weighted basis and also generally against an unexpectedly firm US dollar. With the rand/dollar exchange rate little changed from the strong levels reached in 2004, actions to offset local cost increases to sustain international competitiveness and margins were an imperative for all South African suppliers, including AECI.

Resistance to price adjustments was widespread among the Group's local manufacturing and mining customers, notwithstanding the surge in precious metal prices in rand terms in the latter part of the year. High and volatile raw material costs were exacerbated by hurricanes in the US and maintaining margins was a tough challenge for all the major businesses, African Explosives, Chemical Services and SANS Fibres. In contrast, buoyant local consumer demand sustained by low inflation and interest rates again impacted favourably on Heartland and Dulux.

Trading conditions are not expected to be materially different in the year ahead, and cost containment together with good revenue growth continue to be key to further improvements in performance. The ambitious intentions of government to facilitate a higher rate of economic growth and to address the evident degradation of critical national infrastructure are much to be welcomed.

Financial performance

Real growth of 18 per cent in headline earnings per share is a pleasing result in any circumstance but particularly so in the demanding trading environment which prevailed last year. Less satisfactory was the increase of almost R300 million in working capital to over 15 per cent of sales from the all time low of 12 per cent achieved last year. This will be a focus of management attention in 2006.

African Explosives recorded a marginal increase in underlying operating profit as an outstanding performance by operations elsewhere in Africa more than offset the effects of declining gold mining activity and margin pressure in South Africa. The company responded actively to the dumping of state-subsidised Chinese initiating systems in the South African market by introducing directly competing product lines, and it will continue to seek a fair hearing of its anti-dumping petition at the International Trade Administration Commission.

A remarkable turnaround in automotive coatings and an excellent performance by the polyurethanes business were highlights of the improved result posted by Chemical Services. SANS Fibres delivered a notable gain in operating profit with higher margins on US dollar-based sales supported by the ongoing drive to improve production performance.

Dulux again achieved excellent results in South Africa with significantly higher sales volumes of its premium branded products. It boosted its offering with the launch of two new ranges, the "Signature Collection" and "Luxurious Silk".

As in 2004, the property activities managed by Heartland delivered impressive profits and cash flow in supportive market conditions. Regrettably, unresolved issues regarding the Gautrain will restrict the availability of land for sale at Modderfontein during 2006.

More detail on the operational performance of Group businesses is provided in the chief executive's review of operations.

The Group invested R450 million in growth assets during 2005, comprised mainly of expansion projects in African Explosives and Chemical Services, and the acquisition by the latter of five businesses to the value of R207 million.

Late in the year, the Company purchased call options over 2.95 million AECI ordinary shares from a local bank for a total cash premium of R120 million. This will obviate the need for the Company to issue new shares when participants in the AECI share option scheme exercise their rights in terms of the scheme. This will eliminate any future dilution of earnings from this source.

The aggregate expenditure on growth assets, working capital and the call option premium thus amounted to almost R870 million in 2005. Nonetheless, thanks in part to excellent

The Group's portfolio of businesses is **well positioned** for more growth in 2006. Management is again targeting an increase in headline earnings for the full financial year.

robustness

cash flow from property activities, net borrowings increased by only R183 million over the year with year-end gearing at 27 per cent of shareholder funds.

In light of this, the Board decided to declare a considerably higher final dividend of 121 cents, making the annual dividend 175 cents, a 27 per cent increase on 2004. The dividend cover ratio was 2.75 times, slightly below our long-term policy objective of 3 times cover. In addition, and despite no repurchases of shares being undertaken in 2005, the Board has resolved to seek renewed approval from shareholders for a general repurchase of up to 10 per cent of the ordinary shares of the Company from time to time, subject to market conditions. The appropriate resolution is included in the notice of annual general meeting of the Company which is to be held on 22 May 2006.

Strategic progress

An empowerment transaction involving the sale of a 25.1 per cent equity interest in ImproChem, a specialty water treatment business in the Chemical Services portfolio, to the Tiso Group became effective in September 2005. Our experience of Tiso's involvement as a shareholder in African Explosives gives confidence as to the future development of both of these businesses.

African Explosives further advanced its strategy of becoming the lowest cost provider of high quality and high value-added blasting solutions with the imminent commissioning of the R75 million first phase of automated production of initiating systems at Modderfontein. The Board has approved a second phase at an estimated cost of R100 million. When the contemplated third phase is complete, the facility will be the largest and most advanced of its kind in the world.

SANS Fibres has made good progress in developing more technically demanding weaving yarns for high quality end uses including airbags. While initial orders for such products have been received, significant sales are not expected before 2007. The ongoing strength of the rand against the US dollar continues to pressure margins and intensive efforts are under way to achieve higher levels of efficiency and product performance at the Bellville plant. Solid progress has been made in both the market and operating performance at the US Stoneville joint venture and the business moved into profit in the year.

Chemical Services made a further five acquisitions in 2005, closing the year with the purchase of Leochem, a producer of personal care intermediates, for a consideration of R100 million with effect from March 2006. In addition, the company has identified opportunities for selective replication of its value-adding service model in Brazil. The acquisition of a 60 per cent interest in a strategically complementary oleo-chemicals business for about R40 million is close to completion, and a more substantial specialty business is being sought as a platform for the introduction of Chemserve's portfolio of proprietary products to the Brazilian market.

Corporate citizenship

The Group is committed to maintaining its proud history of high standards of corporate citizenship, integrity and the pro-active 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 defines the parameters and targets to assess and improve performance on these issues. Comprehensive chapters on both corporate citizenship and governance are included in this annual report.

Directorate

Cedric Savage retired from the Board in May 2005 after eight years as a director. I thank him for his valuable contribution to our deliberations through some challenging times. Hixonia Nyasulu resigned from the Board in November last year. I thank her for the insightful perspectives she brought to our affairs and wish her well in her new endeavours. We were pleased to welcome Fani Titi, chairman of the Tiso Group, as a non-executive director in May last year. His value to the Board is already evident and I look forward to his long-standing association with AECI.

Outlook

The prevailing environment of GDP growth, firm commodity prices and rand exchange rate accompanied by low inflation and interest rates is not expected to change materially in the year ahead, and the Group's portfolio of businesses is well positioned to benefit in these conditions. The extent of land available for sale during 2006 will be lower than in 2005.

Nonetheless, provided the rand exchange rate does not strengthen substantially from the 2005 average, management is again targeting an increase in headline earnings for the full financial year.

Alan Pedder CBE
Chairman

20 February 2006

Corporate citizenship

Corporate citizenship focuses on how companies relate to external stakeholders, to the marketplace, to government and to society as a whole, how they measure and manage their performance as corporate citizens in matters relating to safety, health and environmental performance, and on how obligations are met to help all citizens become meaningful participants in South Africa's economy.

Group human resources

In AECI, such matters are guided by a sub-committee of the Board. In human resources-related issues, the Board has instructed the corporate citizenship sub-committee (the committee) to carry out its work in terms of the following basic guidelines:

Economic empowerment

The Company endeavours to involve historically-disadvantaged South Africans as equity partners in Group businesses, or as preferred suppliers to Group companies, to the extent that they are the true beneficiaries of such initiatives, without undue disadvantage to shareholders of the Company.

Employment equity

The employment equity programme aims to develop and implement a competitive human resource strategy to ensure that the Group's businesses are able to attract, retain and develop the best possible talent to support superior performance. The programme requires an organisational culture, structures and systems that support the development of people and optimisation of their potential. It is part of overall business plans and the committee is responsible for enforcing, monitoring and auditing development and progress.

The exclusion of any person capable of making a contribution to the Company is not good business practice and, accordingly, there is a need to address any existing inequalities in employee profiles and organisational practice. Employees who have been disadvantaged in the past must be given the appropriate support so that they, too, will be equipped for successful careers.

In employment equity, therefore, AECI is committed to:

- enhancing business performance through progressive and innovative human resource management
- creating an environment where individuals who demonstrate initiative, enterprise, ability, effort and loyalty are able to develop rewarding careers at all levels, irrespective of their backgrounds
- ensuring that all employees have the right to work in an environment that is free from discrimination and harassment
- ensuring equitable access to opportunity
- maintaining an environment where employment and progression are based on merit
- providing meaningful support and appropriate education and training; and
- enhancing diversity through recruitment targets that ensure equitable access to opportunities, and a culture that values and optimises the benefits of diversity.

The committee oversees compliance with the Employment Equity Act in terms of a policy that addresses issues such as discrimination, harassment, affirmative action, and internal dispute resolution.

As required by the Act, all Group companies submitted annual employment equity and income differential reports to the Department of Labour in 2005. Employment equity forums continue to function effectively at most of the Group's employment centres, dealing with issues associated with diversity in the workplace.

Skills development

In line with the Skills Development Act, all Group companies submitted their workplace skills plans for the year and several Group programmes are registered with the relevant Sectoral Education Training Authorities (SETAs). A number of learnership programmes are well established. Examples include:

Adult Basic Education Training (ABET)

This computer-based system facilitates numeracy and English literacy skills. At SANS Fibres, a 95 per cent pass rate among participating employees was achieved and an 83 per cent pass rate was registered at Dulux. At AEL, 76 employees registered for various ABET programmes and 39 of them graduated.

Corporate citizenship recognises the rights and responsibilities of businesses within a broader societal context. It is concerned not only with any company's economic contribution but also with its social and environmental impacts.

responsible

Learnerships

As more learnerships are registered with the South African Qualification Authority so more opportunities for participation become available across the Group. Some of the achievements were:

- Dulux won provisional accreditation from the Chemical Industries Education and Training Authority to provide training in Chemical Equipment Operations at level 2 of the National Qualification Framework (NQF2)
- SANS's learnerships focused on Team Co-ordination and Technical Operator, with training specific to the clothing, textile, leather and footwear industries. In 2005, the first group of employees received NQF2 certificates in man-made fibres
- 15 AEL employees graduated from NQF1 Chemical Operations training
- 15 unemployed learners completed NQF2 learnerships. This training is a government-driven initiative and encourages companies to provide opportunities for unemployed people, thereby improving their longer-term employment prospects
- AEL and Ekurhuleni West College, in partnership, enabled 25 and 29 learners to complete NTC1 and NTC2 respectively. NTC, national technical certificate, is a technical college qualification
- sponsored by AEL, 18 employees completed their driving learnerships; and
- at the AEL Technical Training Centre graduations included eight in NQF4 Mechanical Fitter, five in NQF4 Instrument Mechanician, five in NQF4 Electrical and two in NQF3 learnerships.

Training and development

Among the most innovative of the Group's initiatives was SANS Fibres' performance management and development system. Launched to meet the real training needs of employees, it is already showing results and is gaining rapid acceptance by personnel. Its results will enhance the company's business performance in future years.

Also at SANS, operators are equipped with skills to become facilitators in training other operators. They undergo training in adult learning principles and techniques as well as in competence assessment. This programme is being registered and accredited by the education and training SETA.

At AEL, a team manager development programme was completed. This ran over three years and included subjects such as production and human resources management, and logistics. Twenty five managers benefited. Also at AEL, 20 employees registered for explosives technology qualifications at the University of South Africa and 10 of them have already graduated.

HIV/Aids

Group-wide educational programmes associated with voluntary testing and counselling showed pleasing progress in some areas. At Chemical Services, for example, the company's effective HIV/Aids response programme has strong support from local facilitators and it is encouraging that more employees are responding to the "Know your status" campaign. Early diagnosis of HIV infection greatly enhances the prospects for effective antiretroviral therapy, provided by the Group's medical aid schemes.

Latest estimates of HIV prevalence in the AECI Group as a whole indicate a slightly lower infection rate than previously projected.

At AEL, employees have been trained as facilitators of "Tilly's Tavern", a role-playing exercise that considers Aids in relation to other social issues. At Heartland Leasing's Umbogintwini site, community health workers from neighbouring KwaMakhutha were trained in partnership with the University of KwaZulu-Natal's Aids unit. Better skills in home-based care will assist them in their community work.

Labour relations

Positive labour relations continued in 2005, notwithstanding ongoing restructuring in some parts of the Group and a brief, restricted strike at AEL's Modderfontein operations. Downsizing in some areas resulted in manpower reductions involving early retirements, redeployment and selective retrenchments. It is pleasing that negotiated agreements with representative unions were achieved, sometimes in difficult circumstances.

Social responsibility programmes

The focus of these programmes varies in line with the needs of individual AECI businesses and the communities in which they operate. In 2005, a total of about R4 million was invested.

Corporate citizenship continued

At Group level, AECI bases its social responsibility policy on the need for partnerships between stakeholders such as business, government, NGOs and communities. A worthy example in this regard is the five-year partnership between AECI and the National Business Initiative (NBI). The latter identifies areas of special need not addressed by government funding and provides specialist input and interventions as solutions. Using this approach, the NBI established its Education Quality Improvement Partnership (EQUIP) and AECI became involved via a number of its businesses at various sites.

Business Against Crime (BAC) was also initiated by the NBI and AECI is involved on two fronts: partnering against organised crime in a project where businesses work with their local police stations; and training for a volunteer service that provides free and confidential counselling to crime victims. With AECI's sponsorship, management training for senior police officers at the Edenvale, Ivory Park and Rabie Ridge stations, in Gauteng, was undertaken and will continue in 2006.

AECI also considers important its support for projects that are able to create self-sufficiency, thereby empowering people in the longer term beyond the needs of sectors in which the Group operates. Examples include the Kuka and Sizakele craft projects, in partnership with the Tshwane University of Technology, in Pretoria. The Sizakele project has exhibited in Sweden and stocking of its products is being considered by a major chain store.

The Tambani project in Venda continued to grow, with products having been exhibited and sold in the USA. AECI assisted in establishing the project's web site and this will have great benefits for its visibility and future foreign sales opportunities.

In the areas of promoting skills development, with associated employment potential benefits, AECI maintained its partnership with Sparrow Schools. New subjects and training continue to be made available to young people who would otherwise be unemployable.

Business-based contributions by individual companies complement and enhance the Group's efforts. Some examples of these follow.

Through the Tiso AEL Development Trust, established as a shareholder in AEL when this company was empowered in 2004, R850 000 was invested. In line with the Trust's guiding principles of supporting education and alleviating the burden of the HIV/Aids pandemic on children, the following were achieved:

- in a partnership between the Trust, suitable NGOs and schools themselves, six schools in Tembisa benefited in the areas of mathematics, science and accountancy. The NBI's EQUIP programme, which is already working successfully under Heartland Leasing's guidance in the Umbogintwini area, will be included in the initiative in future years
- via a skills development programme, seven unemployed youths from historically disadvantaged backgrounds have been selected as internees to learn about the world of work and the skills required to become useful participants
- eleven students at the CIDA university, from the Tembisa/ Alexandra area, were selected by AEL for mentoring, financial support and vacation employment; and
- the Noah Ark in Ivory Park received R150 000. This centre cares for children whose parents have died of Aids or are very ill with the disease.

For Chemical Services, educational assistance remained the key focus, driven primarily by the company's future skills requirements. Merit-based bursaries for studies relevant to chemistry, chemical engineering and metallurgical sciences were awarded to nine underprivileged students. A number of students who completed their studies in 2005 were offered permanent employment. In addition, a grant was made to the Alexandra Educational Committee. This is a bursary scheme that selects primary school learners in Alexandra and places them in racially-integrated schools in a more stable social environment, with a higher standard of education. Support for schools in the Umbogintwini area also continued.

Safety, health and environment (SHE)

AECI

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, guided by the corporate citizenship 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; and
- 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, 20 February 2006

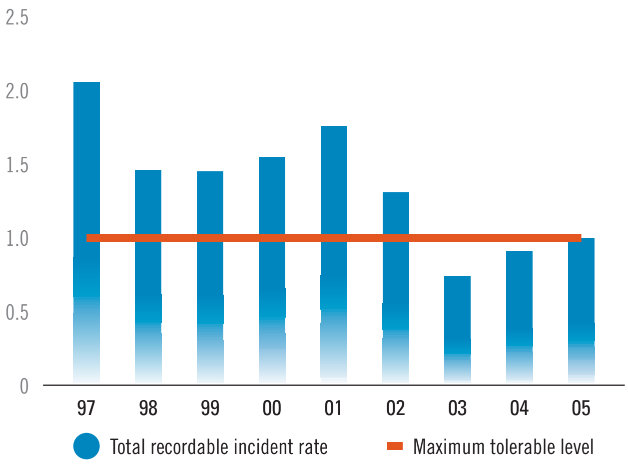
Safety, health and environment (SHE) continued

The Group's SHE-based philosophies and performance are guided by a formal SHE policy and performance is measured in the context of supporting SHE standards. The policy and standards are underwritten by the Group chief executive and reviewed periodically to ensure that they remain appropriate to AECI's diverse businesses.

Safety and occupational health performance

This is expressed as the total recordable incident rate (TRIR). It measures the number of injuries and occupational illnesses, recordable in terms of the SHE standards, for every 200 000 hours worked. All work-related injuries and illnesses, beyond initial first aid treatment, are recorded.

TRIR – AECI employees



AECI benchmarks itself against an appropriate grouping of international companies and remains of the opinion that, while zero recorded incidents must be the ultimate target, the interim maximum tolerable level should remain at 1.0 for 2006.

The employee TRIR for the year was in line with the maximum tolerable level of 1.0, up from 0.91 in 2004. The trend since 2003 signals that focus on correcting behaviours that lead to illness and injury must be enhanced. The contractor TRIR improved to 1.50 from 1.68 in 2004.

TRIR performance by company

	AECI employees	Contractors	Combined
AEL	0.81	0.76	0.80
Chemical Services	1.30	3.01	1.53
Dulux	0.43	10.85	1.20
SANS Fibres	1.29	0.41	1.05
AECI Group	**1.00**	**1.50**	**1.09**

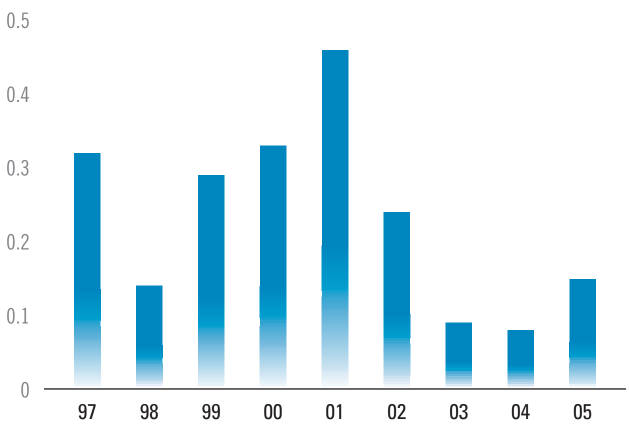
Causes of injuries and occupational health incidents

	Lost time	Non-lost time	Total
Explosion	4	3	7
Chemical exposure	6	4	10
Chemical burns	8	4	12
Injuries from falling	7	0	7
Injuries from moving machinery	4	3	7
Injuries from handling objects	8	8	16
Injuries from handling tools	2	3	5
Injuries from lifting objects	1	1	2
Noise-induced hearing loss	0	3	3
Asbestosis	0	1	1
Road accidents – company business	4	1	5
Cumulative trauma disorders	3	0	3
Other	0	1	1
Total	**47**	**32**	**79**

Three employees were seriously injured when switchgear they were working on suffered a flash-over. Two others were injured in an explosion that resulted from a failure to follow operating instructions. Many of the falling injuries occurred when employees stumbled when walking, and injuries from handling objects were typically finger injuries caused when a hand became trapped between two objects. That several injuries have mundane causes demonstrates the progress still required in changing safety culture across the Group. Such change is a long-term process in a stable workforce; where employees are transient, as in the case of contractors, the task is even more difficult.

Occupational illnesses

Occupational illness rate – AECI employees



	Chemical exposure	Noise-induced hearing loss	Cum-ulative trauma dis-orders	Asbes-tosis	Total
AEL	1	2			3
Chemical Services	4	1	1		6
Dulux					0
SANS Fibres			2	1	3
AECI Group	**5**	**3**	**3**	**1**	**12**

The chemical exposure cases relate to lead absorption, as indicated by ongoing biological monitoring programmes. They are reported when an employee's blood lead level exceeds the exposure index laid down in the Occupational Health and Safety Act. Monitoring is intended to indicate areas where plant health and safety control measures are not operating as effectively as expected. Although the health of affected employees is not necessarily impaired, immediate precautionary measures are implemented to avoid further exposure and plant control measures are reviewed.

The three cumulative trauma disorders, the noise-induced hearing loss and the asbestosis case developed over time and show that closer attention must be paid to long-term exposure perspectives. Surveillance procedures instituted over the last several years should result in any deterioration in employees' hearing being detected at an early stage.

Cumulative trauma disorders, such as carpal tunnel syndrome, are caused by repetitive motions. Although these are difficult to diagnose and prevent, information and advice in this regard have been shared with Group companies.

A past employee was diagnosed with asbestosis. Due to the absence of adequate historical records in confirming the origin of exposure, the Group accepted responsibility. Current systems for keeping records of employees, including medical surveillance data, and risk assessment systems in place should prevent such cases in future. All identified raw asbestos has been removed from Group sites.

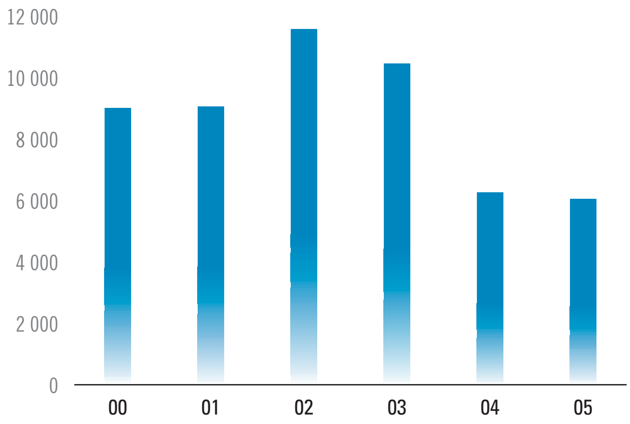
Cost of safety and occupational health incidents

The cost of incidents is monitored to quantify the financial impact of failure and to sensitise employees to this consequence of non-conformance. In 2005, the cost was estimated at R5.2 million (R1.6 million in 2004), of which about R3.5 million resulted from employee time lost following the switchgear failure already referred to.

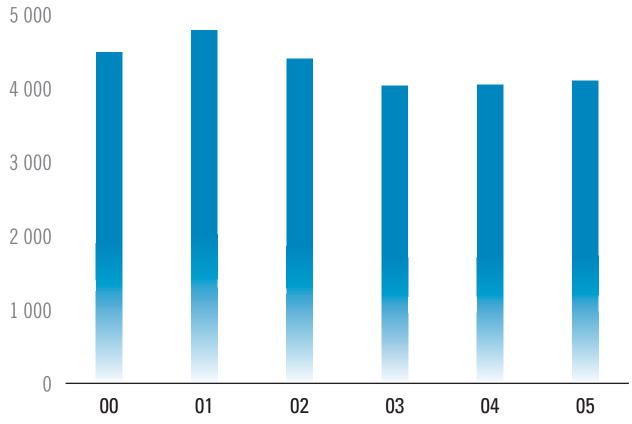
Environmental performance

Hazardous waste generation was essentially unchanged at 6 000 tons. Pleasing improvements were noted in some parts of the Group and plans to sustain this trend are monitored on an ongoing basis. In other parts of the Group, however, these gains were offset by higher volumes of hazardous waste, driven by increased manufacturing and lower efficiencies in some instances. The same trend was noted for water usage, largely for the same reasons.

Hazardous waste (t/year)



Water usage (Mℓ/year)



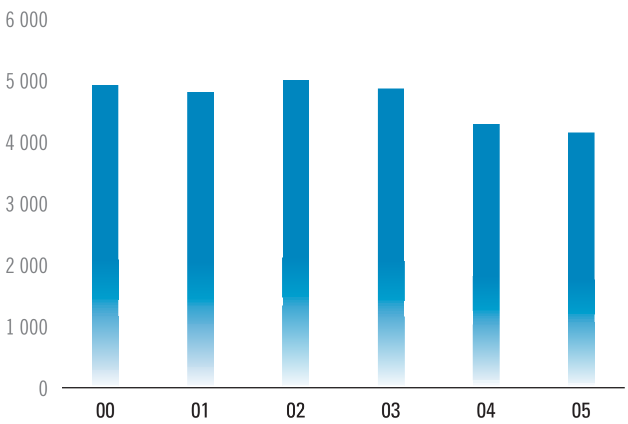
Safety, health and environment (SHE) continued

Overall energy usage, measured in tetrajoules, decreased by about 3 per cent in 2005. AEL reduced its coal consumption by 10 per cent, due to the closure of a major site customer, and Chemical Services by 60 per cent, due to a plant closure and a switch from coal to diesel at AECI Coatings.

At SANS Fibres, the switch from coal to steam sourced from a third party supplier impacted most favourably on the reduction of pollutants. It has been estimated that this steam was equivalent to 14 000 tons of coal and this figure has been included in the Group's total consumption calculation.

The major change in electricity consumption was a 15 per cent increase at AEL, attributable mainly to increased operations for a major export order.

Energy usage (TJ/year)



Environmental targets

Environmental performance must be measured against meaningful targets. Setting such targets for a group of companies with a diverse range of inputs and products has been a challenge. In 2004, a first step in determining environmental baselines was taken with the introduction of "bands" for measuring energy and water usage and hazardous waste generation per unit of production.

The concept was taken further in 2005. Using four years' operational data, all AECI businesses established baselines for electricity, water and hazardous waste against which progress will be reported in future.

Targets for end-2008

- AEL has committed to maintaining baseline electricity and water usage, and to reducing hazardous waste arisings by 10 per cent. The company is also implementing a series of projects to achieve compliance with the proposed new water permit issued by the Department of Water Affairs and Forestry
- Chemical Services is targeting a 5 per cent improvement in electricity, water usage and hazardous waste figures
- SANS Fibres will reduce electricity consumption by 5 per cent, water usage by 15 per cent and hazardous waste generation by 10 per cent; and
- Dulux is aiming for a reduction of 20 per cent in water usage and 15 per cent improvements in both electricity usage and hazardous waste generation.

Letter of Assurance

Each business must submit an annual Letter of Assurance to the Group chief executive, detailing compliance with the AECI SHE policy and standards and proposed corrective actions, if required. The main SHE-related risks for each business are thus communicated.

In 2005's letters, concern regarding unsafe behaviour by employees was evident throughout and plans to address this issue are being enhanced Group-wide. For example, changes to work procedures are being reviewed so as to avoid incidents resulting from inattention by employees carrying out repetitive tasks.

Product stewardship, an important element of "Responsible Care", is not uniformly advanced in the Group and all companies have plans in this regard. The letters also confirmed that SHE systems are well established and that maintaining regulatory compliance requires ongoing effort, as does employee training. To be more effective, training must address the specific needs of individuals and the business in which they operate.

Sustainability

Environmental burden (EB) is accepted as a meaningful method for reporting environmental emissions and is a recognised tool for reporting on sustainability issues. 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 is expressed in terms of sulphur dioxide equivalent. In 2005, Group companies reported 2 817 tons of sulphur dioxide equivalent emissions. The reduction from 4 070 tons the previous year is attributable to lower coal consumption at AEL and SANS Fibres.

Global warming potential. Progressive global warming, due principally to gases released in the burning of fossil fuels such as coal, is a threat to world climate. To address this, several countries signed the Kyoto protocol in 1997, with South Africa becoming a signatory in 2002. The protocol sought to limit the release of these gases to 5 per cent below 1990 levels, by 2012. In the protocol's framework, the Clean Development Mechanism (CDM) was formulated to allow countries in the developing world to assist First World nations in meeting their targets. It allows emission reductions in the developing world to be offset against emissions in the developed world through the sale of "carbon credits".

Global warming potential is expressed in terms of carbon dioxide equivalence. For example, one ton of nitrous oxide is equivalent in its global warming potential to the release of 310 tons of carbon dioxide.

AEL is one of the few companies in South Africa working on a CDM programme. This programme involves a reduction in nitrous oxide emissions and, as part of the project, the company installed monitors to measure the gas more accurately.

Nitrous oxide was not previously declared by AECI. In 2005, the combined effects of reduced coal burning and the addition of nitrous oxide volumes resulted in an EB of 608 000 tons of carbon dioxide equivalent.

Land remediation

The focus remained on ensuring the legislative compliance of the Group's older manufacturing facilities and on the release of land for alternative uses. Expenditure in 2005 was R59 million. Environmental liability was assessed at R161 million at year-end, of which R133 million was transferred to Heartland Leasing.

"Responsible Care"

"Responsible Care" is the chemical industry's public commitment to continuous improvement in SHE matters and, in South Africa, is administered by the Chemical and Allied Industries' Association. A current focus of "Responsible Care" locally is the verification of companies' compliance with management practice standards. Chemical Services made two of its sites available for trialling the audit protocols and Lake International was among the first to be audited against these. ImproChem, another Chemical Services business, won the "Responsible Care" award for 2005.

AEL, in cooperation with the mining industry, developed a solution for disposing of waste plastic bags that had contained explosives. A recycling plant was established and was approved by the Chief Inspector of Mines.

ISO 14001

Both Dulux and AEL achieved ISO 14001 listings in 2005. SANS Fibres is implementing the appropriate systems and protocols but, owing to the nature and requirements of markets it serves, will defer formal certification to some time in the future.

Risk management and reduction: a case study

The Umbogintwini Industrial Complex (UIC) is a 580 hectare site, south of Durban. It was established 100 years ago and accommodates a broad range of manufacturing activities, mainly in the chemical-based sector. Owing to development over time, the UIC is now in close proximity to residential areas.

In 1998, the Major Hazard Installation Regulations of the Occupational Health and Safety Act (Act 85 of 1993) were published and made it mandatory for industry to assess any risk it might pose to its neighbours. Where an industry could potentially impact on areas beyond its boundaries it was a declared major hazard and this information was communicated to the authorities for inclusion in their future development plans.

Most of the 14 main businesses at the UIC were declared major hazard industries and six of these are AECI Group operations. It concerned AECI, therefore, that residential settlement in recent years has continued ever-closer to the Complex's boundaries. The UIC's risk profile in this context, and possible constraints on future developments either within the UIC or on land surplus to operations, was re-evaluated as a result.

Environmental Resources Management (ERM), a UK-based, South African-approved consultancy with extensive experience in working with and guiding the UK regulatory authorities, was commissioned to assess the *status quo* and to make recommendations regarding existing and future developments.

Risks were assessed in three categories, namely toxic gas release, pressure-related explosions, and thermal effects. ERM's report commented unfavourably on specific aspects of sulphur management and processing at Chemical Initiatives, a key site company and a Chemical Services business. Parts of a neighbouring informal settlement as well as the area then occupied by the Umbogintwini golf course and village were identified as being most at risk. AECI accepted that improvements were necessary to reduce risks to a level which would be as low as reasonably practicable.

In close cooperation with ERM, the relevant local authorities and local communities, Chemical Initiatives designed and is implementing improvements that include the enclosure of sulphur dioxide operations and the installation of a scrubbing system to manage fugitive gas escapes. The R20 million project, funded by AECI, is scheduled for completion by end-March 2006.

Once commissioned, Chemical Initiatives' sulphur dioxide handling facilities will be of world leading standards. The project has already attracted overseas interest. It is also a first for South Africa in terms of a company taking the lead in managing long-established operations so as to allow for the maximisation of land use in the immediately surrounding areas.

AECI is proud of its leadership in this regard but believes that it is now incumbent on regulatory authorities to formalise the processes and procedures necessary for future developments close to industrial sites. The private and government sectors must each play a role in ensuring that risks to people and the environment are planned for and managed so as to maintain them at a level that is as low as is practicable.

mining solutions

AEL entrenched its position as

Africa's leading supplier

of explosives products, initiating systems and

blasting services and solutions

asia, eastern europe and the middle east

Mining solutions for customers in remote locations

Thanks to its high quality logistical capabilities, world-class technology and equipment, and capitalising on its African experience, AEL has demonstrated its ability to operate efficiently at customers in other territories by providing a reliable, efficient and cost-effective service.

Two employees were based in China in 2005 to evaluate opportunities in Asian markets. Possibilities are also being explored in Eastern Europe and the Middle East with a view possibly to entering markets or pursuing acquisitions in 2006.

ASIA, EASTERN EUROPE AND THE MIDDLE EAST

African Explosives Limited (AEL)

Notwithstanding mixed market conditions, AEL recorded a pleasing performance in terms of operating results and progress on strategic projects.

Increasing margin pressure, and the challenge of new global opportunities, drove the company's parallel strategies of consolidating its position as the lowest-cost, best-quality supplier of blasting solutions in Africa, and of expanding into the global arena through selective acquisitions and new market entry.

Financial performance

In what continued to be a difficult environment, revenue totalled R2 314 million, an 8 per cent increase on the previous year. Sales were boosted by continued gold mining growth in Ghana, growth in southern Africa's surface mining sector, good copper/cobalt growth in Central Africa and exports of ammonium nitrate porous prill to Australia. These positive factors were offset by a 14 per cent decline in South African gold mining volumes, mining industry strikes, competition from imports, a flat performance in the underground platinum sector, and the strong rand.

Gross margins declined, with cost increases not recoverable in full from customers, and a record ammonia input cost in the last quarter that will only be passed on to customers in 2006. It is gratifying, however, that AEL's rationalisation and fixed cost saving initiatives undertaken in 2004 partly offset these negative margin effects.

Operating profit of R257 million was 21 per cent higher than in 2004, with operating profit to sales improving from 10 per cent to 11 per cent. In 2004, operating profit before a restructuring charge of R33 million was R245 million. On this basis, the 2005 result represented a 5 per cent improvement.

Capital expenditure totalled R131 million and average working capital to sales remained steady at 16 per cent.

Africa

The substantial improvement in the performance of AEL's operations in Africa was a highlight of 2005. The company's track record as the continent's leading supplier of explosive products, initiating systems and blasting services and solutions ensured that AEL was able not only to retain its existing contracts but also to secure new business.

In West Africa, apart from its thriving business bases in Ghana and Mali, AEL supplied new and existing ventures in Burkina Faso, Guinea, Niger, and Sierra Leone. As a result the region's business showed an impressive year-on-year improvement and, with a significant increase in demand for explosives in Burkina Faso expected in 2006, the trend is set to continue.

In Central Africa, AEL's market position showed great improvement, with good prospects for further expansion in Zambia and substantial development in the Democratic Republic of Congo. Volumes in East Africa also improved, with strong indications that growth will be sustained in 2006.

Zimbabwe was the exception to the company's performance in Africa. Notwithstanding the good results achieved by AEL in the opencast market, Zimbabwe's overriding economic climate made business very difficult.

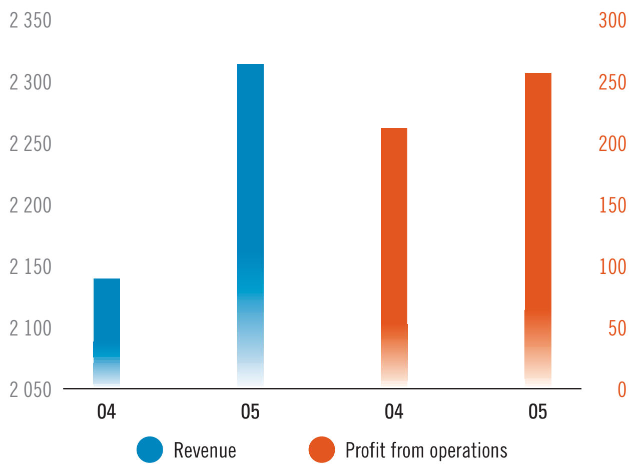
South Africa

The South African gold mining industry had a difficult year, with the positive effects of a higher gold price by year-end yet to become fully apparent. As a result, gold mining volumes declined further. Growth in the platinum sector was not at a level to compensate in full for the reduction in gold mining.

The local detonator market was also adversely affected by imports of low cost, state-subsidised Chinese products. This was limited largely to shocktube products supplied to the narrow reef gold and platinum mines. Although market share

Mining solutions continued

Financial performance (Rm)



gained by the imported products was relatively low (less than 10 per cent of the narrow reef market in the last two years), this is nonetheless regarded as a serious issue by AEL as it has had a greater negative effect on the company's margins. The company petitioned the International Trade Administration Commission to impose anti-dumping duties on the Chinese products, and the Commission initiated an investigation in June 2005. In January 2006, the Commission gave notice of its decision to terminate the investigation. AEL intends to approach the High Court to review and set aside this decision.

Strategic delivery

AEL focused strongly on delivery in terms of strategic projects and operating results.

Strategically, projects centred on enhancing and re-engineering manufacturing processes in South Africa to produce top quality products more cost-effectively in future. This involved implementation or completion of the following:

- a modernisation and automation project of AEL's manufacturing facilities at Modderfontein. The R75 million first phase is scheduled for commissioning in the second quarter of 2006. This will expand the company's shocktube detonator capacity, improve product quality, and reduce waste and costs
- construction and successful commissioning of a new R18 million Anfex* plant and a R16 million bulk emulsion plant
- shrinking of the company's "footprint" at Modderfontein by closing and outsourcing the production of packaged explosives
- investment of R20 million for the company's network of depots and off-site storage facilities in strategic mining areas; and
- development of new, custom-designed mobile manufacturing units which are fabricated and assembled locally. A phased replacement plan for AEL's fleet was implemented at a cost of R30 million.

International

AEL's decision to move into the international arena is aimed at securing new markets and maintaining a leading position as a supplier of explosive products, services and solutions. This strategy is being implemented to augment domestic performance through growth in new foreign markets where AEL's proven expertise can add value to customer operations.

AEL's "hub and spoke" approach, where "hubs" or core manufacturing and distribution facilities have been set up in various regions and from where surrounding countries (the "spokes") are served, has been highly successful in Africa. AEL will seek to extend this model beyond the African continent.

Thanks to its high quality logistical capabilities, world-class technology and equipment, and capitalising on its African experience, AEL has demonstrated its ability to operate efficiently at customers' remote locations. AEL is well placed, therefore, to provide potential customers in other territories with a reliable, efficient and cost-effective service.

Two employees were based in China in 2005 to evaluate opportunities in Asian markets. Possibilities are also being explored in Eastern Europe and the Middle East. All information and research data are being evaluated with a view possibly to entering markets or pursuing acquisitions in 2006.

Operations

In line with its commitment to meeting customers' diverse product and service needs, AEL developed new shocktube products to segment the market and to compete directly with Chinese imports. These products were launched successfully in 2005.

Other meaningful achievements included the vigorous management and control of costs, the reduction of wastage, and improved quality. On-time-in-full delivery remained excellent, notwithstanding the effects of a brief strike at Modderfontein in August.

AEL continued to promote electronic detonator sales and the application of electronic detonator technology, thereby adding value to its customers throughout Africa. In addition to the shocktube range already referred to, it also continues to develop new products and services in other key areas, such as underground bulk systems and blast modelling.

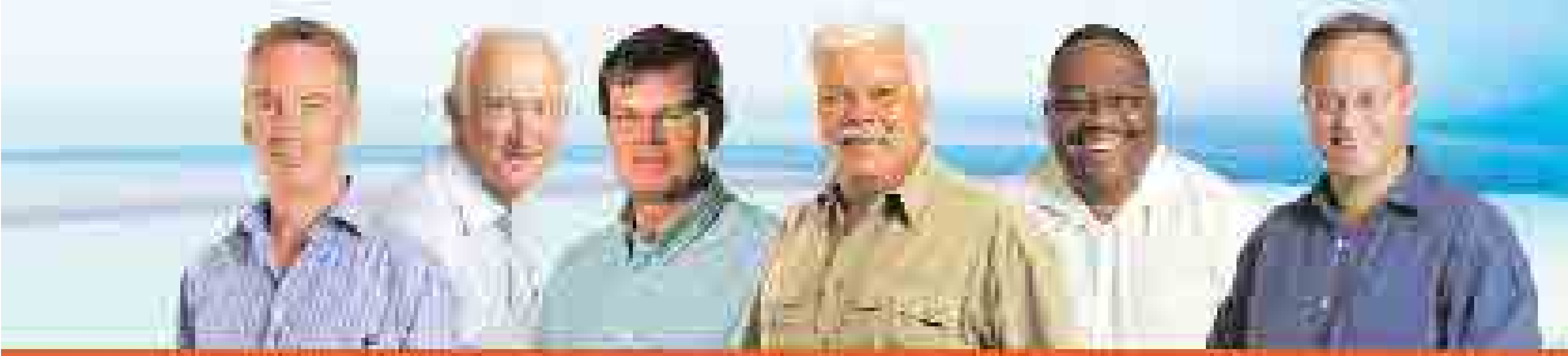
Outlook

AEL's 2005 performance demonstrated that the company's broad range of operations and markets make it robust against the impact of negative factors in any single market sector or region. On this basis, the company expects to be able to take advantage of opportunities to grow its business and add value to its customers in 2006.

DetNet

Good progress was made in implementing DetNet's strategy of becoming the leading electronic initiation systems company serving African and international markets.

Significant exports of the HotShot* system to North America, South America and Asia Pacific were achieved in the second half-year. This was behind schedule and caused by delays in the industrialisation of the technology and production scale-up to high volume manufacture as well as difficulties in transporting initiators internationally. Sales into Africa maintained a strong growth trend.



Graham Edwards Colin Rilley Gys Landman Piet Halliday Cyril Gamede Danie Richards

The design of the new generation DigiDet* product was completed and a manufacturing plant was established in USA, operated by Dyno Nobel. Sales of DigiDet* into North America and Australia commenced in the third quarter. Initial market acceptance of both HotShot* and DigiDet* has been positive, with no major application problems experienced.

Electronic initiation systems continue to gain acceptance globally and this has resulted in new competitors entering the market. In this context, the implementation of the DetNet joint venture, which secured market access through Dyno Nobel and AECI, was timeous. With a proven technology platform, extensive market access and continued shareholder support, DetNet remains well positioned for future growth.

The acquisition by Orica of Dyno Nobel's businesses outside North America and Australia excludes DetNet and will not affect DetNet's market access as alternative regional channels are being established where required.

* Trademark

AEL's executive committee

Graham Edwards (51)
Managing director. See page 7. Within the Group, Graham is also a non-executive director of Chemical Services.

Colin Rilley (54)
He is an executive director of AEL and is responsible for the company's strategic projects. Colin joined the AECI Group in 1969 and his qualifications include a BCom and a Master's degree in business leadership.

Gys Landman (44)
His qualifications include a PhD (Eng) and degrees in business management and economics. Prior to joining AEL in 1984, Gys 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.

Piet Halliday (53)
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 company's product management function.

Cyril Gamede (42)
Cyril joined AEL in 2002 as operations director. He has an MSc (Eng) degree and a qualification in labour law. Cyril's background and experience are in engineering, projects, manufacturing and operations.

Danie Richards (43)
A chartered accountant with an Honours degree in accounting, Danie is AEL's financial director. He joined AECI as Group accountant in 1992, before moving to AEL. He then spent four years overseas in ICI's businesses. He returned to AEL in 2001.

Christopher "Tiff" Whitehouse

DetNet

Christopher "Tiff" Whitehouse (41)
He is chief executive officer of DetNet International and DetNet South Africa. With degrees in engineering and commerce, Tiff joined AECI as a process engineer in 1988. He became managing director of Nitrogen Products, tasked with shutting Modderfontein's chemical business as part of AECI's transformation. Tiff was a director of AEL prior to the DetNet joint venture being implemented.

specialty chemicals

More capital than ever before was invested in expansion programmes at Chemical Services. Projects in planning could result in several additional investments

south america

added value service model solutions beyond Africa

In developing economies, there is a demand for added value service model solutions from industries familiar to Chemserve. With the group entering into marketing and full operating joint ventures in Brazil, customers in certain sectors will have access to Chemserve's expertise.

Also in terms of expansion, the company has acquired considerable experience in formulating, manufacturing, sourcing, storing and applying mining chemicals and is offering tailored service packages to mines. The model is working well in Africa and the intention is to apply it in other countries with similar mining profiles.

Chemical Services

Chemical Services (Chemserve) is the specialty chemicals arm of AECI and manages a portfolio of 19 independent businesses focused on defined markets, with common values of innovative customer service and financial delivery. Growth of the group comes from acquisitions to the portfolio and organic growth in each business.

Although much of Chemserve's technology is sourced from international partners, a solid resource of both application and fundamental technology has been developed in-house.

Business environment

Continuing the trend set in 2004, South Africa's business environment was characterised by a strong currency, low inflation and low interest rates. This fuelled consumer spending and set the scene for good GDP growth and continued margin pressure in manufacturing. Internationally, escalating oil prices and strong demand for chemicals resulted in shortages and high prices for energy and oil-based products.

Chemserve companies servicing the local manufacturing sector responded effectively to currency-based pressures. Through innovative approaches and reorganisation they matched imported competition and improved their offerings. The manufacturing sector as a whole has restructured to cope better with imported competition and has established a new cost base and product mix. While consumer spending indirectly boosted several group companies, they also enhanced their performances further by streamlining their operations.

Doing business in Zimbabwe became increasingly difficult and most Chemserve businesses have withdrawn from this market, except where payment is effected upfront.

Financial performance

Revenue grew by 14 per cent to R3 826 million and, excluding R15 million of restructuring costs incurred in 2005, profit from operations increased by 10 per cent. Although the acquisitions of UAP, Chemiphos, Mineag, JLM and Orlik contributed to this, an increase in demand was noted in the second half-year and this enhanced the revenues of base businesses. Price increases were achieved in some sectors, driven by high oil derivative prices and global shortages. Gross margins dipped slightly owing to a change of mix in traded products.

The working capital ratio rose within the target range as a consequence partly of acquisition timing and partly of increased stock and debtors in some operations.

Companies

AECI Coatings, Akulu Marchon, Chemical Initiatives, Crest Chemicals, ImproChem, Industrial Urethanes, Lake International and Plaaskem performed particularly well due to strategic repositioning, key account and cost management, new business, bolt-on acquisitions, and consumer spending.

Senmin and Perlite merged and operate as Senmin, where vendor management and investment programmes progressed well. Dussek Campbell, Plastamid and Resinkem produced solid performances as did Chemiphos, which has integrated successfully into the group.

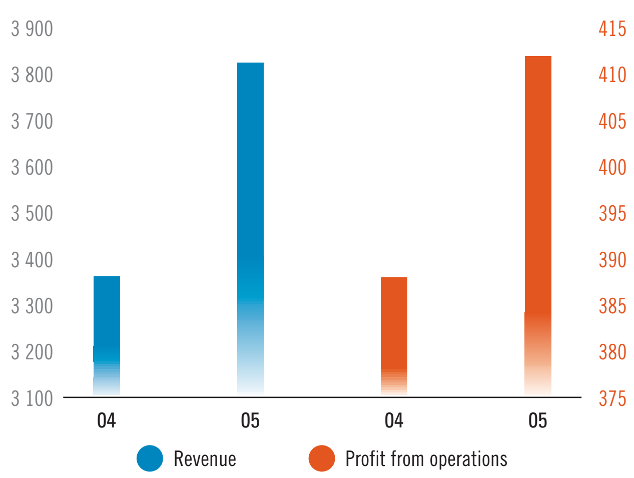
SA Paper Chemicals (SAPC) and Specialty Minerals South Africa (SMSA) disappointed as a result of an extended outage at a major customer which installed a very large new plant. Additional business from this operation in 2006 will more than compensate for the setback.

Chemserve Systems completed its exit from the Isithebe site, in KwaZulu-Natal, and Dussek Campbell and SAPC will complete their moves in 2006. The site has been sold, with considerable operating savings to the group.

In response to changes in the solid aluminium sulphate market, Chemserve Perlite closed this part of its business, sold the assets and restructured to a suitable cost base. Performance Masterbatch also restructured to operate in an overtraded market as did Industrial Oleochemical Products (IOP) in response to lower margins in the global market.

Trevor Street Mark Dytor Stuart Hughes Frank Baker Chris Povall

Financial performance (Rm)



The foundry business moved from Plaaskem to Chemserve Systems and most production has been outsourced to Industrial Urethanes and Resinkem.

Economic empowerment

Chemserve's strategy is to empower individual group businesses. In this regard, a partnership with the Tiso Group was concluded for ImproChem, with Tiso acquiring 25.1 per cent of this water treatment business. Tiso's participation at Board level, and its support in the market, will be of great assistance in transforming ImproChem into a truly empowered entity.

Custom Colour merged with New Age Specialty Chemical, owned by a former black supplier. The empowered partner owns 25.1 per cent of the new business.

Growth

More capital than ever before, a total of R131 million, was invested in expansion programmes. Plastamid commissioned a specialist polypropylene compounding line; ImproChem completed a water upgrade facility for the Chevron Milnerton refinery; SMSA installed plant to double its capacity; Senmin will commission its gangue depressant plant at Sasolburg early in 2006; and IOP will complete an alkyd resin plant in the first quarter. These investments are expected to contribute materially in the next year and projects in planning could result in several additional investments over the next two years.

Acquisitions account for more than half of Chemserve's growth. In 2005, Chemserve acquired UAP (agricultural chemicals distribution), Chemiphos (specialist, food- and technical-grades of phosphoric acid), Mineag (ammonium nitrate prill additives), JLM (chemicals distribution) and Orlik (metal surface treatment). These acquisitions, for a consideration of R207 million, have already proved earnings-enhancing and will contribute well in 2006. The acquisition of Leochem (petroleum jelly, white oils and food products) will take effect in March 2006. A number of other medium-sized and small acquisitions are under investigation.

Internationalisation

Historically, the group has operated in Africa south of the Sahara in the areas of validity of technology licences, and most activities outside Africa have been by conventional export selling. In developing economies, there is a demand for added value service model solutions from industries familiar to Chemserve. With the group entering into marketing and full operating joint ventures in Brazil, customers in certain sectors will have access to Chemserve's expertise.

In Brazil, the group has sought opportunities to invest in businesses which have sufficient overlap with Chemserve's areas of expertise. These businesses will benefit from the group's service model and will provide platforms for Chemserve's expansion.

Chemserve has acquired considerable expertise in formulating, manufacturing, sourcing, storing and applying mining chemicals and is offering tailored service packages to mines. The model is working well in Africa and the intention is to apply it in other countries with similar mining profiles.

Competitiveness

The focus on margins and costs led to more effective sourcing, exit from and closure of the Isithebe site, closure of the aluminium sulphate solids business and a review of several manufacturing processes.

In 2006, international competition will continue to be addressed and exports pursued. The challenge is to build on local advantages and to continue improving cost bases.

Chemserve's customers are concentrating on their core businesses and require creative and cost-effective solutions for chemicals management. Chemserve's drive to provide these will continue.

The themes of margins, costs and growth will remain, the focus on technical selling, as the group's core strength, will be renewed and a project to raise manufacturing capability initiated.

Chris Kotze Tobie Louw Gary Cundill Schalk Venter John Mahlase

Outlook

The challenges are to increase international competitiveness, complete the integration of recent acquisitions, sustain the momentum of acquisitions, assimilate the lessons of international operations and complete the turnaround of Performance Masterbatch.

The acquisitions, capital investments, restructuring and market focus achieved in 2005 have positioned the group to prosper in the coming year, especially if growth in the national economy continues at predicted rates.

Chemserve's management team

Trevor Street (58)
He started his Chemserve career as a sales representative almost 30 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 several Chemserve subsidiaries and his responsibilities also include active pursuit of acquisitions for growth.

Mark Dytor (44)
Having joined Chemserve 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. In addition to his current portfolio of chairmanships, he has been tasked with enabling and accelerating the growth of Chemserve's mining business. Within the AECI Group, he is also a non-executive director of AEL.

Stuart Hughes (39)
He practiced 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 (52)
Managing director. See page 7. Within the AECI Group, he is also a non-executive director of SANS Fibres.

Chris Povall (48)
Chris joined the company eight 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 (40)
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.

Tobie Louw (43)
After graduating with a BSc (Eng) degree from the University of Cape Town, Tobie joined AEL in 1988. He left the greater AECI Group in 1996 before returning in 2000 to take up the position of managing director of Chemserve's Lake International Technologies. In 2005, he was appointed to the group's executive committee and also became managing director of Chemserve Systems.

Gary Cundill (38)
An Honours graduate in chemical engineering, Gary was appointed Chemserve's group technical manager in 2005. Prior to joining as safety and environment manager in 2001, he had worked in technical development, projects and production management in the chemical and steel industries.

Schalk Venter (39)
With a formal qualification in analytical chemistry, Schalk joined Chemserve Systems in 1991 as a junior sales representative. He was appointed managing director of that company in 1997 before moving to AECI Coatings, also as managing director, in 2001. He retained this position when he was appointed to the Chemserve executive committee in 2005 and, at that time, he also took on a portfolio of chairmanships.

John Mahlase (44)
He is Chemserve's newly-appointed group human resources manager and formerly its industrial relations manager. Before joining the group as human resources consultant in 1997, John had already gained 11 years' experience in the discipline. He has an Honours degree in industrial psychology as well as an Advanced Diploma in labour law.

specialty fibres

Success in terms of SANS Fibres' recovery plan is evident, with an improved financial performance being delivered despite sustained strength in the currency

north america

Well placed to benefit from industry consolidation and a robust economy

It was a watershed year for SANS's JV investment at Stoneville, North Carolina, USA. Further improvements in plant operating performance, the establishment of stable and robust technical processes, and entry into new markets resulted in the JV posting an operating profit of US$1.6 million. Market developments included sales into specialised sectors. With further consolidation of US fibre producers and a robust US economy, the JV is expecting consistent results in 2006.

Also at Stoneville, new products for weaving applications and airbag sewing threads were developed, creating the potential for new business. Other products and associated opportunities to enter new markets are being evaluated.

NORTH AMERICA

SANS Fibres

SANS Fibres (SANS) is a dollar-denominated business in terms of both domestic and export sales, and raw material purchases. The focus in 2005 remained on the implementation of the company's strategic recovery plan, developed in response to a strong and more robust rand.

The plan has three key strategic thrusts. At its core is the development of new, technically demanding, high value-added products for identified strategic market sectors, supported by improved raw material to finished goods conversion efficiency, and a reduction in operating costs.

It is pleasing that success in terms of the plan is evident, with an improved financial performance despite sustained strength in the currency.

While sales volumes decreased by 5 per cent, revenue in US dollar terms increased by 3 per cent to US$255 million. The reduction in volumes reflects the higher level of new technically advanced products in the mix, requiring longer machine time to produce but saleable at a premium. Notwithstanding further increases in raw material input costs and ongoing pressures on price margins, contribution increased by 5 per cent to US$82 million.

In rand terms, revenue increased by 2 per cent and contribution by 5 per cent, reflecting the minimal change in the average value of the rand from 2004.

Following restructuring in 2002/3, which led to a R60 million annual reduction in fixed costs, the overriding emphasis in 2005 was on continual improvements in cost performance.

The outcome of these broad-based initiatives was an increase in operating profit from R3 million in 2004 to R32 million in 2005.

Markets

The polyester heavy industrial business performed well and plant capacity remained fully sold. Owing to global shortages in the first half-year, international yarn prices and margins rose. The situation eased considerably in the second six months as additional volumes of commodity product, mainly from China, reached the market. The impact of this anticipated development was muted as SANS's strategy of focusing on a more technically demanding portfolio of products gained momentum.

Renewed attention is also being given to supporting local market growth at the expense of commodity yarn exports. In addition to increasing local consumption, a considerable volume of these sales ultimately reach global markets through the export of value-added products.

Growth in the strategically important nylon light industrial (LDI) sector continued. Successful entry into new weaving markets, such as that for aeronautical yarns, was achieved and further expansion will be sought. Good progress was also made towards entering the challenging airbag market, with the successful development and evaluation of several airbag yarns at specific customers. Commercialisation is expected to commence in 2006.

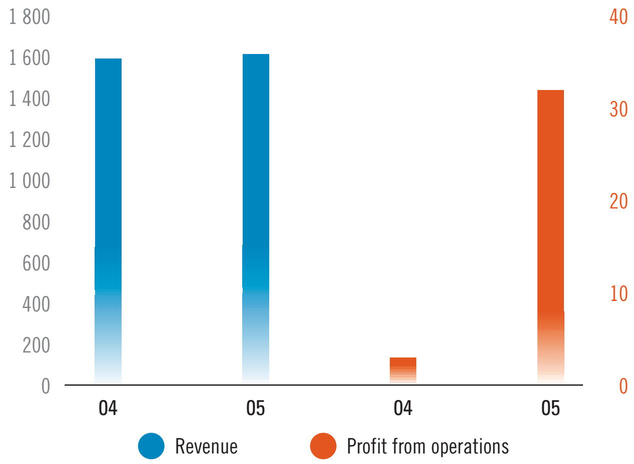
Further investment in additional, second stage machines has become necessary to meet growing LDI market demand. This capacity will come on stream in the first half of 2006.

As for inputs, there were significant increases in nylon raw material prices as a result of higher oil prices and the effects on the supply pipeline of the devastating hurricanes experienced in the USA.

It was another difficult year for polyester light industrial (LDI) yarns, SANS's third key strategic market sector. Volumes were under pressure due to increased competitor activity and dollar margins declined further as a result of higher polyester

Specialty fibres continued

Financial performance (Rm)



raw material costs and an inability to pass the full extent of these cost increases to customers in the prevailing supply/demand environment.

The outlook for polyester LDI is more encouraging for 2006, however. Business has been regained and new business opportunities have been secured. This will mean a significant boost for volumes, to the extent that demand will exceed current capacity. Consequently, investment to upgrade existing assets is in progress.

The polyethylene terephthlalate (PET) packaging markets remained strong and SANS's PET plant was again fully utilised. Investment to de-bottleneck the polyester polymer plant has been approved and will result in recommissioning of the company's original PET installation, mothballed in 2000. This additional PET capacity will come on stream in the first quarter of 2006 to meet growing demand in sub-Saharan Africa. It will also enable the production of differentiated PET products in line with changing market demand patterns.

Although PET contribution margins were under pressure due to the strong currency and increased imports, rand profits remained pleasing.

Operations

The focus was on consolidation and on ensuring operational stability subsequent to restructuring in 2004. This included strict cost control disciplines and ongoing progress in cost efficiency and performance.

More significant improvements to the manufacturing base are expected from unrelenting attention to operational productivity and the restoration of existing machines to ensure consistently high quality product, with associated higher returns. Multi-disciplinary teams lead the process of securing a stable production base and enhancing product quality and productivity.

The most significant financial benefits in manufacturing will flow from better conversion efficiency, the implementation of several initiatives to increase the output of prime production volume, and the manufacture of more technically demanding, high margin products.

Technology

The strategy initiated in 2003 to enhance SANS's technological capabilities, including the appointment of international experts, delivered pleasing results in 2005.

At Bellville, several new products have been developed and existing products re-engineered to meet the demands of target niche markets in industrial textiles. In nylon LDI these include aeronautical yarns, airbag yarns and high quality weaving yarns. High performance sewing threads have been developed for polyester LDI and work has been done in polyester HDI to enhance productivity.

In the USA, technology played a key role in improving the manufacturing base and operational efficiency. Product properties, and the performance profile of existing yarns, were optimised and enhanced. New products for weaving applications and airbag sewing threads were developed, creating the potential for new business. Other new products, and associated opportunities to enter markets such as those for personal protection devices and aeronautics, are also being evaluated.

Joint venture

It was a watershed year for SANS's JV investment at Stoneville, North Carolina, USA. Further improvements in plant operating performance, the establishment of stable and robust technical processes, and entry into new markets resulted in the JV posting an operating profit of US$1.6 million, compared with a US$0.4 million loss in 2004. Market developments included sales into specialised sectors that are partly safeguarded from direct Asian competition. With further consolidation of US fibre producers and a robust US economy, the JV is expecting consistent results in 2006.

Outlook

With the first demonstrable benefits of SANS's recovery plan having been realised in 2005, the challenge is to maintain positive momentum so as to return the company to acceptable levels of financial performance over the next three years.

Management is fully committed to continue advancing all elements of the recovery plan in 2006 and maximum value will be derived from additional sales to key customers. The company is well placed for further growth in Asian Pacific markets. Currency issues will continue to pose the biggest challenge to the business in the year ahead.

SANS's senior management team

Brad Page (42)
He was appointed business director in 2004. Brad 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 and, subsequently, 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 (36)
Having joined AECI in 1994 as an accountant, Gerhard went on to work 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 (48)
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 extensively in European and American journals. Samir joined SANS in 2004 as head of research and technology.

Thys Loubser (52)
Chief executive. See page 7. Within the Group, he is also a non-executive director of Dulux.

Denver Dreyer (30)
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 taking on his current portfolio, 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.

decorative coatings

The Signature Collection has been positioned as the best product in its class and sales have **exceeded expectations**

east africa

Opportunity guides growth

Dulux will expand its operations into sub-Saharan Africa at a pace that will be guided by the attractiveness of the opportunity. The company's technology and product range, as well as its marketing skills, provide an excellent platform for this. The alignment of brand values by Dulux and ICI has ensured that this approach has the full support of ICI, owner of the Dulux brand in many of these countries.

As a first step in the process, a small paint company was acquired in Zambia with a view to establishing the Dulux brand in that country during 2006. Further opportunities in East Africa are being considered.

EAST AFRICA

Dulux

Dulux is a decorative paint company with the bulk of its business in South Africa. It has operating subsidiaries in Botswana, Malawi, Namibia, Swaziland and Zimbabwe.

The product range in South Africa is exclusively for customers in the decorative sector and this is a sophisticated market that demands a specialist approach. The Dulux product range is extensive and serves the professional painting trade as well as the DIY market through a broad and expanding range of distribution outlets.

Although the South African market does include customers requiring large volumes at the low priced, commodity end of the market where barriers to entry are very low, Dulux continued to focus its efforts on the high quality branded market that offers a sustainable competitive advantage.

The business environment for decorative paints in South Africa was favourable in 2005. Retail sales maintained the buoyant trend set in 2004 and the DIY/home improvement sector performed well. In the DIY market, as well as in the professional painting sector, the company recorded good sales and volumes. There was some pressure on profit margins owing to global increases in raw material prices. These were not easily recoverable in full from consumers who have become used to low inflation. Operating costs continued to be managed tightly and, in real terms, were at a level lower than in 2004.

Growth

Dulux's growth strategy for the South African market is based on expanding its distribution in the quality segment of the market, and on providing brand leadership in terms of product innovation that is relevant to consumer needs. The company made good progress in both these strategic aspects in 2005. Its products now occupy significantly more shelves in more outlets across the country than ever before. The Dulux sales team works closely with this customer base to ensure that the Dulux product on shelf delivers the best performance and value for the consumer.

Brand leadership implies both the launch of innovative new products as well as the ongoing improvement of existing offerings. The innovative aspect was particularly well addressed by Dulux with its 2005 product launch.

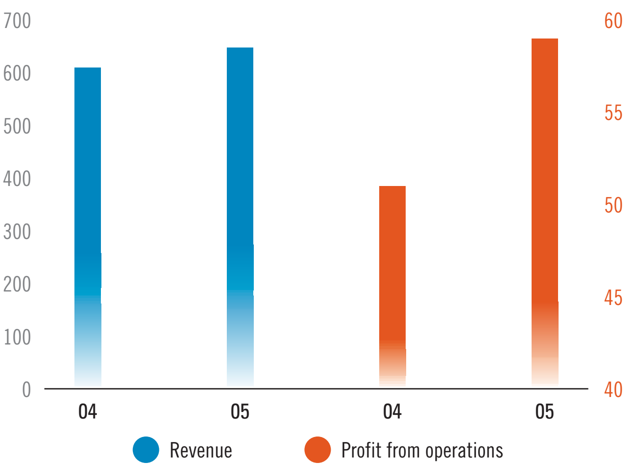
The company launched its ultra-luxurious Signature Collection* range of interior wall coatings. The product boldly targets female consumers at the top end of the market. Product features, the colour offer, innovative packaging, as well as point of sale and advertising support, have positioned the product as the best in its class. Resulting sales have exceeded expectations. The Signature Collection* was complemented by an expanded range of Once*, a one-coat trim paint in its own female-friendly packaging.

Dulux Wash 'n Wear Silk* was upgraded to meet more exactly the preferences of consumers in its target market and was launched as Luxurious Silk*. The range was made available in a wide variety of colours and was supported further by packaging and point of sale efforts. Again, sales volumes were higher than expected.

Decorative coatings continued

Gary van der Merwe   Mike McDermott   Prejay Lalla

Financial performance (Rm)



Another key aspect of the 2005 product launch was the alignment of the colour ranges on offer and the packaging livery with the international Dulux range. This was made possible by the marketing and technology agreement concluded with ICI in 2004. More benefits are expected to be realised from this agreement in the years ahead.

African operations

Dulux will continue to expand its operations into sub-Saharan Africa at a pace that will be guided by the attractiveness of the opportunity. The company's technology and product range, as well as its marketing skills, provide an excellent platform for this. The alignment of brand values by Dulux and ICI has ensured that this approach has the full support of ICI, owner of the Dulux brand in many of these countries.

As a first step in the process, a small paint company was acquired in Zambia with a view to establishing the Dulux brand in that country during 2006. Further opportunities in East Africa are currently under consideration.

The businesses in Malawi, Swaziland and Zimbabwe performed very well in 2005 and are expected to do so again in the coming year. Although the businesses in Botswana and Namibia disappointed, new management teams and structures have been put in place and a full recovery in financial delivery is expected in 2006.

Outlook

Assuming that there is no significant change in the South African business environment, where low inflation and low interest rates encouraged consumer spending and boosted the property market in 2005, Dulux expects its positive performance trend to be sustained. The company will continue to seek maximum advantage from the benefits provided by its leading technology, quality branded products and expertise in its chosen markets.

The small packaging coatings business, previously reported in the coatings segment, has been included in the specialty chemicals portfolio.

* Trademark

Rae McGraw Penny Reed Rakesh Sithlu Charles Betts

Dulux's management team

Gary van der Merwe (43)
Prior to joining Dulux in 2001, Gary had gained 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 (47)
He joined the company as financial director five years ago. Before then he had worked in a diverse range of industries including cement, catering, and food and beverages. He is an Associate Chartered Management Accountant.

Prejay Lalla (36)
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. Other qualifications include a Master's degree in business leadership and a marketing management diploma. He was appointed sales director in 2003.

Rae McGraw (42)
Before joining Dulux as marketing director in 2000, Rae had worked in the research, pharmaceutical and FMCG sectors. Her qualifications are diverse and range from an MBA to a degree in applied music from Auburn University, Alabama, USA.

Penny Reed (42)
A graduate of the University of KwaZulu-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 Sithlu (38)
With BSc (Chemistry and Biochemistry) and MBA degrees, Rakesh is operations director. He joined Dulux as a graduate chemist in 1991 and then held positions in technical, manufacturing and executive management functions. He took up his current responsibilities in 2003.

Charles Betts (57)
Managing director. See page 7.

property

Outstanding results with record

operating profit of R185 million

and net **cash flow** of R270 million

south africa

Demand for land in excellent locations boosts performance

The activities of Heartland Properties and Heartland Leasing delivered impressive profits and cash flow in supportive market conditions. The AECI Group's land holdings are in prime locations near Johannesburg, Cape Town and Durban.

In 2005, further substantial sales of land for residential, commercial and light industrial use were recorded. In some instances, development efforts were accelerated ahead of plan to meet market demand.

Property

Effective 1 July, the Group's property, leasing and services businesses were restructured into two separate companies, Heartland Properties and Heartland Leasing, so as to consolidate best practice, enhance efficiency and enable clear accountability for specific business performance.

Heartland Properties' focus is solely on development projects that can best realise value from land that has become surplus to AECI's operations and, therefore, can be made available for alternative use. This land, some 2 400 hectares in total, is mainly at Modderfontein, in Gauteng, and at Somerset West and Milnerton, in the Western Cape.

The leasing activities formerly managed by Heartland, and the services provided by Umbogintwini Operations Services (UOS), were merged to form Heartland Leasing. UOS was previously reported as a component of the Group services segment. In addition, Heartland Leasing also assumed responsibility for remediation activities specific to Modderfontein, AECI's sites in the Western Cape, and Umbogintwini.

As in 2004, the Group's property activities delivered outstanding results with record operating profit of R185 million and net cash flow of R270 million. Revenue of R406 million was generated from sales of 190 hectares of property, gross income on leased assets increased to R97 million and sales of services amounted to R104 million.

Heartland Properties

At Modderfontein, demand for space from the industrial/distribution market strengthened further to the extent that development efforts at the Longmeadow Business Estate were accelerated ahead of plan. It had been anticipated that Phases 7 and 8 would satisfy demand in 2005. However, Phases 9 and 10 were also brought to market and sold, thereby completing the development.

Also at Modderfontein, sales of land for residential and retail use continued at Greenstone Hill. The now established Greenstone node has attracted considerable market demand and further portions for residential, retail and commercial use will be released in 2006.

At Somerset West, efforts concentrated on the balance of the Triangle project and sales exceeded expectations.

Southgate Industrial Park, south of Durban in KwaZulu-Natal, had its most successful year ever and the project is more than 80 per cent sold. It is possible that completion will be achieved in 2006.

Outlook

At Modderfontein, completion of the final phase of the Greenstone development is expected in 2006 and attention will also be focused on managing the impact of the Gautrain project.

Jeremy Clowes Deon van Zyl Paul McAfee Mike Walsh

In the Western Cape, preparations to commence land release at the main Somerset West site in 2007 will be finalised and, at Milnerton, planning will also continue so as to realise maximum value once the site is available for sale.

In determining strategy, Heartland Properties 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 continued to be demonstrated in 2005.

Owing to delays associated with the Gautrain, a somewhat lower result is expected in 2006. Thereafter, however, it is believed that a recovery in financial performance which approaches recent levels should be achievable.

Heartland Properties' executive team

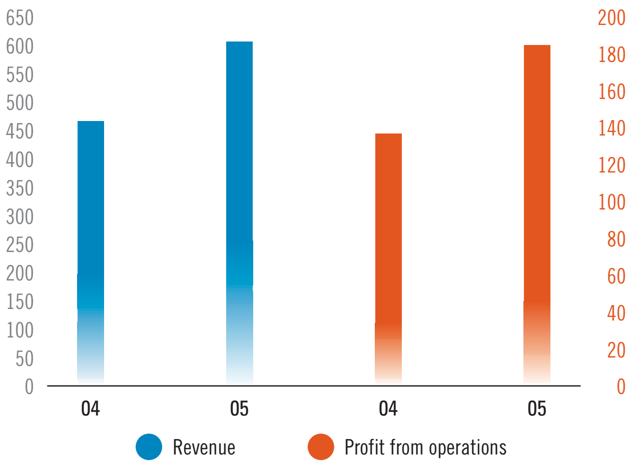
Jeremy Clowes (54)
Since joining AECI's treasury in 1979, Jeremy has held a variety of positions in project and corporate finance. In 2001, he moved from the Group's strategic resources function to Heartland, where he serves as financial director for both Heartland Properties and Heartland Leasing. Jeremy has a BCom degree and is a qualified Chartered Accountant.

Deon van Zyl (35)
With degrees in architecture as well as a Master's qualification in city planning and urban design, Deon left architectural practice to join Heartland Properties, as assistant regional manager, in 1999. He assumed project management responsibilities for Heartland in the Western Cape in 2000 and has led development planning for the Somerset West site. He was appointed development director, at national level, in 2005.

Paul McAfee (47)
Heartland Properties's managing director is a structural engineer by profession and he was a partner in a civil/structural and project management practice before moving to the AECI Group in 2002. Paul is a graduate of Queens of Belfast, Northern Ireland, the University of the Witwatersrand and the Wits Business School. Before taking up his current position in 2005, he was Heartland's development and sales director.

Mike Walsh (37)
Mike immigrated to South Africa, from Ireland, in 1992. Prior to joining Heartland as sales manager in 2002, he had worked in the corporate property field at other JSE-listed companies. He was appointed sales director of Heartland Properties in 2005 and is responsible for overseeing sales activities at all of this company's sites.

Financial performance (Rm)



Heartland Leasing

In the half-year since its establishment, Heartland Leasing delivered a pleasing performance and indications are that the objectives of maximising efficiencies and consolidating best practice are being met.

Leased assets

Gross income on leased assets increased to R97 million. At year-end, the vacancy rate was 25 per cent and the gross lettable area under the company's management had increased to 302 000 m^2 from 275 000 m^2 the previous year. In 2006, the company will focus on reducing the vacancy rate and on securing more lucrative leases while continuing to manage the Group's leased assets cost-effectively.

Services

Another core activity for Heartland Leasing is the provision of utilities and services at the Umbogintwini Industrial Complex (UIC) where the business was formerly that of UOS. A broad range of utilities and services are provided to the UIC's 14 main manufacturing companies and smaller site tenants.

In 2005 the business recorded a modest profit after taking into account remediation costs of R4 million. An impairment charge of R9 million was recognised in respect of the inorganic effluent treatment plant. The latter occurred as a result of on-site companies reducing their effluent volumes owing to improvements in waste reduction and management programmes.

Remediation

The Group's sites at Modderfontein and at Somerset West have the greatest potential for future redevelopment. At Modderfontein, the reduction in AEL's manufacturing "footprint" freed up more land and, at Somerset West, the Group's manufacturing activities ceased in the 1990s. Consequently, the entire area at Somerset West will ultimately be available as will another, albeit smaller site, at Milnerton, formerly occupied by fertiliser manufacturing.

In line with AECI's land release strategy, Heartland Leasing concentrated its resources on these sites in 2005.

At Modderfontein, good progress was made in demolishing redundant plant structures, removing waste to an off-site disposal facility, or selling it for beneficiation, and characterising soil and groundwater to enhance understanding of subsurface conditions.

The greatest portion of expenditure was at Somerset West, where a number of large-scale projects were undertaken. Among these was the removal of about 290 000 tons of soil, mainly from the former agrochemicals manufacturing area, to an appropriate off-site facility. The project, at a budgeted cost of R80 million, commenced in November and is scheduled for completion by end-March 2006.

While the environmental provision previously established at Group level contemplated the major portion of this expenditure, a further provision of R28 million was raised in Heartland Leasing during 2005.

Since operations ceased at Somerset West, the 45-hectare Paardevlei has no longer been required to function as a source of water for industrial use. This presented opportunities as part of the overall redevelopment of the property. The vlei was purged of its non-indigenous fish population and drained. Residual sludges are being removed prior to the vlei being reinstated during 2006.

At Milnerton, all production activities by third parties had ceased by year-end. Consequently, efforts to remediate the site, as necessary, will be accelerated in 2006 with a view to releasing the land as soon as is practicable.

Outlook

Heartland Leasing's prospects for 2006 are good. Expenditure on remediation will continue to be prioritised towards ensuring legal compliance and eventual land re-use, with timing of clean-up dovetailing with potential income generation for the benefit of the AECI Group and its shareholders.

Heartland Leasing's executive team

Reg Bhikum (47)
He was appointed managing director of Heartland Leasing in 2005. Since joining the Group in 1981, Reg has held various positions in administration, sales, logistics, and general management. Prior to taking up his current portfolio, he was general manager of Umbogintwini Operations Services and led the transformation of that site to ensure its alignment with the needs of the new AECI. Reg is a BCom graduate, has a diploma in Datametrics and has completed the University of Cape Town's Executive Management Programme.

Rod de Klerk (56)
He is director, Modderfontein remediation and services. Rod has 28 years' experience in the AECI Group across a broad range of engineering, production, projects, maintenance, and training and development functions. In 2002, subsequent to the final decommissioning of Modderfontein's ammonia and urea plants, where he played a key role, he transferred to remediation activities at Group level. He was appointed to his current position at Heartland Leasing in 2005.

Martin Burr (53)
He joined AECI in 1977 and worked in various Group companies in the project, production and general management fields. He moved to Heartland as regional manager, Western Cape, in 2001, and took up his new position as Heartland Leasing's director, Western Cape services and remediation, in 2005. Martin has a BSc (Chem Eng) degree from the University of the Witwatersrand and a BCom (Hons) qualification from Unisa.

Nick Tsouros (41)
He is the company's leasing director. Nick joined the AECI Group as an apprentice fitter in 1984 and subsequently worked in several areas of engineering, contracts, procurement and supply. He moved to Heartland in 2000 as procurement manager and became increasingly involved in the company's leasing activities. He was appointed a director in 2005. In addition to his technical qualifications, Nick also has diplomas in purchasing management and practical accounting, and a certificate in estate agency.

Conclusion

In 2005, the Group made further progress in the consolidation and growth of the "new" AECI, and its performance and progress in several businesses and strategies were unprecedented. Many strategic projects were initiated that will reward the Company in the future.

Significant in this regard were final formulation of the strategic objective to seek new global markets for niche products and skills, progress in automating more of AEL's Modderfontein operations, several acquisitions in Chemical Services, and a clear vision and phased plan to extract value from surplus land at Modderfontein, Somerset West and Milnerton.

Dulux launched innovative new products and SANS Fibres performed admirably in a challenging environment.

AECI's employees continue to thrive in the transformed Group and I wish to acknowledge the contribution of each individual at all levels of our diverse and focused businesses.

Schalk Engelbrecht
Chief executive

Sandton, 20 February 2006

Historical review

Abridged financial statements

R millions	**2005**	2004	2003	2002	2001	2000
Income statements						
Revenue	**8 768**	7 911	7 659	7 818	6 745	6 009
Local	**6 951**	6 405	6 176	5 943	4 962	4 820
Foreign	**1 817**	1 506	1 483	1 875	1 783	1 189
Profit from operations	**887**	743	691	698	492	474
Net financing costs	**90**	139	150	164	141	27
Tax	**225**	173	135	155	(3)	121
Net profit/(loss) attributable to ordinary shareholders	**486**	283	239	240	(88)	244
Headline earnings	**530**	427	337	318	240	285
Balance sheets						
Total shareholders' interest	**2 940**	2 646	2 521	2 315	2 475	3 238
Deferred tax (net)	**(291)**	(327)	(353)	(346)	(342)	(322)
Net interest-bearing debt	**798**	615	1 019	814	987	74
Capital employed	**3 447**	2 934	3 187	2 783	3 120	2 990
Represented by:						
Property, plant, equipment, goodwill and investments	**2 734**	2 557	2 711	2 283	2 606	2 482
Current assets, excluding cash, less interest-free liabilities	**713**	377	476	500	514	508
Employment of capital	**3 447**	2 934	3 187	2 783	3 120	2 990
Cash flow statements						
Cash generated by operations(1)	**950**	712	634	649	447	527
(Investment)/reduction in working capital	**(295)**	77	109	(99)	(72)	(149)
Expenditure relating to exceptional items and long-term provisions	**(42)**	(21)	(64)	(48)	(88)	(210)
Net investments to maintain operations(2)	**(104)**	(112)	(22)	(18)	(96)	6
	509	656	657	484	191	174
Dividends paid	**(167)**	(135)	(123)	(103)	(87)	(134)
	342	521	534	381	104	40
Investment in expansion of assets(2)	**(453)**	(179)	(1 042)	(130)	(374)	(218)
Proceeds from disposal of investments and businesses	**27**	58	1	167	65	224
Net cash (utilised)/generated(3)	**(84)**	400	(507)	418	(205)	46
Depreciation charges	**212**	224	223	221	221	205
Commitments						
Capital expenditure authorised	**97**	188	189	243	102	235
Future rentals on property, plant and equipment leased	**235**	196	158	147	179	162
	332	384	347	390	281	397

(1) Profit from operations plus depreciation of property, plant and equipment and other non-cash flow items and after investment income, net 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

	2005	2004	2003	2002	2001	2000
Profitability and asset management						
Profit from operations to revenue (%)	**10.1**	9.4	9.0	8.9	7.3	7.9
Trading cash flow to revenue (%)	**12.5**	12.2	11.9	11.8	10.6	11.3
Return on average net assets (%)(1)	**23.4**	20.4	19.3	19.7	14.1	13.4
Return on average ordinary shareholders' interest (%)	**19.4**	16.7	14.7	14.6	9.0	9.8
Net working capital to revenue (%)(2)	**15.7**	12.0	14.2	14.4	17.5	19.5
Stock cover (days)	**74**	68	67	70	81	74
Average credit extended to customers (days)	**66**	59	55	52	66	65
Liquidity						
Cash interest cover(3)	**12.3**	7.0	6.1	5.7	5.1	25.2
Interest-bearing debt to cash generated by operations	**0.7**	0.6	1.1	0.9	1.5	0.1
Gearing (%)(4)	**27.1**	23.2	40.4	35.2	39.9	2.3
Current assets to current liabilities	**1.4**	1.6	1.1	1.8	1.6	1.4
Employees						
Number of employees at year-end(5)	**7 251**	7 260	8 167	8 001	8 164	8 412
Employee remuneration (R millions)	**1 375**	1 395	1 324	1 210	1 123	1 043
Value added per rand of employee remuneration (rand)	**1.81**	1.71	1.72	1.80	1.68	1.72

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

JSE Limited and share performance

	2005	2004	2003	2002	2001	2000
Ordinary share statistics						
Market price (cents per share)						
High	**5 300**	3 942	3 400	2 650	1 890	1 675
Low	**3 801**	2 900	2 114	1 720	1 275	1 050
31 December	**5 300**	3 900	3 400	2 550	1 720	1 310
Earnings yield (%)	**9.1**	10.1	10.5	13.3	15.0	14.1
Dividend yield (%)*	**3.3**	3.5	3.5	4.4	5.1	6.1
Dividend cover*	**2.8**	2.8	3.0	3.0	3.0	2.3
In issue (millions)	**120.7**	119.7	118.5	104.2	103.5	154.7
Value traded (R millions)	**2 555.1**	1 476.1	995.0	1 135.8	865.6	585.1
Volume traded (millions)	**55.9**	44.2	38.2	51.1	52.7	44.3
Volume traded (%)	**46.3**	36.9	32.2	49.0	51.0	28.6
Market capitalisation (R millions)	**6 399.4**	4 669.2	4 029.1	2 657.1	1 780.0	2 026.1
Ordinary share performance						
(cents per share)						
Headline earnings	**482**	392	356	340	258	184
Normal dividends declared*	**175**	138	120	112	87	80
Net asset value	**2 587**	2 381	2 305	2 222	2 430	1 979

* 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.

	2005 **R millions**	**%**	2004 R millions	%
Revenue	**8 768**	**100**	7 911	100
Purchased materials and services	**6 314**	**72**	5 569	70
Value added through operations	**2 454**	**28**	2 342	30
Other income	**35**	**–**	39	–
Total value added	**2 489**	**28**	2 381	30
Distributed to:				
Employees	**1 375**	**55**	1 395	59
Lenders	**120**	**5**	175	7
Shareholders	**167**	**7**	135	6
Direct taxes	**247**	**10**	170	7
Reinvested in the Group	**560**	**22**	477	20
Exceptional items net of tax	**20**	**1**	29	1
	2 489	**100**	2 381	100

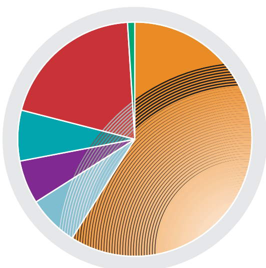
Monetary exchanges with the state

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

	2005 **R millions**	2004 R millions
Direct taxes	**247**	170
Employees' tax collected on behalf of the state	**246**	219
Property taxes paid to local authorities	**35**	32
RSC levies paid to local authorities	**16**	15
Skills development levies paid to SA Revenue Service	**7**	7
VAT collected on behalf of the state	**94**	165
Channelled through the Group	**548**	608

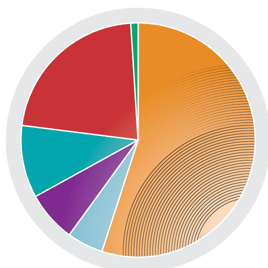
Distribution of value added 2004

- Employees 59%
- Lenders 7%
- Shareholders 6%
- Direct taxes 7%
- Reinvested in the Group 20%
- Exceptional items net of tax 1%



Distribution of value added 2005

- Employees 55%
- Lenders 5%
- Shareholders 7%
- Direct taxes 10%
- Reinvested in the Group 22%
- Exceptional items net of tax 1%



Report of the independent auditors

To the members of AECI Limited

We have audited the annual financial statements and Group annual financial statements of AECI Limited for the year ended 31 December 2005. 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 International Standards on Auditing. 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. An audit also includes 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 present fairly, in all material aspects, the financial position of the Company and of the Group at 31 December 2005, and the results of their operations and cash flows in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

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

Sandton, 20 February 2006

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
Balance sheets
Income statements
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, 20 February 2006

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, 20 February 2006

Directors' report

The activities and results of the Group have been reviewed on pages 14 to 43.

Statutory information

Share capital

The issued ordinary share capital of the Company at 31 December 2005 was R120 742 578 (2004 – R119 723 538).

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 2005 financial year are set out in note 19 to the financial statements.

Directorate

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

The following directors retire in terms of the Company's articles of association at the annual general meeting on 22 May 2006:

In terms of article 22.4:
F Titi

In terms of article 24.1:
MJ Leeming
LC van Vught

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

At 31 December 2005, the directors had direct and indirect beneficial interests, including interests held through family trusts, in 14 950 ordinary shares of the Company (2004 – 4 450).

Subsidiaries and joint ventures

Details of each trading subsidiary and joint venture are set out in the appendices on pages 84 and 85.

The aggregate net profits and losses after taxation of South African subsidiaries and joint ventures attributable to the Company for the year 2005 were as follows:

Profits:	R472 million (2004 – R381 million)
Losses:	R40 million (2004 – R70 million)

Accounting policies and definitions

The principal accounting policies of the Group as set out herein have been applied consistently throughout the Group and are consistent with those followed in the previous year in all material respects, except as otherwise stated.

Statement of compliance

The separate financial statements and consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations of those standards, as adopted by the International Accounting Standards Board (IASB) and applicable legislation, and in accordance with the requirements of the South African Companies Act.

Basis of accounting

The separate financial statements and consolidated financial statements are prepared on the going concern basis using the historical cost convention, modified to include the revaluation of certain property, plant and equipment as well as the revaluation of 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 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 control was acquired and up to the dates control ceased. Intergroup transactions and balances between Group entities are eliminated on consolidation.

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 dates of their acquisition until their disposal. Intergroup transactions and balances between Group entities are eliminated on proportionate consolidation to the extent of the Group's interest in the joint venture or partnership.

Associates

Associates are those companies that are not subsidiaries or joint ventures, in which the Group holds an equity interest and over which it has the power to exercise significant influence over financial and operating policies 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 to the extent of the Group's interest in the associate.

Subsidiaries, associates, joint ventures and partnerships

Investments in subsidiaries, associates, joint ventures and partnerships are recognised at cost less impairment losses.

Goodwill

The excess of cost of subsidiaries, joint ventures and associated companies over their fair net asset value at acquisition is capitalised as goodwill in the Group financial statements and is stated at cost less impairment losses. Goodwill is not amortised. Goodwill of associates is included in the carrying amount of the relevant associate. Goodwill acquired in a business combination for which the agreement date was before 31 March 2004 was previously amortised on a systematic basis over its estimated useful life. The accumulated amortisation previously raised has been set off against the cost. On disposal of a subsidiary, associate, jointly controlled entity or business unit to which the goodwill was allocated on acquisition, the amount attributable to such goodwill is included in the determination of the profit or loss on disposal.

If, on a business combination, the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, this excess is recognised in the income statement immediately.

Deferred tax

Deferred tax is calculated using the balance sheet liability method, based on temporary differences, and represents the potential future liability for tax 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. 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 tax 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 only 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.

Deferred tax is measured at rates that have been enacted or substantially enacted at the balance sheet date.

Accounting policies and definitions continued

Property, plant and equipment

Property, plant and equipment are stated 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 useful lives as revised from time to time. Certain of the Group's land, which was originally acquired as a fixed asset and which was subsequently determined to be surplus to the Group's requirements, is included at values determined by sworn appraisers. The basis of the valuation was open market value and the surplus over original cost was taken to non-distributable reserves. Investment properties, comprising properties surplus to the Group's requirements and leased to third parties, are stated at cost less accumulated depreciation and impairment losses.

Specific plant spares are stated at average cost and are written off over the estimated residual productive lives of the plants to which they relate.

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 useful lives. The estimated useful lives used range from three to 10 years. The useful lives and residual values are reviewed annually.

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 in order to determine the extent of the impairment loss. The recoverable amount is the higher of its net selling price and its value in use. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Subsequent to the recognition of an impairment loss, the depreciation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets of the cash-generating unit.

An impairment loss is reversed only to the extent that the carrying amount of the asset or cash-generating unit does not exceed the net carrying amount that would have been determined if no impairment loss had been recognised. A reversal of an impairment loss is recognised in the income statement.

Goodwill is tested for impairment on an annual basis even if there is no indication of impairment.

Inventory

Inventories of raw and packing materials, products and intermediates and merchandise are stated at average 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 stated at average cost.

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

In all cases, inventories are stated at the lower of average or actual cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses and taking into account obsolescence.

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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability for which future cash flow estimates have not been adjusted.

Environmental remediation

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 annually at the balance sheet date against changed circumstances, legislation and technology.

Revenue

Revenue comprises net invoiced sales to customers excluding cash discounts, rebates and value-added tax. Revenue is recognised when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be measured reliably and when it is probable that the debtor will pay for the goods.

Foreign currency translations

Transactions in foreign currencies are translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Gains or losses arising on exchange differences are credited to or charged against income. Costs associated with forward cover contracts linked to borrowings are included in financing costs.

The financial statements of foreign entities within the Group are translated into South African rand as follows:

- assets, including goodwill, and liabilities at the rates of exchange ruling at the balance sheet date
- 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.

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 at fair value initially. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Listed investments classified as financial assets at fair value through profit or loss are carried at market value, which is calculated by reference to securities exchange prices ruling at the close of business on the balance sheet date. Changes in the market value are taken to the income statement.

Unlisted investments classified as available-for-sale financial assets are stated at fair value. Changes in fair value are taken to equity unless there is objective evidence that the asset is impaired, in which event the impairment loss is recognised in the income statement. Fair value, for this purpose, is a value arrived at by using appropriate valuation models.

Accounts receivable

Accounts receivable are stated after providing for impairment losses.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, with changes in fair value being recognised in the income statement.

Financial assets

Financial assets are measured initially at fair value plus transaction costs with changes in fair value being included in the income statement.

Financial liabilities

Financial liabilities are measured initially at fair value plus transaction costs with changes in fair value being included in the income statement.

Derivative instruments

Derivative instruments that are assets or liabilities are measured at fair value with changes in fair value being included in the income statement, other than derivatives designated as cash flow hedges.

Offset

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

Hedge accounting

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in the income statement.

If a cash flow hedge meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses recognised in equity are transferred to the income statement in the same period in which the asset or liability affects the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gains or losses recognised in equity are included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when the hedge becomes ineffective), when the hedge instrument is sold, terminated or exercised, when for cash flow hedges the forecast transaction is no longer expected to occur or when the hedge designation is revoked. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to the income statement.

Investment income

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable. Dividend income from investments is recognised when the shareholders' right to receive payment has been established. Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Research and development

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

Leases

Finance leases

Leases that transfer substantially all the risks and rewards of ownership 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 in the income statement 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 the 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.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement as incurred.

Defined benefit plans

The cost of providing defined benefits is determined using the projected unit credit method. Valuations are conducted every three years and interim adjustments to those valuations are made annually.

Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's pension obligations or the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Otherwise, the actuarial gain or loss is not recognised.

The amount recognised in the balance sheet represents the difference between the present value of the defined benefit obligation, as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and the fair value of plan assets, and is calculated separately for each plan. To the extent that there is uncertainty as to the entitlement to a surplus, no asset is recognised.

Post-employment medical aid benefits

The Group provides post-employment healthcare benefits to certain of its retirees. The present value of the post-employment medical aid obligations is actuarially determined annually on the projected unit credit method. Actuarial gains and losses are recognised immediately in the income statement.

Equity compensation benefits

The Group has granted share options to certain employees under a share option scheme. In respect of options granted prior to 7 November 2002, no costs are recognised in the income statement other than costs incurred in administering the scheme. In respect of options granted after 7 November 2002, the fair value of the options is measured at grant date and recognised in the income statement over the vesting period with reference to the costs determined in accordance with the binomial option pricing model. The Group has also granted share appreciation rights to certain employees under an equity-based incentive scheme. The fair value is measured initially at the grant date using the binomial option pricing model and recognised in the income statement over the vesting period with a corresponding increase in liabilities. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Dividends

Dividends are only recognised as a liability when declared and are included in the statement of changes in equity. Secondary tax on companies in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and is included in the tax charge in the income statement.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Inter-segmental transfers are made on an arm's length basis.

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

- mining solutions, comprising mainly the manufacture of explosives and initiating systems used by the mining industry
- specialty chemicals, comprising of niche-orientated small to medium-sized businesses marketing specialty chemicals to a broad range of industries
- specialty fibres, comprising mainly the manufacture of nylon and polyester yarns used for industrial purposes
- decorative coatings, comprising mainly the manufacture of paint for architectural 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.

Judgements made by management

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimates based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and taxation rates and competitive forces.

Environmental remediation

Estimating the future costs of environmental and rehabilitation obligations is complex and requires management to make estimates and judgements because most of the obligations will be fulfilled in the future and contracts and laws are often not clear regarding what is required. The resulting provisions are influenced further by changing technologies and political, environmental, safety, business and statutory considerations.

Asset lives and residual values

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Post-employment benefit obligations

Post-employment defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include employee turnover, mortality rates, the discount rate, the expected long-term rate of return of retirement plan assets, healthcare inflation cost and rates of increase in compensation costs.

Sources of estimation uncertainty

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that management have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

Balance sheets

at 31 December 2005

	Notes	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
ASSETS					
Non-current assets		**3 056**	2 917	**4 684**	3 816
Property, plant and equipment	1	**1 723**	1 659	**540**	398
Goodwill	2	**920**	822	**885**	–
Investments	3	**91**	76	**67**	65
Investment in subsidiaries	4			**2 940**	3 064
Deferred tax assets	5	**322**	360	**252**	289
Current assets		**3 559**	2 960	**1 739**	828
Inventory	6	**1 372**	1 160	**835**	380
Accounts receivable	7	**1 778**	1 420	**872**	393
Cash and cash equivalents		**409**	380	**32**	55
Total assets		**6 615**	5 877	**6 423**	4 644
EQUITY AND LIABILITIES					
Ordinary capital and reserves		**2 857**	2 605	**2 653**	2 648
Issued capital	8	**453**	445	**463**	455
Non-distributable reserves		**276**	289	**210**	221
Retained earnings		**2 128**	1 871	**1 980**	1 972
Preference capital	8	**6**	6	**6**	6
Shareholders' equity		**2 863**	2 611	**2 659**	2 654
Outside shareholders' interest in subsidiaries		**77**	35		
Total equity		**2 940**	2 646	**2 659**	2 654
Non-current liabilities		**1 132**	1 422	**2 062**	1 253
Deferred tax liabilities	5	**31**	33	**–**	–
Loans from subsidiaries	4			**1 397**	362
Long-term borrowings	9	**559**	899	**204**	520
Long-term provisions	10	**542**	490	**461**	371
Current liabilities		**2 543**	1 809	**1 702**	737
Accounts payable	11	**1 777**	1 632	**1 077**	649
Short-term borrowings	12	**648**	96	**620**	68
Tax payable		**118**	81	**5**	20
Total liabilities		**3 675**	3 231	**3 764**	1 990
Total equity and liabilities		**6 615**	5 877	**6 423**	4 644

Income statements

for the year ended 31 December 2005

	Notes	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
Revenue		**8 768**	7 911	**4 384**	3 183
Net operating costs	13	**(7 881)**	(7 168)	**(4 240)**	(3 116)
Profit from operations		**887**	743	**144**	67
Financing costs	14	**(120)**	(175)	**(102)**	(142)
Interest received	14	**30**	36	**151**	119
Investment income	15	**4**	2	**173**	154
Share of associated company's income	3	**1**	1		
		802	607	**366**	198
Transitional provision for post-employment medical aid benefits		**(20)**	(20)	**(20)**	(20)
Amortisation of goodwill	2	**–**	(104)	**–**	(10)
Impairment of goodwill	2	**(10)**	–	**(22)**	–
Exceptional items	16	**(27)**	(23)	**(22)**	915
Profit before tax		**745**	460	**302**	1 083
Tax	17	**(225)**	(173)	**(49)**	(31)
Profit for the year		**520**	287	**253**	1 052
Attributable to:					
Ordinary shareholders		**486**	283	**251**	1 050
Preference shareholders		**2**	2	**2**	2
Outside shareholders in subsidiaries		**32**	2		
		520	287	**253**	1 052
Per ordinary share (cents)					
– Attributable earnings	18	**442**	260		
– Diluted attributable earnings	18	**434**	254		
– Headline earnings	18	**482**	392		
– Diluted headline earnings	18	**473**	383		
– Ordinary dividends paid	19	**148**	122		
– Ordinary dividends declared but not provided for	19	**121**	94		

Cash flow statements

for the year ended 31 December 2005

	Notes	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
Cash generated by operations	i	**1 165**	964	**327**	132
Dividends received		**4**	2	**173**	154
Financing costs		**(120)**	(162)	**(102)**	(129)
Interest received		**30**	36	**151**	119
Taxes paid	ii	**(129)**	(128)	**(4)**	(11)
Changes in working capital	iii	**(295)**	77	**(205)**	(56)
Expenditure relating to long-term provisions		**(33)**	(21)	**(24)**	(17)
Expenditure relating to restructuring		**(9)**	–	**(9)**	–
Cash available from operating activities		**613**	768	**307**	192
Dividends paid	iv	**(167)**	(135)	**(180)**	(148)
Cash flows from operating activities		**446**	633	**127**	44
Cash flows from investing activities		**(530)**	(233)	**(273)**	420
Net investments to maintain operations		**(104)**	(112)	**(27)**	(31)
Replacement of property, plant and equipment		**(116)**	(120)	**(32)**	(43)
Proceeds from disposal of property, plant and equipment		**12**	8	**5**	12
Investments to expand operations		**(453)**	(179)	**(253)**	10
Acquisition of – property, plant and equipment		**(235)**	(157)	**(60)**	(85)
– investments		**(14)**	(6)	**–**	(51)
– subsidiaries		**(113)**	(16)	**(2)**	–
– businesses		**(91)**	–	**(1 347)**	–
Net loans with subsidiaries				**1 156**	146
Proceeds from disposal of investments and businesses		**27**	58	**7**	441
Proceeds from disposal of – subsidiaries		**11**	27	**–**	–
– businesses		**7**	30	**7**	441
– listed investments		**9**	1	**–**	–
Net cash (utilised)/generated		**(84)**	400	**(146)**	464
Share options hedge premium paid		**(120)**	–	**(120)**	–
Long-term borrowings – raised		**12**	780	**6**	400
– repaid		**(79)**	(1 016)	**(51)**	(991)
Movement in short-term borrowings		**279**	(249)	**280**	15
Proceeds from shares issued		**8**	8	**8**	8
Cash effects of financing activities		**220**	(477)	**243**	(568)
Increase/(decrease) in cash and cash equivalents		**16**	(77)	**(23)**	(104)
Cash and cash equivalents at the beginning of the year		**380**	474	**55**	160
Translation gain/(loss) on cash and cash equivalents		**13**	(17)	**–**	(1)
Cash and cash equivalents at the end of the year		**409**	380	**32**	55

Notes to the cash flow statements

for the year ended 31 December 2005

		Group		Company	
		2005	2004	**2005**	2004
		R millions	R millions	**R millions**	R millions
i.	**Cash generated by operations**				
	Profit from operations	**887**	743	**144**	67
	Adjusted for non-cash movements:				
	Depreciation	**212**	224	**97**	98
	Provisions – investments	**–**	–	**5**	(34)
	– long-term provisions	**84**	5	**79**	–
	Loss/(surplus) on disposal of property, plant and equipment	**1**	(4)	**2**	(3)
	Surplus on disposal of listed investments	**(2)**	–	**–**	–
	Translation differences	**–**	1	**–**	1
	Change in fair value of investments	**(15)**	(8)	**–**	–
	Other	**(2)**	3	**–**	3
		1 165	964	**327**	132
ii.	**Taxes paid**				
	Owing at the beginning of the year	**81**	64	**20**	30
	Current charge for the year	**159**	145	**(11)**	–
	Changes in the Group	**7**	–	**–**	1
	Owing at the end of the year	**118**	81	**5**	20
		129	128	**4**	11
iii.	**Changes in working capital**				
	(Increase)/decrease in inventory	**(212)**	10	**(455)**	110
	(Increase)/decrease in accounts receivable	**(358)**	(140)	**(479)**	267
	Increase/(decrease) in accounts payable	**126**	190	**409**	(176)
		(444)	60	**(525)**	201
	Translation differences	**(8)**	(14)	**8**	(11)
	Changes in the Group	**157**	31	**312**	(246)
		(295)	77	**(205)**	(56)
iv.	**Dividends paid**				
	Paid during the year	**165**	135	**180**	148
	Paid to outside shareholders	**2**	–		
		167	135	**180**	148
v.	**Changes in the Group**				
	Property, plant and equipment	**(53)**	(71)	**163**	(259)
	Investments	**(2)**	–	**7**	1 198
	Working capital	**157**	31	**312**	(246)
	Long-term provisions	**–**	–	**(34)**	60
	Deferred tax and taxation	**(7)**	9	**(9)**	16
	Borrowings	**(1)**	–	**–**	–
	Outside shareholders' interest in subsidiaries	**(12)**	(12)	**–**	–
	Net surplus on disposal of investments and businesses	**(4)**	(8)	**–**	(928)
	Goodwill	**108**	10	**903**	(282)
	Net purchase price/(proceeds)	**186**	(41)	**1 342**	(441)

Statements of changes in equity

for the year ended 31 December 2005

R millions	Ordinary share capital	Share premium	**Total ordinary capital**
GROUP			
Balance at 1 January 2004	108	329	437
Changes in the Group			
Sale of portion of subsidiary company			
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to income statement			
Foreign entity translation differences			
Fair value adjustments taken to reserves			
Deferred tax on fair value adjustments			
Profit for the year			
Dividends paid			
Shares issued during the year	1	7	8
Balance at 31 December 2004	**109**	**336**	**445**
Changes in the Group			
Foreign currency translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to income statement			
Foreign entity translation differences			
Profit for the year			
Dividends paid			
Share options hedge premium			
Deferred tax on share options hedge premium			
Shares issued during the year	1	7	**8**
Balance at 31 December 2005	**110**	**343**	**453**
COMPANY			
Balance at 1 January 2004	118	329	447
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to income statement			
Fair value adjustments taken to reserves			
Deferred tax on fair value adjustments			
Profit for the year			
Dividends paid			
Shares issued during the year	1	7	8
Balance at 31 December 2004	**119**	**336**	**455**
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to income statement			
Profit for the year			
Dividends paid			
Share options hedge premium			
Deferred tax on share options hedge premium			
Shares issued during the year	1	7	**8**
Balance at 31 December 2005	**120**	**343**	**463**

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Surplus arising on revaluation of property	Foreign currency translation reserve	Retained earnings of associated companies	Other non-distri-butable reserves	**Total non-distri-butable reserves**	**Retained earnings**	**Total**	**Outside share-holders**	**Preference share capital**	**Total equity**
329	18	1	(1)	347	1 710	2 494	21	6	2 521
						–	(12)		(12)
						–	25		25
	18			18	(18)	–	(1)		(1)
	(5)			(5)		(5)			(5)
(41)			(1)	(42)	42	–			–
	(34)			(34)	(13)	(47)			(47)
			8	8		8			8
			(3)	(3)		(3)			(3)
					283	283	2	2	287
					(133)	(133)		(2)	(135)
						8			8
288	**(3)**	**1**	**3**	**289**	**1 871**	**2 605**	**35**	**6**	**2 646**
							12		**12**
	18			**18**		**18**			**18**
	(5)			**(5)**		**(5)**			**(5)**
(20)			1	**(19)**	**19**	**–**			**–**
	(7)			**(7)**		**(7)**			**(7)**
					486	**486**	**32**	**2**	**520**
					(163)	**(163)**	**(2)**	**(2)**	**(167)**
					(120)	**(120)**			**(120)**
					35	**35**			**35**
						8			**8**
268	**3**	**1**	**4**	**276**	**2 128**	**2 857**	**77**	**6**	**2 940**
310	(60)		(7)	243	1 027	1 717		6	1 723
	16			16	1	17			17
	(5)			(5)		(5)			(5)
(40)				(40)	40	–			–
			10	10		10			10
			(3)	(3)		(3)			(3)
					1 050	1 050		2	1 052
					(146)	(146)		(2)	(148)
						8			8
270	**(49)**		**–**	**221**	**1 972**	**2 648**		**6**	**2 654**
	13			**13**		**13**			**13**
	(4)			**(4)**		**(4)**			**(4)**
(20)				**(20)**	**20**	**–**			**–**
					251	**251**		**2**	**253**
					(178)	**(178)**		**(2)**	**(180)**
					(120)	**(120)**			**(120)**
					35	**35**			**35**
						8			**8**
250	**(40)**		**–**	**210**	**1 980**	**2 653**		**6**	**2 659**

Notes to the financial statements

for the year ended 31 December 2005

	Group		Company	
	2005	2004	**2005**	2004
	R millions	R millions	**R millions**	R millions
1. PROPERTY, PLANT AND EQUIPMENT				
Property				
Cost or valuation	**824**	894	**176**	167
At the beginning of the year	**894**	917	**167**	214
Additions	**8**	41	**1**	37
Disposals and transfers	**(12)**	(3)	**(8)**	(3)
Changes in the Group	**(67)**	(60)	**16**	(81)
Translation differences	**1**	(1)	**–**	–
***Less:* accumulated depreciation and impairment**	**189**	180	**68**	66
At the beginning of the year	**180**	171	**66**	118
Disposals and transfers	**(7)**	(3)	**(4)**	–
Changes in the Group	**(1)**	–	**2**	(57)
Translation differences	**1**	(2)	**–**	–
Depreciation for the year	**16**	14	**4**	5
Carrying amount	**635**	714	**108**	101
Plant and equipment				
Cost or valuation	**2 877**	2 553	**1 489**	1 085
At the beginning of the year	**2 553**	2 414	**1 085**	1 652
Additions	**343**	236	**91**	91
Disposals and transfers	**(47)**	(45)	**(24)**	(13)
Changes in the Group	**24**	(16)	**337**	(645)
Translation differences	**4**	(36)	**–**	–
***Less:* accumulated depreciation and impairment**	**1 789**	1 608	**1 057**	788
At the beginning of the year	**1 608**	1 452	**788**	1 113
Disposals and transfers	**(39)**	(38)	**(21)**	(7)
Changes in the Group	**11**	(5)	**188**	(410)
Translation differences	**4**	(15)	**–**	–
Impairment during the year	**9**	4	**9**	(1)
Depreciation for the year	**196**	210	**93**	93
Carrying amount	**1 088**	945	**432**	297
Total carrying amount	**1 723**	1 659	**540**	398
Cost of assets which are fully depreciated	**784**	606	**582**	403
Cost or valuation of land included in property	**441**	510	**58**	54
Investment property				
– Cost	**115**	113		
– Fair value	**290**	271		
Insured value of property, plant and equipment	**7 824**	7 262	**5 147**	4 235

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 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
2. Goodwill				
Gross amount	**930**	1 203	**907**	–
At the beginning of the year†	**822**	1 193	**–**	417
Additions	**108**	–	**42**	–
Changes in the Group				
– Sale of African Explosives business	**–**	–	**–**	(417)
– Purchase of Chemical Services businesses	**–**	–	**865**	–
– Other	**–**	10	**–**	–
***Less:* accumulated impairment losses**	**10**	381	**22**	–
At the beginning of the year†	**–**	277	**–**	125
Changes in the Group				
– Sale of African Explosives business	**–**	–	**–**	(135)
Amortisation for the year	**–**	104	**–**	10
Impairment charge for the year	**10**	–	**22**	–
Carrying amount	**920**	822	**885**	–

† In accordance with the transitional provisions of IFRS3, accumulated amortisation at 1 January 2005 has been set off against the cost of goodwill.

	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
3. Investments				
Associated company				
Dussek Campbell (Pty) Limited				
– Unlisted shares at fair value	*	*	**–**	–
– Indebtedness	**(3)**	(4)	**–**	–
Post-acquisition retained income	**4**	3		
Balance at the beginning of the year	**3**	2		
Current year's share of retained income	**1**	1		
Total investment in associated company	**1**	(1)	**–**	–
Joint ventures				
(see appendix 2)			**46**	42
Investments at fair value				
Listed investments at market value	**59**	42	**–**	–
Available-for-sale investments				
Unlisted investments at fair value	**31**	35	**21**	23
Shares				
– Botswana Ash (Pty) Limited	**16**	17	**16**	17
– Other	**–**	2	**–**	–
Indebtedness of unlisted investments	**15**	16	**5**	6
Total other investments	**90**	77	**67**	65
Total investments	**91**	76	**67**	65

* Nominal amount

Notes to the financial statements continued

for the year ended 31 December 2005

	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
4. INVESTMENT IN SUBSIDIARIES				
(see appendix 3)				
Unlisted shares			**932**	930
– At cost			**976**	974
– Less impairment losses			**(44)**	(44)
Loans to subsidiaries			**2 008**	2 134
– Amounts owing			**2 105**	2 225
– *Less:* impairment losses			**(97)**	(91)
Investment in subsidiaries			**2 940**	3 064
Loans from subsidiaries			**(1 397)**	(362)
Net investment in subsidiaries			**1 543**	2 702
5. DEFERRED TAX				
At the beginning of the year	**(327)**	(353)	**(289)**	(312)
Transfer from/(to) net profit				
– normal activities	**62**	22	**57**	(2)
– exceptional items	**(7)**	6	**(6)**	33
– change in tax rate	**11**	–	**9**	–
Transferred directly (to)/from equity				
– foreign currency loan translation	**5**	5	**4**	5
– fair value adjustments	**–**	3	**–**	3
– share options hedge premium	**(35)**	–	**(35)**	–
Changes in the Group	**–**	(10)	**8**	(16)
At the end of the year	**(291)**	(327)	**(252)**	(289)
Analysis by major temporary differences:				
Property, plant and equipment	**97**	105	**58**	47
Provisions	**(276)**	(264)	**(214)**	(175)
Share options hedge premium	**(35)**	–	**(35)**	–
Deferred foreign exchange differences	**(14)**	(24)	**(16)**	(21)
Computed tax losses	**(79)**	(171)	**(44)**	(149)
Other	**16**	27	**(1)**	9
	(291)	(327)	**(252)**	(289)
Comprising:				
Deferred tax assets	**(322)**	(360)	**(252)**	(289)
Deferred tax liabilities	**31**	33	**–**	–
	(291)	(327)	**(252)**	(289)
6. INVENTORY				
Raw and packing materials	**487**	440	**272**	125
Products and intermediates	**836**	672	**534**	221
Merchandise	**10**	10	**–**	–
Spares and stores	**37**	37	**29**	34
Property developments	**2**	1	**–**	–
	1 372	1 160	**835**	380

	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
7. Accounts receivable				
Trade	**1 593**	1 278	**809**	356
Other	**185**	142	**63**	37
	1 778	1 420	**872**	393
8. Capital				
Share capital and share premium				
Ordinary shares				
Authorised				
180 000 000 shares of R1 each	**180**	180	**180**	180
Issued				
At the beginning of the year				
Group: 109 412 418 shares (2004 – 108 193 098)	**109**	108		
Company: 119 723 538 shares (2004 – 118 504 218)			**119**	118
Issued during the year				
Group: 1 019 040 shares (2004 – 1 219 320)	**1**	1		
Company: 1 019 040 shares (2004 – 1 219 320)			**1**	1
At the end of the year				
Group: 110 431 458 shares (2004 – 109 412 418)	**110**	109		
Company: 120 742 578 shares (2004 – 119 723 538)			**120**	119
Share premium less share issue expenses	**343**	336	**343**	336
At the beginning of the year	**336**	329	**336**	329
Shares issued during the year	**7**	7	**7**	7
	453	445	**463**	455
Treasury shares held by a subsidiary company	**10**	10		
Unissued shares under the control of the directors: Shares reserved to meet the requirements of the Company's share options scheme (see note 25)	**3**	4	**3**	4
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).

Notes to the financial statements continued

for the year ended 31 December 2005

	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
9. Long-term borrowings				
(see appendix 1)				
Unsecured	**764**	828	**421**	463
Secured	**146**	149	**106**	108
	910	977	**527**	571
Current portion (see note 12)	**351**	78	**323**	51
	559	899	**204**	520
10. Long-term provisions				
At the beginning of the year	**490**	501	**371**	443
Expenditure incurred during the year	**(33)**	(21)	**(24)**	(17)
Provided during the year				
– Net operating costs	**84**	5	**79**	–
– Transitional provision for post-employment medical aid benefits	**20**	20	**20**	20
– Exceptional items	**–**	10	**–**	10
Transferred to accounts payable	**(19)**	(25)	**(19)**	(25)
Changes in the Group	**–**	–	**34**	(60)
At the end of the year	**542**	490	**461**	371
Made up as follows:				
Environmental remediation	**161**	149	**161**	148
Post-employment medical aid benefits	**469**	410	**388**	292
Current portion included in accounts payable (see note 11)	**(88)**	(69)	**(88)**	(69)
	542	490	**461**	371
11. Accounts payable				
Trade	**1 080**	1 023	**682**	351
Other	**609**	540	**307**	229
	1 689	1 563	**989**	580
Current portion of provisions (see note 10)	**88**	69	**88**	69
	1 777	1 632	**1 077**	649
12. Short-term borrowings				
Current portion of long-term borrowings (see note 9)	**351**	78	**323**	51
Other	**297**	18	**297**	17
	648	96	**620**	68

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	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
13. NET OPERATING COSTS				
Cost of sales	**5 789**	5 155	**2 913**	1 965
Selling and distribution expenses	**1 284**	1 195	**903**	734
Administrative expenses	**808**	818	**424**	417
Net operating costs	**7 881**	7 168	**4 240**	3 116
Net operating costs have been arrived at after taking into account:				
Auditors' remuneration	**13**	12	**6**	4
– Audit fees	**12**	11	**6**	4
– Other services	**1**	1	*****	–
Change in fair value of investments	**(15)**	(8)	**–**	–
Depreciation of property, plant and equipment	**212**	224	**97**	98
– Buildings	**16**	14	**4**	5
– Plant and equipment	**196**	210	**93**	93
Foreign exchange gains	**(109)**	(84)	**(45)**	(38)
– Realised	**(45)**	(63)	**(16)**	(26)
– Unrealised	**(64)**	(21)	**(29)**	(12)
Foreign exchange losses	**97**	99	**39**	85
– Realised	**33**	50	**13**	50
– Unrealised	**64**	49	**26**	35
Increase/(decrease) in provision for losses on investments	**–**	–	**6**	(34)
Increase in long-term provisions	**84**	5	**79**	–
– Environmental remediation	**38**	5	**38**	–
– Post-employment medical aid benefits	**46**	–	**41**	–
Operating lease costs	**55**	42	**29**	16
Research and development expenditure	**10**	10	**5**	3
Loss/(surplus) on disposal of property, plant and equipment	**1**	(4)	**2**	(3)
– Property	**4**	–	**4**	–
– Plant and equipment	**(3)**	(4)	**(2)**	(3)
Salaries and other staff costs	**1 375**	1 395	**635**	614
Technical fees paid	**9**	5	**–**	–

* Nominal amount

Notes to the financial statements continued

for the year ended 31 December 2005

	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
14. Net financing costs				
Interest paid	**(120)**	(162)	**(102)**	(129)
Long-term borrowings	**(82)**	(118)	**(45)**	(92)
Short-term borrowings	**(38)**	(44)	**(57)**	(37)
Fair value adjustments on derivative instruments	**–**	(13)	**–**	(13)
	(120)	(175)	**(102)**	(142)
Interest received	**30**	36	**151**	119
	(90)	(139)	**49**	(23)
15. Investment income				
Dividends from investments	**4**	2	**2**	–
– Listed	**2**	2	**–**	–
– Unlisted	**2**	–	**2**	–
Dividends from unlisted South African subsidiaries			**171**	154
	4	2	**173**	154
Aggregate income from subsidiaries and joint ventures				
Dividends			**171**	154
Net interest received			**109**	82
Secretarial and administrative fees			*****	2
			280	238
16. Exceptional items				
Long-term provisions				
– Environmental remediation	**–**	(10)	**–**	(10)
(Costs)/income related to restructuring	**(17)**	(14)	**(13)**	6
– Impairment of property, plant and equipment	**(2)**	(7)	**–**	–
– Retrenchment costs	**(14)**	(16)	**(12)**	(3)
– Other	**(1)**	9	**(1)**	9
Net surplus on disposal of investments and businesses	**5**	15	**6**	928
Impairment of investments, property, plant and equipment	**(10)**	(14)	**(10)**	(9)
Other	**(5)**	–	**(5)**	–
Exceptional items before tax	**(27)**	(23)	**(22)**	915
Deferred tax effect	**7**	(6)	**6**	(33)
Exceptional items after tax	**(20)**	(29)	**(16)**	882
Attributable to outside shareholders	**–**	1		
Net exceptional items	**(20)**	(28)	**(16)**	882

* Nominal amount

	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
17. Tax				
Current tax	**(156)**	(141)	**–**	–
South African normal tax	**(140)**	(141)	**–**	–
Foreign taxes	*****	–	*****	–
Secondary tax on companies	**(16)**	–	**–**	–
Deferred tax	**(81)**	(31)	**(57)**	(31)
Temporary differences	**(77)**	(25)	**(54)**	2
Change in tax rate	**(11)**	–	**(9)**	–
Exceptional items	**7**	(6)	**6**	(33)
	(237)	(172)	**(57)**	(31)
Adjustment for prior years	**12**	(1)	**8**	–
South African normal tax	**(3)**	(4)	**11**	–
Deferred tax	**15**	3	**(3)**	–
	(225)	(173)	**(49)**	(31)
Computed tax losses				
Utilised to reduce deferred tax or create deferred tax assets	**276**	542	**156**	470
Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	**184**	231	**–**	–
	460	773	**156**	470
	%	%	**%**	%
Reconciliation of tax rate computed in relation to profit before exceptional items and investment income				
Effective rate	**29.9**	28.5	**33.5**	(7.9)
Capital and non-taxable receipts	**2.4**	1.5	**0.3**	3.3
Expenses not allowable	**(1.6)**	1.1	**(3.8)**	36.1
Secondary tax on companies	**(1.1)**	(1.3)	**4.2**	(1.1)
Adjustment for prior years	**0.4**	(0.1)	**(0.2)**	–
Change in tax rate	**(1.3)**	–	**(4.9)**	–
Other	**0.3**	0.3	**(0.1)**	(0.4)
South African standard rate	**29.0**	30.0	**29.0**	30.0

* Nominal amount

Notes to the financial statements continued

for the year ended 31 December 2005

	Group 2005 R millions	2004 R millions
18. EARNINGS PER SHARE		
Headline earnings are derived from:		
Profit attributable to ordinary shareholders	**486**	283
Amortisation of goodwill	**–**	104
Impairment of goodwill	**10**	–
Transitional provision for post-employment medical aid benefits	**20**	20
Exceptional items before tax (see note 16)	**27**	23
Tax effects of the above items	**(13)**	–
Outside shareholders' share of the above items	**–**	(3)
Headline earnings	**530**	427

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

	Group 2005	2004
Earnings per ordinary share (cents)		
– Attributable	**442**	260
– Headline	**482**	392
Weighted average number of ordinary shares in issue	**120 292 828**	119 133 597
Deduct treasury shares held	**10 311 120**	10 311 120
	109 981 708	108 822 477

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 ordinary shares in issue of 109 981 708, net of treasury shares (2004 – 108 822 477).

	Group 2005	2004
Diluted earnings per ordinary share (cents)		
– Attributable	**434**	254
– Headline	**473**	383

At 31 December 2005 there were 2 849 040 (2004 – 3 971 080) options outstanding under the employees' share option scheme. Taking these share options into account, diluted earnings per ordinary share and diluted headline earnings per ordinary share have been calculated on the profit for the financial year as shown above and on a weighted average number of shares of 112 035 198 (2004 – 111 464 896). The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R45.77 (2004 – R33.94) compared with an average exercise price on the outstanding options of R12.78 (2004 – R11.35).

	Group 2005	2004
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**109 981 708**	108 822 477
Number of options available for future exercise	**2 849 040**	3 971 080
Number of shares that would be issued at fair value	**(795 550)**	(1 328 661)
Weighted average number of ordinary shares for diluted earnings per share calculation	**112 035 198**	111 464 896

The diluted earnings per ordinary share have been shown in accordance with the provisions of IAS33 (Earnings per share). The Company has purchased call options over AECI ordinary shares which will obviate the need for the Company to issue new shares in terms of the AECI share option scheme. In practice, therefore, there will be no future dilution of earnings from this source.

	Group		Company	
	2005	2004	**2005**	2004
	R millions	R millions	**R millions**	R millions
19. Dividends paid				
Ordinary	**163**	133	**178**	146
Final for previous year: No. 142 of 94 cents (2004 – 78 cents) paid 25 April 2005	**103**	85	**113**	93
Interim for current year: No. 143 of 54 cents (2004 – 44 cents) paid 19 September 2005	**60**	48	**65**	53
Preference				
Nos. 134 and 135 paid 15 June 2005 and 15 December 2005 respectively	**2**	2	**2**	2
	165	135	**180**	148
Proposed final dividend for the year ended 31 December 2005 of 121 cents (2004 – 94 cents) per share payable on 24 April 2006	**134**	103	**146**	113
20. Borrowings and contingent liabilities				
Borrowings	**1 207**	995	**824**	588
Long-term	**559**	899	**204**	520
Short-term	**648**	96	**620**	68
Contingent liabilities	**91**	81	**–**	–
Dispute with South African Revenue Service in respect of property realisation companies				
– tax	**67**	62	**–**	–
– interest	**24**	19	**–**	–
Guarantees*	**201**	197	**373**	378
	1 499	1 273	**1 197**	966
21. Commitments				
Capital commitments authorised	**97**	188	**14**	127
Contracted for	**23**	25	**1**	16
Not contracted for	**74**	163	**13**	111
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	**235**	196	**142**	114
Payable within one year	**47**	43	**28**	17
Payable between one and five years	**127**	99	**84**	56
Payable thereafter	**61**	54	**30**	41
	332	384	**156**	241

* 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.

Group	Foreign currency	Foreign amount **2005** **Millions**	Foreign amount 2004 Millions	Rand amount **2005** **Millions**	Rand amount 2004 Millions
Transactions in foreign currencies Forward exchange contracts at 31 December 2005, relating to specific balance sheet items.					
Accounts receivable				**201**	183
	US dollar	**26**	25	**172**	154
	Euro	**3**	2	**21**	19
	Pound sterling	**1**	1	**8**	10
Accounts payable				**252**	266
	US dollar	**25**	33	**166**	191
	Euro	**5**	5	**39**	39
	Pound sterling	**3**	2	**30**	26
	Swiss franc	**3**	2	**15**	10
	Japanese yen	**36**	2	**2**	*
Forward exchange contracts at 31 December 2005, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due.					
Imports				**81**	47
	US dollar	**5**	5	**35**	28
	Euro	**4**	2	**28**	18
	Pound sterling	**2**	*	**18**	1
	Japanese yen	**8**	–	**–**	–
Exports				**27**	18
	US dollar	**4**	3	**27**	18

* Nominal amount

22. Financial instruments (continued)

Transactions in foreign currencies (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 at 31 December 2005, was:

	Total		Floating rate financial liabilities		Fixed rate financial liabilities	
Currency	**2005 R millions**	2004 R millions	**2005 R millions**	2004 R millions	**2005 R millions**	2004 R millions
Rand						
– Short-term	**483**	96	**469**	45	**14**	51
– Long-term	**559**	899	**555**	881	**4**	18
Other – short-term	**165**	–	**165**	–	**–**	–
Total	**1 207**	995	**1 189**	926	**18**	69

	Fixed rate financial liabilities		Weighted average interest rate		Weighted average period for which rate is fixed	
	2005 R millions	2004 R millions	**2005 %**	2004 %	**2005 Months**	2004 Months
Rand						
Short-term	**14**	51	**6.0**	4.9	**12.0**	7.7
Long-term	**4**	18	**9.5**	6.3	**57.2**	29.8
	18	69	**6.7**	5.2	**17.6**	19.5

The fair value adjustments on interest rate swap contracts were R nil in 2005 and a loss of R13 million in 2004.

Notes to the financial statements continued

for the year ended 31 December 2005

22. Financial instruments (continued)

(c) Maturity profile of financial instruments at 31 December 2005

	Within 1 year		1 to 2 years		2 to 3 years	
	2005	2004	**2005**	2004	**2005**	2004
	R millions	R millions	**R millions**	R millions	**R millions**	R millions
Financial assets						
Cash and cash equivalents	**409**	380	**–**	–	**–**	–
Accounts receivable	**1 778**	1 420	**–**	–	**–**	–
Investments	**75**	59	**–**	–	**–**	–
Total financial assets	**2 262**	1 859	**–**	–	**–**	–
Percentage profile (%)	**99**	99	**–**	–	**–**	–
Financial liabilities						
Interest-bearing liabilities	**648**	96	**225**	542	**31**	25
Accounts payable	**1 689**	1 563	**–**	–	**–**	–
Total financial liabilities	**2 337**	1 659	**225**	542	**31**	25
Percentage profile (%)	**80**	65	**8**	21	**1**	1

3 to 4 years		4 to 5 years		5 years or more		Total	
2005 R millions	2004 R millions	**2005 R millions**	2004 R millions	**2005 R millions**	2004 R millions	**2005 R millions**	2004 R millions
–	–	**–**	–	**–**	–	**409**	380
–	–	**–**	–	**–**	–	**1 778**	1 420
–	–	**–**	–	**16**	17	**91**	76
–	–	**–**	–	**16**	17	**2 278**	1 876
–	–	**–**	–	**1**	1	**100**	100
24	30	**24**	24	**255**	278	**1 207**	995
–	–	**–**	–	**–**	–	**1 689**	1 563
24	30	**24**	24	**255**	278	**2 896**	2 558
1	1	**1**	1	**9**	11	**100**	100

22. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair values of financial assets and liabilities at 31 December 2005

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

The fair value of unlisted investments is based on the 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.

(e) Credit risks

Credit risks arise on cash and cash equivalents, investments and accounts receivable. 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 policies 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 impairment losses. At the balance sheet date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(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.

(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.

Some of the Group's loan agreements contain financial covenants. The Group complied with all such covenants at the 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 company in note 3.

All transactions and balances with these related parties have been eliminated in accordance with, and to the extent required by, IAS27 "Consolidated and separate financial statements", IAS28 "Investments in associates" and IAS31 "Interests in joint ventures".

Dividends received from associated company amounted to R nil (2004 – R1 million) and loans from associated company amounted to R3 million (2004 – R4 million) (see note 3).

Transactions with directors are disclosed in notes 24 and 25.

23. Related party information (continued)

On 1 January 2005, the Company acquired the businesses of the following subsidiary companies at fair market value:

Akulu Marchon (Pty) Limited
Chemical Initiatives (Pty) Limited
Chemserve Perlite (Pty) Limited
Chemserve Systems (Pty) Limited
Industrial Oleochemical Products (Pty) Limited
Industrial Urethanes (Pty) Limited
Lake International Technologies (Pty) Limited
Performance Masterbatch (Pty) Limited
Plaaskem (Pty) Limited
SA Paper Chemicals (Pty) Limited

The transactions that took place with related parties of the Company were as follows:

	Company	
	2005 **R millions**	2004 R millions
Sales by the Company to		
– Subsidiaries	**175**	169
Sales to the Company by		
– Subsidiaries	**80**	212
– Joint ventures	**–**	27
Sales to/from related parties are made on terms equivalent to those that prevail in arm's length transactions		
Dividends received by the Company from		
– Subsidiaries	**171**	154
– Associates	**–**	1
Interest received by the Company from		
– Subsidiaries	**131**	91
Interest paid by the Company to		
– Subsidiaries	**22**	9
Rental of premises by the Company to		
– Subsidiaries	**9**	6
– Joint ventures	*****	*
Rental of premises to the Company by		
– AECI Pension Fund	**4**	4
Other balances with related parties of the Company at 31 December are as follows:		
Non-current amounts owing to the Company by		
– Subsidiaries	**2 105**	2 155
– Joint ventures	**19**	30
Non-current amounts owing by the Company to		
– Subsidiaries	**1 397**	362

* Nominal amount

Notes to the financial statements continued

for the year ended 31 December 2005

24. Directors' emoluments and interests

Executive directors

R thousands	NC Axelson	S Engelbrecht	Total
2005			
Basic salary	**1 632**	**2 244**	**3 876**
Bonus and performance-related payments	**933**	**1 259**	**2 192**
Benefit unit payments by subsidiary(1)	**–**	**3 527**	**3 527**
Expense allowances, medical aid and insurance contributions	**235**	**219**	**454**
Retirement fund contributions	**284**	**662**	**946**
Aggregate emoluments	**3 084**	**7 911**	**10 995**
Less: benefit unit payments by subsidiary(1)	**–**	**(3 527)**	**(3 527)**
Aggregate emoluments paid by the Company	**3 084**	**4 384**	**7 468**
PAYE on aggregate emoluments			**3 260**
2004			
Aggregate emoluments	2 444	12 615	15 059
Less: benefit unit payments by subsidiary(1)	–	(8 753)	(8 753)
Aggregate emoluments paid by the Company	2 444	3 862	6 306
PAYE on aggregate emoluments			5 524

Non-executive directors

R thousands	Directors' fees	Chairman/ committee fees	Additional payments	**2005 Total**	2004 Total
CB Brayshaw	110	127	–	**237**	200
MJ Leeming	110	73	–	**183**	150
TH Nyasulu (resigned 18 November 2005)	110	35	–	**145**	100
AE Pedder CBE	110	365	91	**566**	529
CML Savage (resigned 23 May 2005)	50	25	–	**75**	150
F Titi (appointed 23 May 2005)	60	–	–	**60**	–
LC van Vught	110	35	–	**145**	100
	660	**660**	**91**	**1 411**	1 229
2004	600	500	129	–	1 229

Aggregate emoluments

R thousands	**2005 Total**	2004 Total
Executive directors	**10 995**	15 059
Non-executive directors	**1 411**	1 229
	12 406	16 288

Notes:

(1) Share options issued to directors are set out in note 25. NC Axelson exercised 150 000 options (2004 – nil) which generated a benefit of R6 659 256 (2004 – R nil) before tax. LC van Vught exercised 200 000 options (2004 – 100 000) which generated a benefit of R8 845 000 (2004 – R3 350 000) before tax. None of the other directors exercised any of their options in either the current or the previous year. S Engelbrecht received R3 526 800 (2004 – R8 753 200) before tax 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.

24. Directors' emoluments and interests (continued)

Interest of directors in the share capital of the Company

The aggregate beneficial holdings of the directors of the Company in the issued ordinary shares of the Company at 31 December 2005 were as follows:

	Number of shares		Number of shares	
	2005 Direct	**2005 Indirect**	2004 Direct	2004 Indirect
Executive directors				
NC Axelson	**450**	**–**	450	–
S Engelbrecht	**4 000**	**–**	4 000	–
	4 450	**–**	4 450	–
Non-executive directors				
MJ Leeming	**2 500**	**2 000**	–	–
LC van Vught	**6 000**	**–**	–	–
	8 500	**2 000**	–	–
	12 950	**2 000**	4 450	–

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 defined contribution provident funds.

At 31 December 2005 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 2005
– Dulux Employees Pension Fund	1 March 2001
Defined contribution fund	
– AECI Employees Provident Fund	n/a
– Chemical Services Group Provident Fund	n/a

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

All funds are governed by the Pension Fund Act, 24 of 1956, as amended. Defined benefit funds are actuarially valued every three years using the accrued benefit method of valuation by independent firms of consulting actuaries.

Principal actuarial assumptions at 31 December 2005 were as follows:

	Group	
	2005 %	2004 %
Discount rate	**8.10**	8.25
Expected return on plan assets	**8.10**	8.25
Future salary increases	**5.80**	5.25
Future pension increases	**3.85**	3.40

Notes to the financial statements continued

for the year ended 31 December 2005

25. Employee benefits (continued)

The total cost recognised in the income statement of R30 million (2004 – R28 million) in respect of the defined contribution funds represents contributions payable by the Group at the rate specified in the rules of the schemes. Amounts recognised in the income statement in respect of the defined benefit funds were as follows:

	Group 2005 R millions	Group 2004 R millions
Current service cost	**76**	73
Interest cost	**378**	407
Expected return on plan assets	**(492)**	(475)
Net actuarial loss recognised in the year	**71**	27
Recognised in profit from operations in respect of defined benefit funds	**33**	32
Actual return on plan assets	**1 700**	896

Based on interim valuations by the funds' actuaries, the funded status of the defined benefit funds at 31 December 2005 was as follows:

	Group 2005 R millions	Group 2004 R millions
Fair value of scheme assets	**7 558**	5 553
Present actuarial value of defined benefit obligations	**4 965**	4 191
Net assets	**2 593**	1 362
Included in the fair value of scheme assets are:		
Financial instruments of the Group	**4**	4
Property occupied by the Group	**9**	7

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.

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	
	2005 %	2004 %	**2005 %**	2004 %
Annual increase in health care costs	**5.9**	8.0	**5.9**	8.0
Discount rate	**8.5**	10.0	**8.5**	10.0

	Group		Company	
	2005 R millions	2004 R millions	**2005 R millions**	2004 R millions
Actuarial value of obligations	**469**	425	**388**	314
Provided at 31 December	**469**	410	**388**	292

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 IAS19. Details of the provision at 31 December 2005 are disclosed in note 10. 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.

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 2005:

		Number of shares			
Expiry date	Exercise price (rand)	Originally granted	Since exercised	Since lapsed	Still outstanding
30 November 2008	4.50	4 804 000	3 564 820	130 000	1 109 180
31 December 2009	7.00 – 15.80	410 000	198 000	104 000	108 000
31 December 2010	11.45 – 13.78	477 000	329 000	32 000	116 000
31 December 2011	17.50	1 460 000	349 000	–	1 111 000
30 June 2013	23.60	413 900	9 040	–	404 860
		7 564 900	**4 449 860**	**266 000**	**2 849 040**

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

	Number of options **2005**	2004
Outstanding at the beginning of the year	**3 971 080**	5 190 400
Issued during the year	**–**	–
Exercised during the year		
– New ordinary shares issued	**(1 019 040)**	(1 219 320)
– Exercised against share options hedge(2)	**(103 000)**	–
Outstanding at the end of the year	**2 849 040**	3 971 080
Details of share options exercised during the year		
Expiry date	**2008 – 2013**	2008 – 2012
Weighted average exercise price per share (rand)	**7.72**	7.15
Aggregate issue proceeds (R thousands)	**8 658**	8 719

	Group **2005 R millions**	2004 R millions
Equity-settled share-based payment transactions recognised in the income statement	**2**	–

The fair value of the share options granted after 7 November 2002 is determined at grant date using the binomial option pricing model. The value of options expected to be exercised is recognised in the income statement over the vesting period of the options.

Notes to the financial statements continued

for the year ended 31 December 2005

25. Employee benefits (continued)

Included in outstanding share options are the following options granted to directors:

	Exercise price (rand)	Granted	Number of shares Exercised	Lapsed	Outstanding
NC Axelson	4.50	350 000	150 000	–	200 000
NC Axelson	23.60	46 000	–	–	46 000
S Engelbrecht	4.50	50 000	–	–	50 000
S Engelbrecht	17.50	40 000	–	–	40 000
S Engelbrecht	23.60	67 600	–	–	67 600
LC van Vught	4.50	500 000	500 000	–	–
		1 053 600	**650 000**	**–**	**403 600**

Notes:

(1) 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.

(2) The Company has purchased call options which will be exercised instead of issuing new ordinary shares which would otherwise have been issued when employees exercise their share options.

Cash-settled share-based scheme (benefit units)

AECI Limited offers benefit units, 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.

The terms and conditions of the benefit units scheme are identical to the share option scheme except that they are settled in cash instead of by the issue of new ordinary shares.

The benefit units were issued for the first time in 2005.

Details of outstanding benefit units at 31 December 2005:

Expiry date	Exercise price (rand)	Granted	Number of units Exercised	Lapsed	Outstanding
31 March 2015	41.00	**332 200**	**–**	**–**	**332 200**

	Group 2005 R millions	Group 2004 R millions
Cash-settled share-based payment transactions recognised in the income statement	**2**	–
Total carrying amount of cash-settled share-based transaction liabilities	**2**	–

Included in outstanding benefit units are the following units granted to directors:

	Exercise price (rand)	Granted	Number of units Exercised	Lapsed	Outstanding
NC Axelson	41.00	38 000	–	–	38 000
S Engelbrecht	41.00	57 000	–	–	57 000
		95 000	**–**	**–**	**95 000**

AECI

	2005 R millions	2004 R millions	2005 R millions	2004 R millions	2005 R millions	2004 R millions

26. Industry segment analysis

Class of business	Revenue		Profit from operations		Depreciation	
Mining solutions	**2 314**	2 140	**257**	212	**70**	68
Specialty chemicals	**3 826**	3 363	**412**	388	**66**	68
Specialty fibres	**1 619**	1 595	**32**	3	**62**	72
Decorative coatings	**648**	610	**59**	51	**8**	10
Property	**607**	467	**185**	137	**5**	5
Group services, development and intergroup	**(246)**	(264)	**(58)**	(48)	**1**	1
	8 768	7 911	**887**	743	**212**	224

Class of business	Assets		Liabilities		Capital expenditure	
Mining solutions	**1 247**	1 160	**284**	318	**131**	148
Specialty chemicals	**2 685**	2 099	**754**	636	**170**	96
Specialty fibres	**968**	936	**255**	275	**32**	24
Decorative coatings	**292**	276	**166**	158	**16**	9
Property	**578**	586	**78**	84	**2**	–
Group services, development and intergroup	**23**	4	**240**	161	**–**	–
	5 793	5 061	**1 777**	1 632	**351**	277

Geographical segment analysis	Revenue		Assets		Capital expenditure	
Region						
Republic of South Africa	**6 951**	6 405	**5 474**	4 753	**339**	261
Rest of Africa	**974**	752	**203**	192	**12**	16
Europe	**244**	212	**–**	–	**–**	–
North America	**168**	148	**115**	116	**–**	–
South America	**95**	101	**–**	–	**–**	–
Rest of the world	**336**	293	**1**	–	**–**	–
	8 768	7 911	**5 793**	5 061	**351**	277

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

Notes to the financial statements continued

for the year ended 31 December 2005

27. Acquisitions of subsidiaries and businesses

The following significant acquisitions were made by the Group during the year:

On 1 May 2005 the Group acquired 100 per cent of the shares in Chemiphos (Pty) Limited for R113 million, paid in cash. In the seven months to 31 December 2005, the subsidiary contributed net profit of R12 million to the consolidated net profit for the year.

On 1 July 2005 the Group acquired the businesses of UAP Agrochemicals KwaZulu-Natal (Pty) Limited and UAP Cropcare (Pty) Limited for R27 million, paid in cash.

On 1 July 2005 the Group acquired the business of JLM (SA) (Pty) Limited for R10 million, paid in cash.

On 1 July 2005 the Group acquired the business of Mineag Technical Products (Pty) Limited for R14 million, paid in cash.

On 1 October 2005 the Group acquired the business of JE Orlik & Associates (Pty) Limited for R35 million, paid in cash.

Acquisitions during the year had the following effect on the Group's assets and liabilities:

R millions	Carrying amounts	Fair value adjustments	Recognised values
Acquirees' net assets at the acquisition date			
Property, plant and equipment	15	–	15
Inventories	90	–	90
Accounts receivable	133	–	133
Cash and cash equivalents	1	–	1
Long-term borrowings	(2)	–	(2)
Accounts payable	(139)	–	(139)
Net identifiable assets and liabilities	98	–	98
Goodwill on acquisition	108		
Consideration paid	206		

Appendix 1

Long-term borrowings

	Weighted closing interest rate %	Group 2005 R millions	Group 2004 R millions	Company 2005 R millions	Company 2004 R millions
UNSECURED					
Local					
Loans					
1998/2012	9.00	**3**	3	**3**	3
2001/2006	5.31	**12**	60	**12**	60
2004/2006	8.01	**400**	400	**400**	400
Foreign					
Loans – other	5.45	**6**	–	**6**	–
SECURED					
Local					
2001/2006(1)	6.30	**103**	103	**103**	103
Loans – other(2)	13.16	**42**	45	**3**	5
Foreign					
Loans – other	18.67	**1**	1	**–**	–
		567	612	**527**	571
Minority shareholder loan to subsidiary					
2004/2012(3)	8.84	**343**	365		
		910	977	**527**	571

Notes:
(1) Secured over plant and equipment having a net book value of R68 million (2004 – R75 million).
(2) Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R15 million (2004 – R15 million) and mortgages over property having a net book value of R27 million (2004 – R28 million).
(3) Equity loan from empowerment consortium to AEL Holdco Limited. Interest and capital repayments on R201 million (2004 – R201 million) of the loan have been guaranteed by the Company.

Summary of repayments

R millions	Year	Local	Foreign	Total
	2006	345	6	351
	2007	225	*	225
	2008	31	*	31
	2009	24	*	24
	2010	24	*	24
	After 2010	254	1	255
		903	7	910

* Nominal amount

Appendix 2

Significant joint ventures

	Effective percentage held by AECI Limited 2005	2004
Crest Chemicals (Pty) Limited	**50**	50
DetNet International Limited[1]	**50**	50
DetNet South Africa (Pty) Limited	**50**	50
Resinkem (Pty) Limited	**50**	50
Specialty Minerals South Africa (Pty) Limited	**50**	50
Unifi-SANS Technical Fibers LLC[2]	**50**	50

	2005 R millions	2004 R millions
The aggregate of proportionately consolidated amounts included in the consolidated results is as follows:		
Balance sheets		
Property, plant, equipment and investments	**106**	74
Current assets	**161**	161
Total assets	**267**	235
Equity	**132**	117
Long-term borrowings	**38**	39
Current liabilities	**97**	79
Total equity and liabilities	**267**	235
Income statements		
Revenue	**475**	363
Net trading profit	**99**	73
Net loss	**(1)**	(1)
Cash flow statements		
Cash generated by operations	**33**	28
Net interest received	**–**	2
Taxes paid	**(9)**	(6)
Changes in working capital	**(19)**	(14)
	5	10
Dividends paid	**(3)**	–
Cash retained from operating activities	**2**	10
Cash utilised in investing activities	**(20)**	(68)
Increase in funding requirements	**(18)**	(58)
Commitments		
Capital expenditure authorised	**5**	33
Future rentals on property, plant and equipment leased	**17**	2
	22	35

Notes:
(1) Ireland
(2) United States of America

Appendix 3

Principal subsidiaries

	Issued share capital 2005 R	Effective shareholding 2005 %	Effective shareholding 2004 %	Interest of AECI Limited# Shares 2005 R millions	Shares 2004 R millions	Net indebtedness 2005 R millions	Net indebtedness 2004 R millions
Holding companies							
Directly held							
AECI International (Ireland) Limited(1)	**8**	**100**	100	*	*	**10**	–
AECI Treasury Holdings (Pty) Limited	**200**	**100**	100	*	*	**150**	150
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**	75	*	*	–	–
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	**(20)**	–
Chemrisk Services (Pty) Limited	**20**	**100**	100	*	*	–	–
Mining solutions							
Directly held							
AEL Holdco Limited	**99 800 000**	**75**	75	**75**	75	**1 283**	1 188
African Explosives (Nigeria) Limited(6)	**352 000**	**75**	75	*	*	–	–
African Explosives Limited++	**100**	**75**	75	*	*	–	–
AEL Chemico-Mali SARL(14)	**8 659**	**75**	75	–	–	*	*
AEL (Mauritius) Limited(13)	**866**	**75**	75	–	–	–	–
African Explosives (Botswana) Limited(4)	**3**	**75**	75	–	–	–	–
African Explosives (Ghana) Limited(5)	**8 658 500**	**75**	75	–	–	*	*
African Explosives (Tanzania) Limited(7)	**26**	**75**	75	–	–	–	–
African Explosives (Zambia) Limited(8)	**71 597 137**	**60**	60	–	–	*	*
DetNet Solutions (Pty) Limited	**100**	**100**	100	*	*	**10**	7
Expert Explosives Limited	**1 000**	**100**	100	*	*	*	*
Paints and allied products							
Directly held							
Dulux (Mocambique) Lda(10)	**994 000**	**80**	80	*	*	**4**	6
Dulux (Pty) Limited+	**4**	**100**	100	*	*	–	–
Dulux Namibia (Pty) Limited	**100**	**100**	100	–	–	**4**	4
Dulux Swaziland (Pty) Limited(11)	**100 000**	**100**	100	*	*	**2**	2
Indirectly held							
Dulux Botswana (Pty) Limited(4)	**1 150 000**	**100**	100	–	–	**5**	4
Dulux Limited(9)	**500 000**	**100**	100	–	–	**2**	1
Property							
Heartland Properties (Pty) Limited	**1**	**100**	100	*	*	**2**	179
Other property subsidiaries				**3**	3	**165**	162
Specialty chemicals							
Directly held							
Chemical Services Limited	**8 312 795**	**100**	100	**818**	818	**(1 048)**	63
Indirectly held							
AECI Coatings (Pty) Limited	**100 000**	**100**	100	–	–	**92**	92
Akulu Marchon (Pty) Limited+	**410 000**	**100**	100	–	–	–	–
Atlas Consolidated Industries (Pty) Limited+	**200**	**100**	100	–	–	–	–
Chemical Initiatives (Pty) Limited+	**1**	**100**	100	–	–	–	–
Chemiphos (Pty) Limited	**170**	**100**	–	–	–	–	–
Chemserve Perlite (Pty) Limited+	**800 000**	**100**	100	–	–	–	–
Chemserve Systems (Pty) Limited+	**1 250 000**	**100**	100	–	–	–	–
Custom Colour (Pty) Limited	**261**	**75**	100	–	–	–	–
ImproChem (Pty) Limited	**4 000**	**75**	100	–	–	–	–
Industrial Oleochemical Products (Pty) Limited+	**4 001**	**100**	100	–	–	–	–
Industrial Urethanes (Pty) Limited+	**100**	**100**	100	–	–	–	–
Lake International Technologies (Pty) Limited+	**26 790**	**100**	100	–	–	–	–
Metswako Chemicals (Pty) Limited(4)	**740**	**75**	75	–	–	–	–
Pelichem (Pty) Limited	**50 000**	**100**	100	–	–	–	–
Performance Masterbatch (Pty) Limited	**100**	**100**	100	–	–	–	–
Plaaskem (Pty) Limited+	**400**	**100**	100	–	–	–	–
Plastamid (Pty) Limited	**128 500**	**100**	100	–	–	–	–
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	**(15)**	(14)
Indirectly held							
SANS Fibers Incorporated(12)	**663**	**100**	100	–	–	**116**	169
SANS Fibres (Europe) Limited(2)	**1 000**	**100**	100	–	–	*	*
Other				**17**	15	**(151)**	(241)
				932	930	**611**	1 772

\# Cost less impairment losses
\+ 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

South African sponsor
JP Morgan Equities Limited
1 Fricker Road
Illovo
Johannesburg

Notice of annual general meeting

Notice is hereby given that the 82nd annual general meeting of shareholders of AECI Limited will be held at The Platform, 1 Platinum Drive, Longmeadow Business Estate, Modderfontein, Johannesburg on Monday, 22 May 2006 at 09:00 for the following purposes:

1. to receive and consider the annual financial statements for the year ended 31 December 2005;

2. to elect directors in place of Messrs MJ Leeming, F Titi and LC van Vught who are required to retire in terms of the provisions of the articles of association but, being eligible, offer themselves for re-election (condensed biographies of these directors appear on page 6 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 Listings Requirements of the JSE Limited (JSE) 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 resolve if deemed fit, to adopt the following special resolution:

Special resolution number 1

"That the directors of the Company be and they are hereby authorised at their discretion to procure that the Company, or any subsidiaries of the Company, 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 5 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 5 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 1 is to authorise the directors, if they deem it appropriate in the interests of the Company, to procure that the Company or subsidiaries of the Company 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 subsidiaries of the Company acquire or purchase shares issued by the Company on the JSE. Such purchases:

(i) may not in any financial year exceed 5 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 5 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 5 per cent of the Company's issued ordinary shares, are of the opinion that if such repurchase is implemented:

(i) the Company and its subsidiaries 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 its subsidiaries will exceed the liabilities of the Company and its subsidiaries for a period of 12 months after the date of this notice;

(iii) the ordinary capital and reserves of the Company and its subsidiaries will be adequate for the purposes of the business of the Company and its subsidiaries for the period of 12 months after the date of this notice;
(iv) the working capital of the Company and its subsidiaries will be adequate for the purposes of the business of the Company and its subsidiaries 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 Listings Requirements, prior to the commencement of any purchase of the Company's shares on the open market.

In terms of the JSE Listings Requirements for special resolution number 1, the following general information is included in the annual report which is distributed together with this notice of annual general meeting:
(i) directors (page 6)
(ii) major shareholders (page 4)
(iii) directors' interest in securities (page 77)
(iv) share capital of the Company (page 63)

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2005.

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.

The directors whose names appear on page 6 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 the circular (the notice of the annual general meeting) contains all information required by law and the JSE Listings 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 attached 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, 18 May 2006.

Holders of AECI shares (whether certificated or dematerialised) through a nominee should make timeously 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, 20 February 2006

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, 22 May 2006, at The Platform, 1 Platinum Drive, Longmeadow Business Estate, Modderfontein, Johannesburg.

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 stockbroker of their intention to attend the annual general meeting and request such nominee, CSDP or stockbroker to issue them with the necessary authorisation to attend or provide such nominee, CSDP or stockbroker 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 at The Platform, 1 Platinum Drive, Longmeadow Business Estate, Modderfontein, Johannesburg, at 09:00 on Monday, 22 May 2006, 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 MJ Leeming			
2.2 Mr F Titi			
2.3 Mr LC van Vught			
3. Shares under the control of the directors			
4. Special 1: 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 ________________________ 2006

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 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.

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DESIGNED BY GRAPHICOR
PRINTED BY COLORPRESS ON SAPPI'S AVALON MATT
33618

The Group made further progress in the consolidation and growth of the "new" AECI, and its performance and progress in several businesses and strategies were unprecedented. Many strategic projects were initiated that will reward the Company in the future.

consolidation and growth