AECI

Annual report 2006





Specialty product and service solutions

CONTENTS

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), a diverse range of **specialty chemicals**, **specialty fibres** 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 and specialty chemicals), Durban (specialty chemicals and decorative coatings) and Cape Town (specialty fibres). The mining solutions, specialty chemicals 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 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. In specialty chemicals, for example, a presence has been established in Brazil and more acquisitions are being sought.

The Group's fifth area of business is the **realisation of surplus land and the utilisation of surplus assets**, managed by Heartland. These activities are significant and offer prime land holdings near Johannesburg and Cape Town for commercial, residential and industrial development and leasing purposes. By the end of 2006, 1 460 hectares of the original 3 700 hectares of excess land available had been sold.

AECI has a total employee complement of 7 700, many of whom are engaged in the Group's extensive sales, technical service and distribution networks.

GROUP RESULTS AT A GLANCE

Revenue exceeds
R10 billion

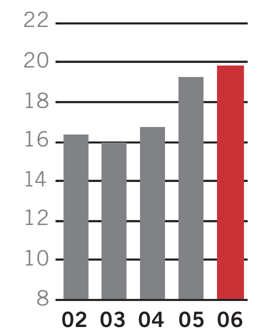
Profit from operations over
R1 billion

Headline earnings per share up
77%

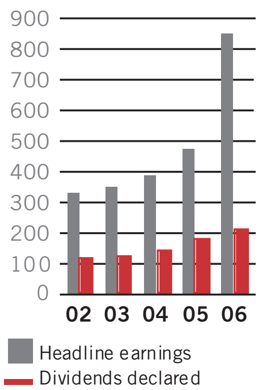
Return on invested capital (ROIC) higher at
20%

For the year ended 31 December 2006	2006	2005	% change
Revenue (R millions)	**10 212**	8 768	16
Profit from operations (R millions)	**1 102**	887	24
Headline earnings (R millions)	**942**	530	78
Net profit attributable to ordinary shareholders (R millions)	**916**	486	88
Headline earnings per ordinary share (cents)	**853**	482	77
Dividends declared per ordinary share (cents)	**205**	175	17
Market capitalisation at 31 December (R millions)	**8 241**	6 399	29
Trading margin (%)	**10.8**	10.1	
Return on net assets (%)	**24.8**	23.4	
Return on invested capital (ROIC) (%)	**19.9**	19.3	
Net borrowings as a percentage of shareholders' interest (%)	**25**	27	

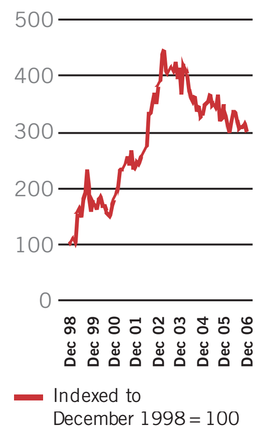
Return on invested capital (%)



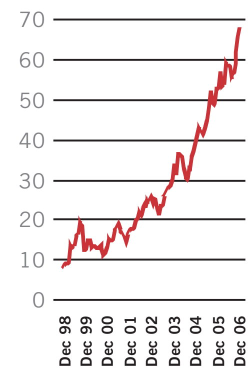
Headline earnings and dividends per ordinary share (cents)



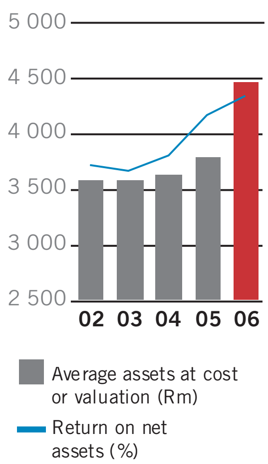
AECI share price adjusted for special dividend relative to JSE Industrial Index



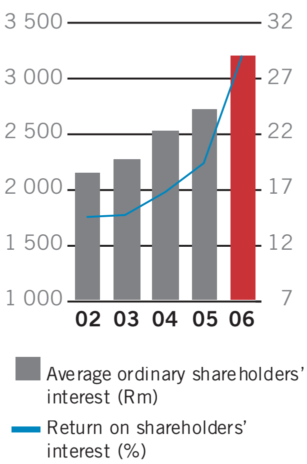
AECI share price (rand)



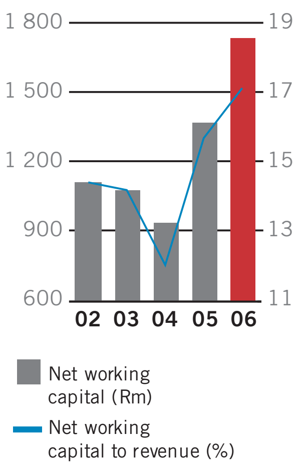
Return on net assets



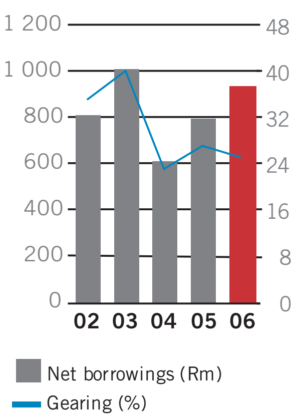
Return on shareholders' interest



Net working capital to revenue



Net borrowings and gearing



ANALYSIS OF ORDINARY SHAREHOLDERS

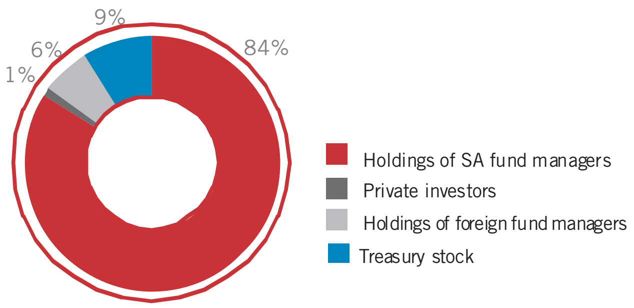
December 2006

	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 2006 was as follows:			
AECI Treasury Holdings (Pty) Limited	1	10 311	9
Directors	4	15	–
Non-public	5	10 326	9
Public	4 593	110 417	91
Total	4 598	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 2006:			
RMB Asset Management		25 818	21.4
Coronation Fund Managers		17 396	14.4
Stanlib Asset Management		14 343	11.9
Polaris Capital		7 425	6.1
Sanlam Investment Management		6 427	5.3
To the best of the directors' knowledge, the percentage of the Company's shares held by non-South African shareholders was 6.4 per cent in December 2006.			
BENEFICIAL SHAREHOLDERS			
In accordance with section 140A of the Companies Act of South Africa, 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 2006:			
Public Investment Corporation		12 465	10.3

PROFILE OF REGISTERED SHAREHOLDERS

Size of shareholding	Number of shareholders	% of total	Shares held (thousands)	% of total shares
1 – 1 000	2 601	57	1 071	1
1 001 – 10 000	1 433	31	4 899	4
10 001 – 100 000	415	9	14 271	12
Over 100 000	149	3	100 502	83
Total	4 598	100	120 743	100

Profile of shareholdings



FINANCIAL CALENDAR

- **2006 FINAL ORDINARY DIVIDEND NO. 146**

Declaration date	19 February
Last date to trade cum dividend	13 April
Ex dividend trade	16 April
Record date	20 April
Payment date	23 April

- **5.5% PREFERENCE SHARES DIVIDEND NO. 138**

Declaration date	14 May
Last day to trade cum dividend	1 June
Ex dividend trade	4 June
Record date	8 June
Payment date	15 June

- **83RD ANNUAL GENERAL MEETING** — 21 May

- **2007 INTERIM ORDINARY DIVIDEND NO. 147**

Declaration date	23 July
Last date to trade cum dividend	7 September
Ex dividend trade	10 September
Record date	14 September
Payment date	17 September

- **2007 INTERIM REPORT RELEASED** — 24 July

- **5.5% PREFERENCE SHARES DIVIDEND NO. 139**

Declaration date	12 November
Last day to trade cum dividend	30 November
Ex dividend trade	3 December
Record date	7 December
Payment date	14 December

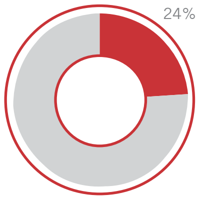
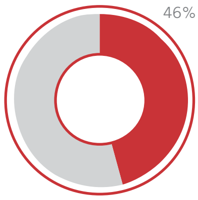
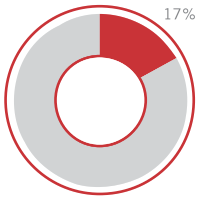
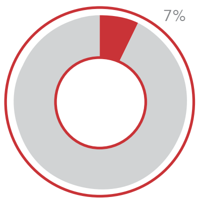
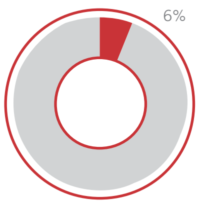
- **FINANCIAL YEAR-END** — 31 December

- **2007 AUDITED FINANCIAL RESULTS RELEASED** — February 2008

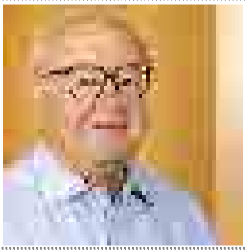
- **2007 ANNUAL REPORT POSTED** — March 2008

GROUP AT A GLANCE

	Description of business	2006 salient features	2007 objectives
AEL	South Africa's only major economically empowered producer and supplier of commercial explosives, initiating systems, and blasting services and solutions to the mining, quarrying and allied industries. It is also a leading supplier to customers in Africa, beyond South Africa	• Commissioning of Project Bernice, a R80 million project designed to produce 40 million detonators a year and the first phase of a R430 million initiative to automate production • Continued growth in businesses outside of South Africa • Listing of AEL Zambia on the Lusaka Stock Exchange	• Completion and commissioning of Project Charlize, phase 2 of the automation project. This will double detonator production and assembly will be automated • Meaningful progress in international expansion. Further investigation and assessment of possibilities in South-East Asia, the Middle East and South America • Further improvement with regard to on-time-in-full delivery, safety and quality • Enhancement of competitiveness via new products and technologies, technology transfer and upgraded skills through employee and customer training
Chemical Services Limited	Chemical Services manages a portfolio of 22 specialty chemical businesses, each focused on defined markets, with common values of innovative customer service and bottom line delivery. The group grows by acquisition and by organic growth	• Revenue and operating profits at record levels • Successful integration of acquisitions into the group, including a pleasing performance from the first Brazilian foray • Successful roll-out of the vendor management programme in mining chemicals	• Retain and recover contribution margins • Build on foundation in Brazil and service the burgeoning mining industries in Southern and Central Africa • In South Africa, extend and enhance an already comprehensive portfolio of businesses
SANS FIBRES	A US$-denominated, export-driven manufacturer, marketer and distributor of specialty nylon and polyester yarn for offshore and South African markets. It also produces PET bottle polymer, largely for customers in South and Southern Africa	• Performance adversely affected by internal and external factors • Substantial improvement in operations sustained from August • Quality and productivity improvement programmes back on track	• Continue to implement a strategy for acceptable financial performance irrespective of currency fluctuations • Concentrate on volume growth and better operational efficiencies • Maintain position as the global leader in niche markets and introduce new, high-tech products • Pursue opportunity for business enhancement via a partner
Dulux	A leading decorative coatings supplier with the greatest portion of its business in South Africa. It also has operating subsidiaries with manufacturing facilities in Botswana, Malawi, Mauritius, Namibia, Swaziland, Zambia, and Zimbabwe	• Launch of the fourth generation Dulux Colour System and its associated support material • Acquisition of the "Hammerite" and "Cuprinol" distribution rights in South Africa • New business established in Mauritius	• Increase further the company's market position • Enhance products as part of an ongoing upgrading process • Pursue the strategy to expand operations in sub-Saharan Africa when opportunities arise
HEARTLAND	Heartland Properties and Heartland Leasing manage the realisation of land and the letting of assets that are surplus to AECI's requirements. Heartland Leasing also provides site services to tenants at Umbogintwini and oversees remediation prior to land release	• A record performance in terms of revenue and operating profit • Successful remediation and sale of the Group's Milnerton site • Legal and commercial agreement on Gautrain reached with the Province of Gauteng	• Commence sale of development rights at Somerset West • With clarity on Gautrain achieved, continue developing plans for Modderfontein • In leasing, reduce the vacancy rate to increase rental income • Continue to dovetail remediation spend to meet legal requirements and sustain property redevelopment

Employees	Revenue	Profit from operations	Proportion of Group revenue
3 000	up 8%	R261 million	
2 120	up 24%	R501 million	
1 700	up 10%	-R6 million	
650	up 19%	R70 million	
160	up 6%	R314 million	

NON-EXECUTIVE DIRECTORS

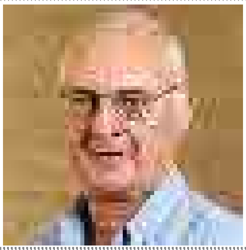


Colin Brayshaw (71)
CA(SA), FCA

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 & Touche, 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. He will retire from the AECI Board in May 2007.

Richard Dunne (58)
CA(SA)

Effective 1 January 2007, he joined the AECI Board in a non-executive capacity and also now serves on the audit, remuneration and nominations committees. He retired from Deloitte & Touche in 2006, as chief operating officer, after a 42-year career with that company. He also serves on the boards and audit committees of Anglo Platinum and Tiger Brands.



Mike Leeming (63)
BCom, MCom, FCMA, FIBSA, AMP (Harvard)

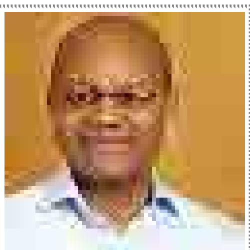
He joined the AECI Board in 2002 and is a member of the Company's audit and corporate citizenship committees. He is chairman designate of the audit committee. Mike is a retired executive director of Nedcor and past chairman of the Banking Council of South Africa and president of the Institute of Bankers. He also serves as a non-executive director on the boards of Altron, Imperial, Real Africa and Woolworths.

Litha Nyhonyha (47)
CA(SA)

He joined the AECI Board in 2006, is a member of the audit committee and chairman designate of the corporate citizenship committee. Litha is executive chairman and a founder member of Regiments Capital, a black-controlled and managed financial services group. His career has included a directorship at Worldwide African Investment Group, he was chief executive of NBC Holdings, and chief executive of Thebe Financial Holdings. Other directorships include the Land Bank and South African Express Airways.

Alan Pedder CBE (68)
AMIMechE, FCIM

He is the Company's chairman and serves on its nominations and remuneration committees. He is also a director of SANS Fibres. Alan joined the AECI Board in 1994 and will retire in May 2007. He is based in the UK where his activities include chairmanship of Remploy Limited (the UK's leading supplier of employment opportunities for disabled people) and non-executive director of Baronsmead plc (a venture capital trust fund). Alan has a chemicals background from a long career at ICI plc's leading global businesses, from where he retired as group technology director.



Fani Titi (44)
BSc (Hons), MA, MBA

Fani joined AECI's Board in 2005. 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. He will succeed Alan Pedder as chairman of the Board in May 2007 and will also join the remuneration and nominations committees. At the same time, he will step down from the audit and corporate citizenship committees.

Lex van Vught (63)
BSc (Hons), BCom

Since retiring from his position as AECI's chief executive in 2003, Lex has continued his involvement with the Group as a non-executive director. He chairs the nominations and remuneration committees and is a member of the corporate citizenship committee. Lex is chairman of Tiger Brands, and a non-executive director of Impala Platinum and some unlisted companies.

EXECUTIVE COMMITTEE

Neale Axelson (57)
BSc (Hons)

He joined the Group in 1972 and has been an executive director of AECI since 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. He will retire in the first half of 2007 but will remain as a Company-nominated trustee of the AECI Pension Fund.

Frank Baker (53)
BSc (Chem Eng)

Frank was appointed to AECI's Board as an executive director from 1 January 2007. He remains managing director of Chemical Services, the position he took up in 2003. Frank joined AECI in 1976 and, having moved to Chemical Services in a management position in 1993, he 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 (58)
BSc (Eng), BCom

Charles is managing director of Dulux. Before moving to the decorative coatings company 12 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 (52)
BSc (Mech Eng), BCom, MBA, PhD, Pr Eng

He is managing director of AEL and chairman of the DetNet joint venture. Effective 1 January 2007, he also became an executive director on the AECI Board. Graham joined the Group as a design engineer in 1978 and worked in production, engineering, buying and strategic planning. He was appointed to his current position in 1999, having served on the AEL board for five years prior to that.

Schalk Engelbrecht (60)
BSc, MBL

Schalk 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.

Brad Page (43)
BSc (Chem Eng)

With effect from 1 January 2007, Brad became managing director of SANS Fibres and joined AECI's executive committee. He joined SANS as a process engineer in 1987, working in product and process development, capital projects and production management. After a two-year break, he returned to SANS in 2001 as manufacturing director and, subsequently, technology was added to his portfolio. In 2005, he was appointed business director.

Jacques Pienaar (47)
BA

He is general manager, Group human resources and safety, health and environment (SHE). The latter 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

Gary Cundill (39)
BSc Eng (Chem), BEng (Hons)

He took up the position of Group manager: technology and SHEQ from 1 January 2007. He is directly involved in AECI's strategy of leveraging Group knowledge and transferring best practices, and leads the Group's SHE efforts. Gary moved to AECI from Chemserve, which company he joined in 2001, where he was group technical manager.

Ted Rea (38)
Bluris, LLB, LLM

He is AECI's acting Company secretary and was appointed to this position subsequent to the secretary's sudden illness in 2006. Ted is an admitted attorney and worked as an associate in a legal firm before joining AECI's legal department in 1998.

Chris Sinclaire (57)
CA(SA)

Chris 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 (52)
Bluris, LLB, CFP

He has been manager of AECI's Retirement Funds since 1999. He joined AECI as a legal advisor in 1991, having worked in similar capacities elsewhere. Louis is an Advocate of the High Court and a Certified Financial Planner.

CHAIRMAN'S LETTER TO SHAREHOLDERS

Revenue exceeded R10 billion and operating profit was more than R1 billion

The annual dividend was raised to 205 cents per share

- Real growth in earnings for the sixth consecutive year
- Investment in growth assets continues with over R400 million invested in 2006
- The Group is well positioned for more growth in targeted areas

AECI recorded significant milestones in 2006 with revenue and operating profit exceeding R10 billion and R1 billion respectively for the first time in the Company's history. The 33 per cent increase in underlying headline earnings per share extended the trend of real earnings growth to a sixth year. The Group also achieved a record 20 per cent after tax return on invested capital and has a sound balance sheet to support its growth ambitions with gearing at the year end at 25 per cent of shareholder funds. The annual dividend was raised by 17 per cent to 205 cents per share.

The pleasing operating performance was boosted by an elegant arrangement with the AECI Pension Fund which added a once-off R327 million to profit before tax.

TRADING PERFORMANCE

Demand from the local mining and manufacturing sectors improved in the second half in response to strong export markets and a somewhat weaker rand exchange rate. Gross margins were under pressure for much of the year because of increased oil-based and other raw material costs with some relief evident only in the last quarter. The Group operating margin improved to 10.8 per cent of sales from 10.1 per cent in 2005.

African Explosives (AEL) recorded a steady performance despite intense competition from local and Chinese-sourced shocktube initiators in the South African narrow reef market. All other sectors delivered improved results with significant volume increases in open cast mines in South Africa and in other African markets. The first phase of automated production of initiating systems at Modderfontein was commissioned successfully in the last quarter of 2006.

DetNet, the electronic initiating systems 50:50 joint venture with Dyno Nobel Limited, made slow progress in the second half. Management and marketing arrangements have been restructured to enhance the pace of customer conversion to electronic detonation, and an improved performance is expected in 2007.

Chemical Services (Chemserve) posted an excellent result with operating profit 22 per cent up on 2005, supported by a strong recovery in the local mining and manufacturing industries and continued growth in consumer-driven sectors. Substantial investments are being made to expand capacity in the high growth areas. Operating margins were largely maintained despite high and volatile prices of oil-based raw materials. Businesses acquired over the past two years have been integrated successfully into the Chemserve service model and accounted for around half of the growth in sales and profit for the year.

SANS Fibres (SANS) incurred a small loss in 2006, a consequence of several adverse factors in the first eight months. Production and quality performance were severely disrupted by the impact of power outages in the Western Cape, two incidents of *force majeure* by the major supplier of nylon polymer and a carbon dioxide shortage which reduced local peak season PET demand. A substantial improvement in operations was sustained from August and the quality and productivity improvement programmes appear to be back on track. International demand for SANS's key light industrial yarns remained strong.

Dulux extended its impressive performance trend with volume growth of 10 per cent and a 19 per cent increase in operating profit. Demand from the DIY market and the professional painting sector were particularly strong in the last quarter. The operating margin was maintained despite a marked escalation in raw material costs. Profits from African operations were lower due to currency effects and unfavourable market conditions.

The property activities managed by Heartland delivered outstanding results with operating profit at a record R314 million net of R66 million of remediation costs. In December, a satisfactory agreement regarding Gautrain was concluded with the Province of Gauteng. This provides for appropriate connectivity between the various parts of Modderfontein and recognises the desirability of a station on the property at some future date.

The Group again invested over R400 million in growth assets in 2006, comprised mainly of expansion projects in AEL and Chemserve, and acquisitions by Chemserve and Dulux. Working capital increased by R265 million to 17 per cent of sales and reducing this to no more than 15 per cent of sales will be a focus of management attention in 2007.

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

STRATEGIC PROGRESS

The Group has built a solid platform for future growth and is now progressively adjusting the emphasis of its portfolio.

Chemserve has been moving strongly into the mining sector by offering a full chemical service package for both extraction and water treatment processes. AEL has established a powerful position in servicing the mining industry throughout Africa and is developing an international business in electronic initiating systems. Mining is seen as a focus for the future development of the Group with Chemserve and AEL using their respective positions to penetrate fully the African market and to leverage their collective strengths by expanding into selected developing markets outside Africa. The Board has sanctioned the first two phases of AEL's detonator automation programme and major expansions of Chemserve's mining chemicals portfolio, and has also backed Chemserve in its move into Brazil. In support of this thrust, the managing directors of AEL and Chemserve, Graham Edwards and Frank Baker, have been appointed executive directors of the Company and members of the AECI Board.

Dulux is improving its position in the top end of the branded decorative paints market and this has been reinforced by a marketing and product development agreement with ICI plc, the owner of the Dulux brand outside of Southern Africa and Australia, which will also assist growth into the East African markets.

SANS holds strong international positions in some niche yarn markets and has a successful joint venture operation in the United States. Early in 2007, Unifi Inc., the partner in the joint venture, gave notice of its intention to exercise its put option against SANS as provided for in the initial shareholders' agreement, and to exit the business in the first quarter of 2008. This provides an opportunity for SANS to find a partner which can augment its production, technical and marketing strengths to meet mounting world competition, and improve its internal operating performance.

CORPORATE CITIZENSHIP

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

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

DIRECTORATE

I will step down at the annual general meeting in May 2007, having served 13 years on the Board and six as chairman. I will be succeeded by Fani Titi, currently a non-executive director and chairman of our BEE partner, the Tiso Group, which holds shares in both AEL and ImproChem within Chemserve. I also welcome the appointment of Richard Dunne, recently retired chief operating officer of Deloitte & Touche, as a non-executive director. He will replace Colin Brayshaw who will step down at the annual general meeting after 10 years as a non-executive director and chairman of the audit committee. I thank Colin for his exceptional contribution to the Board.

It has been a privilege to serve the Company and to guide it through the massive changes that have taken place since the failed Sasol bid in 1998. The key features of this have been the buy-out of the Anglo American shareholding and the Chemserve minorities, the divestment of the commodity chemical businesses and the development of the current portfolio of added value specialty chemicals, explosives, paints and technical fibres. It is also pleasing to see the development of the highly successful Heartland operation which is making a major contribution selling AECI's surplus land.

I should like to thank all the non-executive and executive directors who have worked with me and also the management and workforce who have built the successful Company we are today. AECI is well placed to continue to grow shareholder value and has a bright future ahead.

OUTLOOK

The favourable international environment of increasing industrial production and firm commodity prices should support the local mining and manufacturing sectors and underpin steady and more balanced growth in South African GDP. Provided the rand exchange rate does not strengthen materially from recent levels, the Group's operating businesses are well positioned to post further aggregate gains under these conditions.

In the property segment, however, limited availability of land ready for release and sale during 2007 is likely to result in profit after tax from property activities being substantially below the record level of 2006.

Hence management does not expect headline earnings per share in 2007 to exceed the 643 cents per ordinary share which were achieved in 2006 excluding the non-recurring effect of the agreement entered into with the AECI Pension Fund.

Alan Pedder CBE
Chairman

Sandton, 19 February 2007

REVIEW OF OPERATIONS Mining solutions

A steady performance despite competition from local and Chinese-sourced shocktube initiators in South Africa's narrow reef market.

Strategy: Develop, manufacture and supply value-adding services, initiating systems and explosives to mining, quarrying and allied industries in Africa and beyond.

Revenue increased

8%

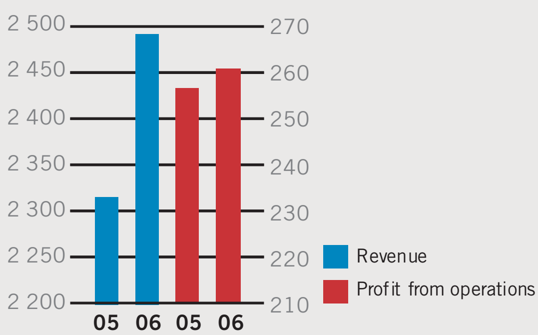
to R2 492 million

Sales were boosted by growth in the surface business in South Africa, in copper/cobalt sector growth in Central Africa and increased mining activity in East and West Africa. A R430 million investment is under way

2007 OBJECTIVES

- Completion and commissioning of Project Charlize, the second phase of the "Factory of the Future". This will double the production of detonators and automated assembly machines will be installed. Commissioning is scheduled for the third quarter of 2007
- Meaningful progress in the strategy of international expansion. Further investigation and assessment of various possibilities in the main areas of initial focus (South-East Asia, the Middle East and South America)
- Further improvement with regard to on-time-in-full delivery, safety and quality
- Ongoing efforts to enhance competitiveness through the development of new products and technologies, commitment to meeting the challenge of technology transfer, and upgrading skills levels through employee and customer training

Financial performance
Mining solutions (Rm)



AEL's executive committee

Graham Edwards (52)

Managing director, and an AECI executive director. See page 7. Within the Group, Graham is also a non-executive director of Chemical Services.

Cyril Gamede (43)

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.

Piet Halliday (54)

Piet joined the company in 1980 after completing 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.

Gys Landman (45)

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. On 1 March 2007, he will take up his appointment as chief executive officer of DetNet.

Vassie Ponsamy (47)

He joined AEL as executive director: international business, in 2006. A BCom (Hons) graduate who also has qualifications in metrology and quality engineering, Vassie has experience in disciplines such as engineering, sales, marketing, business development and strategic management.

Danie Richards (44)

A chartered accountant with an Honour's 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 before returning to AEL in 2001.

AFRICAN EXPLOSIVES LIMITED (AEL)

AEL, via its partnership with a consortium led by the Tiso Group, is South Africa's only major economically empowered supplier in its area of business. In 2006, the company recorded a steady performance despite intense competition from local and Chinese-sourced shocktube initiators in the South African narrow reef market. All of AEL's other markets improved on 2005 results, with good volume increases in opencast mines in South Africa and in AEL's businesses in the rest of Africa.

Financial performance

In a most competitive environment, revenue increased by 8 per cent over the previous year to R2 492 million. Sales were boosted by significant growth in the surface business in South Africa, increased mining activity in East and West Africa, continued copper/cobalt sector growth in Central Africa, a better performance in the underground platinum sector, and the somewhat weaker rand.

These positive factors were offset by almost flat South African gold mining volumes, competition from local suppliers and importers, lower electronic detonator volumes, and the fact that exports of ammonium nitrate porous prill to Australia did not recur in 2006.

Gross margins declined, with cost increases not recoverable in full from customers. The ammonia input cost reached record levels in the last quarter and this will only be passed on to customers in 2007. Rationalisation and fixed cost-saving initiatives again partly offset these negative margin effects.

Operating profit of R261 million matched the previous year's performance, with the margin of operating profit to sales declining from 11 per cent to 10 per cent.

Capital expenditure totalled R183 million and average working capital as a ratio of sales improved to 14 per cent.

Africa

As in 2005, the substantial improvement in performance of AEL's operations beyond South Africa's borders was a highlight. The company's track record as the African continent's leading supplier of explosives products, initiating systems and blasting services and solutions ensured that AEL not only retained its existing contracts, but also secured new business.

In Central Africa, strong growth in the Zambian mining industry, as well as the post-war potential of the Democratic Republic of Congo, combined to revive copper mining. Annual production levels are expected to reach a million tons of finished copper in the near future. This growth and development is having a direct influence on the performance of AEL Zambia. In the last three years, AEL Zambia's revenue has more than doubled and the outlook for 2007 and beyond is equally positive.

Significant for AEL Zambia was its listing on the Lusaka Stock Exchange as AEL Zambia plc. Thus the company's employees, Zambian citizens and eligible Zambian institutions became participants in the wealth associated with the mining boom. The 20 per cent initial public offer of the company's share capital held by the Zambian government through the Zambian Privatisation Trust Fund was 3.7 times oversubscribed. The shares were listed at 700 Zambian kwacha per share in October and, by year-end, were trading at 1 500 kwacha.

The East African region's business grew by 36 per cent year-on-year and this upward trend is expected to continue. In West Africa, AEL supplied new and existing ventures in Burkina Faso, Ghana, Guinea, Mali, Niger and Sierra Leone, resulting in 29 per cent year-on-year growth.

In Zimbabwe, the business expanded by 18 per cent, notwithstanding that country's difficult economic climate.

South Africa

South Africa's gold mining industry experienced a better year on the back of the higher gold price, resulting in a marginal increase in gold mining volumes. Slight growth in the platinum sector also assisted AEL's narrow reef business.

The local detonator market continued to be adversely affected by imports of low cost, state-subsidised Chinese shocktube products, mainly for use in narrow reef gold and platinum mines.

The strategy of expanding in the international arena aims to augment domestic performance through growth in new foreign markets where AEL's proven expertise can add value to customer operations.

The "hub and spoke" approach, where "hubs" or core facilities are set up in key regions from where surrounding countries (the "spokes") are served, has been highly successful in Africa. In its internationalisation drive, the company intends extending this model further afield. South-East Asia, the Middle East and South America have been identified as having suitable potential for this approach.

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

AEL has approached the High Court of South Africa to review and set aside the decision of the International Trade Administration Commission to terminate the investigation into dumping of Chinese shocktube products. It is expected that the matter will be concluded in 2007. AEL will not proceed with a third petition until the court case has been heard and will review its position on anti-dumping actions depending on the outcome of the High Court hearing.

Strategic delivery

Notwithstanding some adverse market conditions, AEL moved forward with the implementation of its two strategic thrusts of delivering the "Factory of the Future" and expanding internationally. At the same time, it entrenched further its leading position in Africa.

"Factory of the Future"

For AEL to remain a world-leading supplier of initiating systems, the modernisation and mechanisation of relevant production facilities, through automation, are key. Therefore, projects for the "Factory of the Future" are focused on enhancing and re-engineering manufacturing processes in South Africa so as to produce quality products more cost effectively. This strategy will reduce AEL's cost base whilst enhancing quality further.

The first project, known as Bernice, was commissioned in November. This R80 million facility is designed to produce 40 million world-class quality, rigid elemented shocktube detonators per year from a highly automated new facility. In December, the first 150 000 detonators were produced for field trials.

Work on the second phase, Project Charlize, is in progress. For an investment of R100 million, production capacity will be doubled by the third quarter of 2007 and new automated assembly machines will be installed.

The final phase, Project Denise, is expected to re-double production capacity by mid-2009 to meet projected increasing market demand. Capital expenditure is estimated at R250 million. Completion of the "Factory of the Future" will result in a world-class quality product being available to customers at highly competitive prices. Furthermore, AEL will then have an excellent platform for launching its products and services into international markets beyond Africa.

The new factory will also result in the closure of operations in the old detonator area at Modderfontein, and further shrinking of AEL's operational footprint as a consequence.

Internationalisation

The strategy of expanding in the international arena aims to augment domestic performance through growth in new foreign markets where AEL's proven expertise can add value to customer operations.

The "hub and spoke" approach, where "hubs" or core facilities are set up in key regions from where surrounding countries (the "spokes") are served, has been highly successful in Africa. In its internationalisation drive, the company intends extending this model further afield. South-East Asia, the Middle East and South America have been identified as having suitable potential for this approach.

A trading operation has been registered in Indonesia and the first shipment of ammonium nitrate, plus initiating systems, has been dispatched.

Other achievements

The development of new products and services continued with pleasing results in the areas of electronic detonators, underground bulk systems, i-mining* and mobile manufacturing units.

Drilling and blasting operations at a mine comprise a number of interrelated actions that affect the mine's profitability. Therefore, continual improvement in these operations is highly desirable especially if safety is also improved. AEL has developed tools, known collectively as i-mining*, that assist explosives engineers at surface mines in this regard.

The vigorous management and control of costs, the reduction of wastage, and improved quality were also noteworthy. On-time-in-full delivery remained excellent and more quality enhancements were achieved.

Outlook

Immediate and longer-term prospects for the mining industry in South Africa and Africa remain positive and AEL is committed to growing its capacity and capabilities to maximise the benefit of increasing demand. Competition in the initiating systems market in South Africa is likely to remain fierce, however. This could have an adverse impact on AEL and result in a period of consolidation for the company in 2007.

DETNET

Following a review of DetNet's business and product strategies, the company was restructured and repositioned in the latter part of the year. Better opportunities for accessing markets in North America, South America and Australasia were defined. The joint venture partners, AECI and Dyno Nobel Limited, agreed that each would play the lead role in market development in their own territories. This is expected to enhance market penetration in terms of speed and volumes.

Manufacturing facilities were established in North America and these will ease some of the logistical problems experienced in 2005 and early 2006.

The success of the HotShot* systems continued to be leveraged in the Americas and Europe and, by year-end, prototypes of the new SmartShot* system had been produced. The SmartShot* is designed for state-of-the-art control and deployment of large-scale blasts.

During the year, the Digidet* range was discontinued and the associated production facilities in the USA were closed. The assembly process for Digidet* was complex and resulted in an expensive product that could not be re-engineered to reduce costs.

Performance in the African surface market remained strong and it is estimated that some 40 per cent of this market has converted to DetNet's electronic systems. The re-defined business model of DetNet makes the business ideally placed for rapid international growth as electronic detonator technology gains acceptance in global markets.

Outlook

Owing to restructuring in the latter part of 2006, a better performance from DetNet is expected in 2007 and beyond.

* Trademark

REVIEW OF OPERATIONS Specialty chemicals

Chemical Services Limited

Providing customers with a full service package

Strategy: The Chemical Services group will continue to expand via organic growth and through acquisitions. A strong capability is being built in mining chemicals.

Revenue increased

24%

to R4 729 million

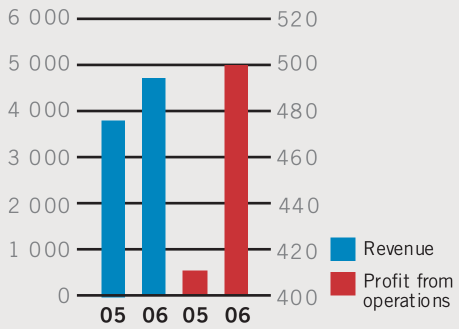
Strong recovery in the local mining and manufacturing sectors and growth in consumer-driven sectors boosted the business. Operating profit up by

22%

2007 OBJECTIVES

- Retain and recover contribution margins
- Build on foundation in Brazil and service the burgeoning mining industries in Southern and Central Africa
- In South Africa, extend and enhance an already comprehensive portfolio of businesses

Financial performance
Specialty chemicals (Rm)



Chemserve's management team

Frank Baker (53)

Managing director, and an executive director of AECI. See page 7. Within the AECI Group, he is also a non-executive director of SANS Fibres.

Mark Dytor (45)

Having joined Chemserve as a sales representative in 1984, and after successfully managing two group companies, Mark was appointed to the group's executive committee in 1998 and subsequently to its board. In addition to his portfolio of chairmanships, he has been tasked with the growth of Chemserve's mining business. Within the AECI Group, he is a non-executive director of AEL.

Chris Kotze (41)

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 (44)

After completing a BSc (Eng) degree, Tobie joined AEL in 1988. He left the AECI Group in 1996, returning to Chemserve in 2000 to take up the position of managing director of Lake International Technologies. In 2005, he was appointed to the group's executive committee with a portfolio of chairmanships and also became managing director of Chemserve Systems. He joined the Chemserve board in February 2007.

John Mahlase (45)

He is Chemserve's group human resources manager and, formerly, its industrial relations manager. Before joining the group as a human resources consultant in 1997, John had gained 11 years' experience in the discipline. He has an Honour's degree in industrial psychology as well as an Advanced Diploma in labour law.

Chris Povall (49)

Chris joined the company nine years ago as financial manager and was appointed to Chemserve's executive committee and board as financial director in 2006. Prior to his Chemserve career, 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.

Trevor Street (59)

Trevor started his Chemserve career as a sales representative more than 30 years ago. Several management positions followed and he was appointed an executive director on the Chemserve board in 1991. Since 1997, he has served as chairman of several Chemserve subsidiaries and his responsibilities include the pursuit of acquisitions for the group's growth.

Schalk Venter (40)

Schalk joined Chemserve Systems in 1991 as a sales representative. He was appointed managing director of this subsidiary in 1997, before moving to AECI Coatings as managing director in 2001. He was appointed to the Chemserve executive committee in 2005 with a portfolio of chairmanships. He became managing director of Akulu Marchon from January 2007 and has since been appointed to the Chemserve board.

CHEMICAL SERVICES LIMITED

Chemical Services Limited (Chemserve) is the specialty chemicals arm of AECI. Chemserve manages a portfolio of 22 businesses each focused on defined markets, with common values of innovative customer service and bottom line delivery. The Chemserve group continues to grow through acquisitions and by organic growth in its operating companies.

Each company seeks to be the supplier of choice in its markets, supported by world-class technology, the appropriate full service package, and operating at the lowest possible cost base. Technology is sourced from international partners and is also developed in-house. The full service package model provides customers with innovative solutions to their chemistry-driven requirements, ranging from key account and vendor management to on-site production and full chemical suite sourcing and control responsibility.

A strategic thrust is the expansion of the mining chemicals product and service offering in South Africa and Africa as a whole, and in other geographical areas where the full service model is valued and the mining profile fits Chemserve's capabilities. The group also intends growing its business in Brazil, based on oleochemical expertise it shares with its partners, and into other sectors where its know-how is appropriate. The continued growth and management of its South African-based portfolio is another commitment.

Business environment

In 2003, Chemserve's management took up the challenge of building robust businesses that would be profitable in a strong rand, low inflation and low interest rate environment, with all that this implied for the South African manufacturing and mining industries.

High oil prices and raw material shortages in 2006, together with a weaker rand, reversed 2005's deflationary rand pricing and imported competition became marginally more expensive. Rand prices began to rise, exports became increasingly viable along the manufacturing chain, and Chemserve's 2003-based efforts began to yield dividends. Demand increased significantly in some sectors, and some of the group's local plants are running at full capacity.

Companies

The South African consumer boom of 2005 continued unabated and benefited group companies that serve consumer-driven sectors. These include AECI Coatings, Akulu Marchon, Chemserve Perlite, Industrial Urethanes and Resinkem.

In 2007, the group's commercial challenges will be to retain and recover contribution margins which were squeezed in 2006 by fluctuating exchange rates and raw material prices, and to maintain the competitive cost base established in recent years.

Chemserve will build on its foundation in Brazil and will maintain the momentum achieved in providing and securing the full service package to the burgeoning Southern and Central African mining industries. In South Africa, the extension and enhancement of an already comprehensive portfolio of businesses will remain an objective.

South Africa's revitalised manufacturing sector enjoyed a second good year and demand for mining products grew dramatically. Notwithstanding gold mining woes, the platinum industry was stronger, there was heavy demand for base metals and a resurgence of demand for uranium. Most Chemserve companies service these sectors. In particular, Chemical Initiatives, Crest Chemicals, Dussek Campbell, Lake International Technologies, Plastamid and Senmin grew significantly to meet the demand for improved service levels.

As for the group's other companies, Chemserve Systems restructured to optimise its new mix of businesses; Chemiphos is now well positioned for the anticipated increase in demand for poly-phosphoric acid into the catalyst market; and Industrial Oleochemical Products (IOP) invested in alkyd resin capacity and positioned itself to cope with fluctuations in the balance of tall oil and vegetable oil raw materials.

ImproChem, Chemserve's business empowered via a partnership with the Tiso Group, introduced more innovative solutions to water management for the oil and energy sectors; Plaaskem restructured after transferring its foundry business to Chemserve Systems and introducing inventory and sales management software to its agent base; SA Paper Chemicals (SAPC) and Specialty Minerals SA (SMSA) had a slow start to the year as the paper industry commissioned new equipment and destocked. Both finished the year strongly, however. Simitri, previously the leather division of SAPC, expanded its operations in local markets and is establishing a position in Brazil and China.

Financial performance

A robust first half, followed by an excellent second half-year, saw group sales grow from R3 826 million to R4 729 million, with operating profit increasing by 22 per cent from R412 million to R501 million. In a challenging environment, the maintenance of margins and cost control were vital. Just over 50 per cent of Chemserve's improvement was attributable to organic growth and the balance was from acquisitions. Businesses acquired during the previous year were integrated successfully and contributed to organic growth.

Investment expenditure amounted to R323 million. Half of this was spent on acquisitions and 60 per cent of the remainder on expansion projects, including equipment at customer sites. The balance was split between maintenance and safety enhancement items. The average working capital ratio for the year was 18.7 per cent, slightly higher than the previous year.

Portfolio and investments

The purchases of Leochem, a 60 per cent holding in Resitec, as well as Noble Industries and Cape Town Chemicals were concluded in the first half-year, and Tradezone followed. Leochem's petroleum jelly and oils business was merged with Akulu Marchon. Resitec, a supplier to the synthetic rubber industry, operates independently in Brazil and interacts strategically with IOP. Noble Industries, with granular enhancement products such as anti-dusting, anti-caking and micro-nutrient stickers for fertilizer and explosives, was acquired by Lake International Technologies, and Cape Town Chemicals, which focuses on solvents distribution in the province, by Crest Chemicals. Tradezone, which has technology for the agglomeration of polyurethane foam trim, is now part of Industrial Urethanes. All these acquisitions are performing to expectations.

A group warehouse, which can also accommodate flammable liquids, is under construction at Chloorkop to supplement existing facilities. All current manufacturing operations at Chloorkop have been consolidated in Chemserve Systems to benefit from scale and focus. The exit from the Isithebe site, where manufacturing operations have ceased and the site has been sold, is complete but for some soil remediation.

Chemserve Systems has restructured around a new operating platform, and Plaaskem has completed the revamp of its operation at Lillianton after the foundry business was moved to Chemserve Systems as part of product rationalisation.

The IOP alkyd resin plant is on line and operating well as are SMSA's upgraded facility, producing for a Mondi operation, and Plastamid's specialised polypropylene compound line.

To exit the overtraded polymer masterbatch market, Performance Masterbatch has been sold.

Strategic growth

The first acquisition in the Brazil country step-out strategy was completed in May with the Resitec investment. This acquisition delivered a pleasing performance notwithstanding a strong Brazilian currency. Expansions are under way to increase capacity for existing products and to broaden the company's base. Chemserve is actively seeking further acquisitions in Brazil.

The mining chemicals thrust was very successful in 2006, with several roll-outs of the vendor management programme by Senmin. The expansion of local manufacturing capacity continued with the commissioning of a depressant plant at Senmin in Sasolburg; this capacity was filled immediately.

For a total investment of R230 million, the carbon disulphide capacity at Senmin is to be expanded with new technology which will supply more product with lower accompanying sulphur dioxide emissions. At the same time new pelletised xanthate capacity will be installed to service distant customers. In February 2007, the AECI Board approved in principle a further R380 million for a project to construct a world-scale plant for a specialty mining chemical currently in short supply. These projects demonstrate commitment to satisfying the growing regional demand for specialised mining chemicals by investing in world-scale local production facilities.

Chemical Initiatives expanded its operations into Namibia and Zambia to support current and new mining operations and has undertaken to relocate and operate a sulphuric acid plant in the Democratic Republic of Congo. Local business entities have been established in Botswana and Zambia to facilitate operations in those countries, and the search continues for suitable entry into countries with a mining profile supported by Chemserve's capabilities.

Challenges and outlook

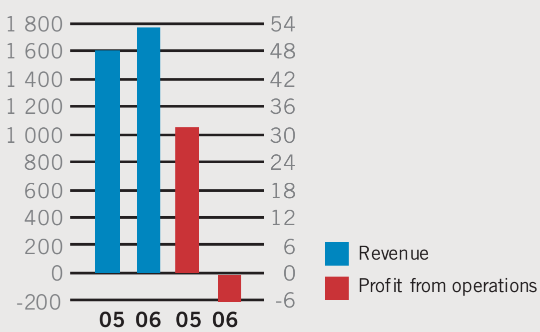
In 2007, the group's commercial challenges will be to retain and recover contribution margins which were squeezed in 2006 by fluctuating exchange rates and raw material prices, and to maintain the competitive cost base established in recent years.

Chemserve will build on its foundation in Brazil and will maintain the momentum achieved in providing and securing the full service package to the burgeoning Southern and Central African mining industries. In South Africa, the extension and enhancement of an already comprehensive portfolio of businesses will remain an objective.

Safety and efficiency will be the areas of focus from an operational perspective. All businesses have well devised processes and procedures and will concentrate on entrenching a philosophy and discipline of operating optimally within them.

In the context of the current outlook for the Southern African region, and given the positioning of Chemserve's businesses in this framework, another good year is expected in 2007.

REVIEW OF OPERATIONS Specialty fibres



The company enjoys a position as the global leader in some technically-demanding niche markets

Strategy: Pursue a three-pronged strategy to return to an acceptable financial performance and consolidate further the company's position in chosen markets.

Revenue increased by

8%

to R1 780 million

Disappointingly, a number of external and internal factors had an adverse effect on performance. A substantial improvement in operations was sustained from August.

2007 OBJECTIVES

- Continue to implement a strategy for acceptable financial performance irrespective of currency fluctuations
- Concentrate on volume growth and better operational efficiencies
- Maintain the position as the global leader in certain niche markets and introduce new, high-tech products
- Pursue the opportunity for business enhancement via a partner

SANS's executive team

Brad Page (43)

Managing director. See page 7.

Samir Mukhopadhyay (49)

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. He has published extensively in European and American journals. Samir joined SANS in 2004 as head of research and technology.

Gerhard van Niekerk (37)

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.

SANS FIBRES

After a pleasing improvement in 2005, SANS Fibres (SANS) had a disappointing year. Several adverse factors, both external and internal, contributed to operating profit declining from R32 million in 2005 to a loss of R6 million in 2006.

External environment

Power outages in the Western Cape during the first quarter had a major impact on the business. In particular, knock-on consequences such as poor machine reliability after restart led to substantial losses in production and hence sales.

Disruption to raw material supplies, after two incidents of *force majeure* by the major supplier of nylon polymer, also necessitated production cutbacks with a resultant inability to fill all orders.

Currency movements played a significant role. The marked strengthening of the rand late in the year impacted on results in the fourth quarter because, with FIFO costing, raw materials purchased with a much weaker rand were used.

South Africa's national carbon dioxide shortage resulted in a sharp decline in polyethylene terephthalate (PET) sales just as the peak summer season approached. Manufacturers of carbonated soft drinks had to resort to imports of product to service their markets. Packaging for these drinks is SANS's major market for PET.

Internal factors

Internal problems also affected the company. Some poor plant performances in the first seven months resulted in low raw material to finished goods conversion efficiencies and reduced productivity. The implementation of appropriate corrective measures was severely hampered by the power outages. It is pleasing, however, that a substantial improvement has since been sustained.

A four-yearly, statutory shutdown was required early in the year on the polymer autoclave plant. At the same time, the opportunity was taken to effect modifications to increase plant output. On restart, behind schedule due to the power cuts, quality problems were encountered with a PET raw material, resulting in short-term sales losses.

Also early in the year, a quality problem occurred on a major polyester heavy industrial yarn product. Sales into the local market had to be discontinued and replaced with an equivalent imported product until the problem was resolved.

From 2007, the local manufacture of polyester apparel yarns will cease. This is largely a reflection of an ongoing shrinkage in local demand and serious erosion of price margins in the face of low-priced clothing and fabric imports. A R3.5 million asset write-down charge has been included in the 2006 financial statements.

Markets

Growth continued in the key nylon light industrial (NLDI) market. The sales volume increase of 7 per cent year-on-year would have been greater had it not been for the internal difficulties already discussed.

Additional capacity for the second stage process step, to meet growing market demand, was commissioned and brought on stream in the second quarter. Although sales growth has been mainly in SANS's core sewing thread sector, higher volumes are also being achieved in the weaving market sector. This follows work done in 2005 to develop products specifically for this purpose.

Nylon raw material prices continued their upward trend and further increases are probable in 2007. Maintaining price margins in this environment has proved a major challenge.

Demand for polyester light industrial yarns (PLDI), also a key market for SANS, improved sharply in 2006 with previously lost business being regained and new business opportunities being developed. Again, plant problems prevented full advantage being taken and sales volume growth was restricted to 3 per cent above 2005 levels. However, sales are forecast to improve considerably in 2007.

With existing plant being fully utilised again, the benefits of technological development work to convert and upgrade some existing assets for PLDI manufacture will come to fruition towards mid-year and much needed additional capacity will come on stream.

The polyester heavy industrial yarn plant continued to operate at full capacity, power outages excepted. As predicted, large volumes of commodity products, mainly from China, entered the market and the easing of profit margins noted in 2005 continued. In anticipation of this development SANS has, in recent years, focused on reducing its dependence on commodity yarns in favour of technically-demanding products. Good progress has been made in this regard and, as a result, the impact of the Chinese presence was less severe than would otherwise have been the case.

Whilst the South African PET packaging market remains strong, sales growth was restricted to 3 per cent due to the delay in plant restart following the statutory shutdown and modifications to increase plant capacity. However, the modifications have increased annual PET production capacity by a further 20 000 tons and will enable local market growth to be supported. It will also allow the production of differentiated PET products in line with changing market demand patterns. Increased local sales growth is thus expected in 2007.

PET margins remained under pressure but an improvement may be forthcoming with some tightening of the global supply/demand position forecast.

Operations

Following SANS's restructuring in 2004, an initiative was launched in 2005 to achieve stable and higher operational efficiencies by maintaining tight cost controls and effecting ongoing improvements in plant performance. The power problems severely disrupted these efforts and the company's recovery took longer than expected.

Major financial benefits can be realised by lifting operational efficiencies. Components of this drive include improvements in raw material to finished goods conversion rates, productivity enhancements to increase the output of prime production volume, and the development of more technically-specialised, high margin products.

Multi-disciplinary teams continue to drive these projects. The emphasis to date has been on a few selected, major volume products where a substantial boost in performance has been demonstrated. The challenge is to extend this across the full product range.

As an essentially US dollar-denominated business, the rand exchange rate against major world currencies will continue to exert a major influence on SANS. Whilst a weakening of the rand would be most welcome, the company will continue to pursue a strategy that will facilitate an acceptable level of financial performance in the current economic climate. The three key elements of this strategy remain essentially unchanged.

The opportunity for business enhancement via a partner will be pursued in 2007.

Technology

The company's technology capability plays a pivotal role in the quest to improve overall performance. At Bellville, technical personnel have provided support in several areas including:

- participation in the multi-disciplinary plant teams, with specific responsibility for enhancing product properties and the performance profile of existing yarns. Specific emphasis is being placed on light industrial yarns
- development of new light industrial products and the re-engineering of existing products to meet the stringent demands of target niche markets
- development of new or improved products for the technically-sophisticated, high margin end of the polyester heavy industrial yarn market.

At the USA joint venture, developments included products for new markets. Work was also done to optimise robust process conditions so as to ensure consistent quality. A project to enhance plant output has led to growing confidence that a significant increase in plant capacity can be achieved at a low capital outlay.

Joint venture

SANS Fibres and Unifi Inc. (Unifi) are 50:50 partners in the joint venture at Stoneville, North Carolina, USA. In terms of the joint venture agreement reached in 2001, Unifi had a put option which it elected to exercise early in 2007. Therefore, Unifi will exit the joint venture in the first quarter of 2008.

The joint venture produces NLDI technical yarns. Unifi's core business is textured yarn production and the company has made a strategic decision to focus on this.

LDI technical yarns are core for SANS. Consequently, for a purchase consideration still to be determined, SANS will acquire Unifi's 50 per cent share and will assume full ownership and management of the facility. Both partners are committed to a smooth transition as SANS assumes responsibility for manufacturing and for the systems and services that Unifi has contributed to the joint venture. The transition will be seamless for customers since SANS is already responsible for all of the joint venture's sales and marketing.

In 2006, the joint venture's performance continued to improve owing to a 3 per cent increase in sales, a further improvement in plant operating performance and the continued penetration of specialised market sectors.

Way forward

As an essentially US dollar-denominated business, the rand exchange rate against major world currencies will continue to exert a major influence on SANS. Whilst a weakening of the rand would be most welcome, the company will continue to pursue a strategy that will facilitate an acceptable level of financial performance in the current economic climate. The three key elements of this strategy remain essentially unchanged as follows:

Organic growth and remix of product offering

There are good opportunities for further organic growth in the polyester and nylon LDI markets, both in the existing sewing thread sector and in new outlets. These opportunities will be pursued, with technology playing a key role. In polyester HDI, the remix strategy in favour of more technically-demanding products will remain central.

Operational efficiency

Multi-disciplinary plant teams will concentrate on enhancing asset utilisation and increasing productivity as well as improving conversion efficiencies of raw materials into finished goods.

Cost performance

Further improvements in the per unit cost of production, from volume growth and better operational efficiencies, is the third strategic objective. Volume growth should not require any increases to overheads and the support cost base.

The exit of Unifi from the US joint venture provides an opportunity for SANS to find a partner which can enhance delivery on one or more of these strategic thrusts in all of SANS's business operations.

REVIEW OF OPERATIONS Decorative coatings

A track record as an innovator and supplier of quality products results in a continued growth trend

Strategy: Continue to provide quality innovative products to the top end of the decorative coatings market in South Africa and in other territories where Dulux operates.

Revenue increased

19%

to R774 million

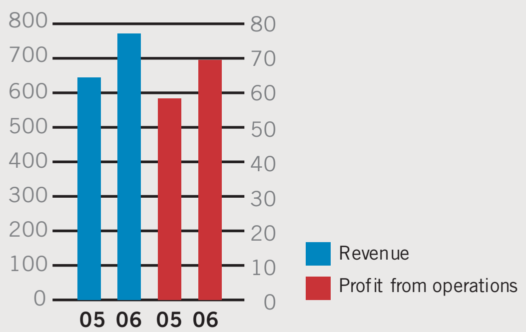
Performance was boosted by strong demand, particularly in the last quarter. Volumes grew by

10%

2007 OBJECTIVES

- Increase further the company's market position
- Enhance products as part of an ongoing upgrading process
- Pursue the strategy of expanding operations in sub-Saharan Africa when opportunities arise

Financial performance Decorative coatings (Rm)



Dulux's management team

Charles Betts (58)

Managing director. See page 7.

Mark Berry (39)

He is managing director of Sent Packing, acquired in 2006. Mark has an Honour's degree in chemistry and a BCom degree. In his career at Dulux, he has worked in research, process engineering, production management and marketing. Prior to taking up his current position, he was executive marketing manager.

Prejay Lalla (37)

A BSc graduate in mathematics and chemistry, he joined Dulux's research and development department in 1991. Prejay then broadened his experience in various disciplines, including marketing. Other qualifications include a Master's degree in business leadership and a marketing management diploma. He was appointed sales director in 2003.

Mike McDermott (48)

He joined the company as financial director in 2001. 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.

Rae McGraw (43)

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 (43)

A graduate 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 (39)

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 and his portfolio includes manufacturing, logistics, procurement and SHEQ compliance.

Gary van der Merwe (44)

Before 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, and is completing an MBA degree. He was Dulux's operations director before taking up his current position, in 2003, as director of foreign operations. He has overall responsibility for the company's subsidiaries outside South Africa.

DULUX

Dulux is a decorative paint company with the greatest portion of its business in South Africa. It also has operating subsidiaries with manufacturing facilities in Botswana, Malawi, Mauritius, Namibia, Swaziland, Zambia and Zimbabwe. The company employs 650 people, 400 of these in South Africa.

South African operations

In 2006, Dulux continued to grow its business in South Africa by enhancing the already well-established Dulux brand and by maximising brand strength to gain market share, particularly at the upper end of the market. A 10 per cent year-on-year increase in volumes was achieved. Profit from operations increased by 19 per cent to R70 million.

The company's product range in South Africa is exclusively for consumers in the decorative sector, a sophisticated market that demands a specialist approach and is well served by the Dulux brand through a broad and expanding range of distribution outlets. In addition to the DIY user, the company's product range caters for professional painting contractors via a comprehensive network of specialist paint outlets.

Although the South African market does include customers requiring large volumes of low-priced paint in the commodity sector of the market where barriers to entry are low, Dulux's strategy remains to focus efforts on the high quality branded market that offers sustainable competitive advantage to the company as well as to its distribution channels.

In line with this strategy, agencies for Hammerite* and Cuprinol* were acquired during the year. These brands have an established reputation as high performance DIY products for metal and exterior wood coatings respectively. The Hammerite* brand came with the acquisition of Sent Packing during the year and both brands will be marketed by this entity. Because Sent Packing's brands enjoy a unique position in the marketplace, it operates independently of the Dulux decorative paint business.

As in 2005, the business environment for decorative paint in South Africa was generally favourable. Retail sales were buoyant and the DIY/home improvement sector performed at its best. Dulux recorded excellent sales into both the DIY market and the professional painting sector, with particularly strong demand in the fourth quarter.

The highlight of the company's 2006 marketing efforts was the launch of the fourth generation Dulux Colour System – a completely new colour system with many special features that made it the immediate market leader. This was accompanied by the 2007 colour brochure and a collection of inspirational guides aimed at the discerning decorator.

Notwithstanding some deceleration in the rate of growth of consumer spending forecast for South Africa in 2007, Dulux expects further increases in its market position in the year ahead, thereby enabling the positive performance trend to be sustained.

Pressure on raw material prices was evident in 2005 and this trend continued through 2006. Since the escalating cost of raw materials inevitably leads price increases in the distribution channel, margins were again under pressure.

Following the introduction in 2005 of significant new products and new livery, the company dedicated substantial attention to consolidating these changes to ensure maximum impact on consumers. Product enhancements, such as the low odour Luxurious Silk*, were introduced as part of the continual upgrading of products.

The highlight of the company's 2006 marketing efforts was the launch of the fourth generation Dulux Colour System – a completely new colour system with many special features that made it the immediate market leader. This was accompanied by the 2007 colour brochure and a collection of inspirational guides aimed at the discerning decorator. All this was supported by a new television advertisement with the strapline "We know the colours that go".

African operations

Another aspect of Dulux's strategy is to continue expanding its operations in sub-Saharan Africa. This has the full support of ICI, owner of the Dulux brand in many of these countries.

Expansion will be directed by the level of sophistication in consumer markets as well as by acquisition opportunities that may arise. As an example, whilst East African markets remain attractive, suitable acquisition opportunities have not arisen and entry into this market has been delayed as a result.

An investment in a manufacturing facility in Mauritius was made with local partners and this business will also serve customers in Reunion and Madagascar.

In its first year of operation, the business acquired in 2005 in Zambia performed well and the prospects for further growth are good. The businesses in Botswana, Malawi, Namibia and Swaziland achieved satisfactory results and further improvements are expected.

Outlook

Notwithstanding some deceleration in the rate of growth of consumer spending forecast for South Africa in 2007, Dulux expects further increases in its market position in the year ahead, thereby enabling the positive performance trend to be sustained.

Improvements in the African businesses will also contribute to an enhanced performance in 2007.

* Trademark




The Dulux Colour System IV takes its inspiration from life itself. Indulge your inner hedonist with rich velvety hues, revive your spirits with a splash of fresh colour, bask in sun-splashed warmth, or create a contemporary retreat in calm, tranquil tones.

Glossy reds and golds, crisp, tangy greens, ultra-violets or chalky, wind-swept neutrals. You'll find the colours that go.

REVIEW OF OPERATIONS Property

HEARTLAND

Some 2 200 hectares of the original 3 700 hectares remain and will be made available in a planned manner

Strategy: Continue to realise maximum benefit from land and assets that are surplus to AECI's operational requirements, mainly at Modderfontein and at Somerset West.

Revenue increased

6%

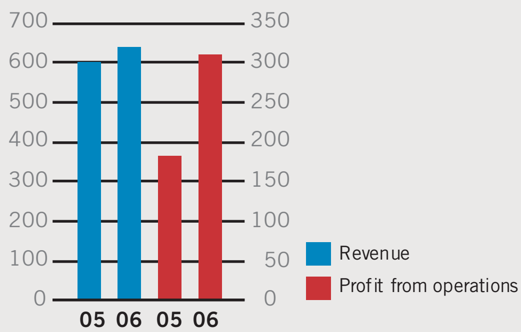
to R644 million

Record revenue and excellent cash flow were achieved, with operating profit reaching R314 million

2007 OBJECTIVES

- Commence the sale of development rights at Somerset West
- Continue developing plans for Modderfontein now that clarity on Gautrain has been achieved
- In leasing, reduce the vacancy rate for lettable buildings so as to increase rental income
- Continue to dovetail remediation spend to meet legal requirements and sustain property redevelopment

Financial performance Property (Rm)



Heartland Properties' executive team

Paul McAfee (48)

Heartland Properties' managing director. He is a structural engineer by profession and was a partner in a civil/structural and project management practice before joining the AECI Group in 2002. Paul is a graduate of Queens in 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.

Neil Hayes (28)

Neil joined the company as financial controller in 2004 and, in 2006, was promoted to finance director for both Heartland Properties and Heartland Leasing. He has a BCom (Hons) degree and is a registered chartered accountant.

Deon van Zyl (36)

With degrees in architecture and a Master's qualification in city planning and urban design, Deon left architectural practice to join Heartland Properties, 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.

Mike Walsh (38)

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 at all sites.

PROPERTY

AECI's property activities are managed by two companies, Heartland Properties and Heartland Leasing. As in 2005, outstanding results were achieved with operating profit at a record R314 million after recognising R66 million of remediation expenses. Notwithstanding expenditure on remediation of R134 million, net cash flow totalled R296 million. Revenue of R644 million was generated from sales of 160 hectares of land, gross income on leased assets of R97 million, and sales of services of R91 million.

HEARTLAND PROPERTIES

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. Some 2 200 hectares of the original 3 700 hectares remain and will be made available for redevelopment over the next 10 to 15 years. The land is mainly at Modderfontein, in Gauteng, and at Somerset West in the Western Cape.

At Modderfontein, sales of land for residential, commercial and retail use continued at Greenstone Hill. The well-established Greenstone node has attracted considerable market demand and the final portions for residential, retail and commercial use are ready for release.

Much effort was applied in 2006 in dealing with Gautrain matters. Heartland Properties is pleased to have procured a legal and commercial outcome which addresses the logistical and other difficulties identified in the railway's preliminary design. Late in 2006, a binding agreement enabling Gautrain to proceed through Modderfontein was signed by the Province of Gauteng, AECI and certain of its subsidiaries.

The terms of the agreement satisfactorily address the concerns that AECI and Heartland Properties had with the project, namely the lack of connectivity between various parts of Modderfontein, and the extent of the rail reserve. In reaching this negotiated settlement, the Province agreed that seven additional road bridges across the train line will be built. As a *quid pro quo*, AECI will not be compensated by the Province for the land required by that portion of the Gautrain that crosses Modderfontein.

AECI and the Province of Gauteng also agreed that a station at Modderfontein would be desirable when justified in terms of passenger volumes and economic considerations at some time in the future. More detailed discussions in this regard would be undertaken at that time. The feasibility of building basic infrastructure for such a station, as part of the current project but at AECI's cost, is currently being evaluated.

Soon after the agreement had been concluded, construction and planning personnel from the Bombela Consortium established a presence at Modderfontein.

Conservation Park

AECI is committed to retaining some land, at Modderfontein, for conservation purposes. After consultation with relevant stakeholders, Heartland Properties appointed specialist consultants to undertake detailed fauna, flora and wetland reconnaissance studies in the area. Their findings enabled refinements to be made to the configuration of the park, based on definitive ecological criteria.

Accordingly, an area of about 275 hectares straddling the Modderfontein Spruit and including several dams, pristine grasslands and hills, has been identified. Final surveys are in progress to enable the appropriate zoning of a single land portion by the regulatory authorities. The park will be incorporated into the adjacent Isidleke, an environmentally-based development in its own right, and this process should be finalised by end-2007.

The vision for the park is that it should be a permanent and positive environmental legacy that plays a social, educational and ecological role in the greater Johannesburg region. Heartland Properties, in developing its strategy for the site, envisages the Park as part of an overall lifestyle concept, focusing on its appeal as an ecological and aesthetic resource.

At Milnerton, Heartland Properties assisted AECI, the land owner, in the disposal of a redundant 61 hectare factory site. The property was sold for R260 million and transfer of ownership took place in December.

At Somerset West, efforts concentrated on completing the Triangle project and areas peripheral to the 730 hectare main site. Detailed submissions were made to the City of Cape Town, Helderberg Region, so as to procure the necessary approvals for the phased release of this substantial land holding from 2007.

Southgate Industrial Park, south of Durban in KwaZulu-Natal, was completed and sold out in 2006.

Outlook

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.

At Modderfontein, the Greenstone development is ever-nearer to completion and has proved to be an excellent blueprint for future development initiatives.

In the Western Cape, preparations to commence land release at the main Somerset West site have advanced pleasingly such that infrastructure implementation and sale of development rights will commence as planned in 2007.

With concerns regarding the Gautrain project now resolved, land planning at Modderfontein has gained a higher degree of certainty. The longer-term benefits that will accrue from this via future developments are being pursued most energetically.

HEARTLAND LEASING

Heartland Leasing is tasked with letting and managing land and buildings that are surplus to the Group's needs, providing site services at Umbogintwini, and remediating land. The company operates at five sites, namely Modderfontein in Gauteng, Somerset West in the Western Cape, Umbogintwini and Richards Bay in KwaZulu-Natal and Potchefstroom in the North West Province.

In leasing, the business focuses on renting to third parties land and buildings that are no longer required by AECI but are not yet being released to the market via Heartland Properties. Site services are rendered mainly at the Umbogintwini Industrial Complex, a multi-user site where six of the 13 main manufacturing companies are chemical-related Group businesses.

For its remediation activities, Heartland Leasing prioritises cash spend on projects related to reducing safety, health and environmental risks both on- and off-site, compliance with

Heartland Leasing's executive team

Reg Bhikum (48)

He was appointed managing director in 2005. Since joining the Group in 1981, Reg has held 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.

Martin Burr (54)

He joined AECI in 1977 and has 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 remediation director, Western Cape, in 2005. Martin has a BSc (Chem Eng) degree and a BCom (Hons).

Rod de Klerk (57)

He is remediation director, Gauteng. Rod has almost 30 years' experience in the AECI Group, across a broad range of engineering, production, projects, maintenance, and training and development functions. In 2002, subsequent to playing a key role in the final decommissioning of Modderfontein's ammonia and urea plants, he transferred to remediation activities at Group level. He was appointed to his current position in 2005.

Bill Oliver (62)

He is services director for Heartland Leasing, Umbogintwini. Bill's 27 years of service in AECI have included roles and portfolios ranging from technical training and human resources management, to responsibility for SHE and quality issues. Prior to his current appointment, he had been remediation manager at Umbogintwini for 10 years.

Nick Tsouros (42)

He is the company's leasing director. Nick joined AECI as an apprentice fitter in 1984 and subsequently worked in 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. Nick also has diplomas in purchasing management and practical accounting, and a certificate in estate agency.

enviro-legal requirements, and the clean-up of land impacted by past operations. Wherever possible, clean-up and land re-use initiatives are planned in parallel to ensure that expenditure on remediation is followed as closely as possible by income generation through the release of land.

Leased assets

Gross income on leased assets was unchanged from 2005, at R97 million. During the year, AECI re-acquired the former fertilizer manufacturing site at Potchefstroom so as to manage its remediation and lease the site's existing buildings. This arrangement enabled the withdrawal of a guarantee in terms of which the Group would compensate the site's previous owner for remediation expenditure that would have been spent on AECI's behalf at some time in the future.

Heartland Leasing will dispose of redundant plant at the site. Thereafter, any remaining and redundant structures will be demolished and the area will be remediated prior to being made available for alternative use. By December 2006, a decommissioned sulphuric acid plant had been sold, as had a gypsum dam. The latter is a legacy of fertilizer manufacture and its sale reduces AECI's exposure to remediation costs in future years.

As a result of the Potchefstroom acquisition, the vacancy rate for leased assets at year-end was unchanged at 25 per cent and the gross lettable area under the company's management increased by 49 000m^2 to 360 000m^2. Excluding this new asset, the vacancy rate at Heartland Leasing's other sites decreased to 16 per cent from 25 per cent at December 2005.

Services

Utilities and services such as steam, water, electricity, effluent treatment and security are provided and managed by Heartland Leasing at the Umbogintwini Industrial Complex. A key advantage of this arrangement is that it allows the site's 13 main manufacturing companies and 50 smaller site tenants to focus on their core businesses. This sector of Heartland Leasing's activities returned a profit of R7 million for the year.

Remediation

All sites have been fully characterised and a detailed remediation strategy has been compiled from this information. The focus of remediation in 2006 was at Somerset West and at Milnerton. With Modderfontein, the Group's Somerset West property has the greatest potential for future development.

> With concerns regarding the Gautrain project now resolved, land planning at Modderfontein has gained a higher degree of certainty for Heartland Properties. The longer-term benefits that will accrue from this via future developments are being pursued most energetically.
>
> For its remediation activities, Heartland Leasing prioritises spend on projects related to reducing safety, health and environmental risks, compliance with enviro-legal requirements, and the clean-up of land impacted by past operations. Wherever possible, clean-up and land re-use initiatives are planned in parallel.

Large-scale projects at Somerset West, which required the removal of 300 000 tons of soil from the former agrochemicals manufacturing area and its removal to a dedicated off-site facility at Vissershok, were completed. Pleasing progress was made in other remediation activities required to facilitate the launch of the first phase of the main site's redevelopment in 2007. By year-end, remediation of the Somerset West site as a whole was 80 per cent complete.

At the Group's Milnerton site, a buyer expressed interest in purchasing the site sooner than was expected. Extensive planning and execution of remediation projects had to be fast tracked in respect of the re-alignment of the Duikersvlei stream, demolition and remediation. These projects were extremely successful and allowed AECI to meet its obligations under the sale agreement concluded in June 2006.

At Chloorkop, part of the greater Modderfontein property, remediation of an area formerly used for fertilizer manufacture and storage is complete, and sales of residual gypsum to the agricultural sector are continuing. Also at Modderfontein, as at Umbogintwini, steady progress was made in a broad range of other projects.

It is most gratifying that the relevant local and provincial authorities, as well as other stakeholders, remained supportive of the environmental aspects of projects at all sites. Heartland Leasing's ability to meet remediation goals effectively and timeously is due in large part to their ongoing cooperation.

Outlook

In 2007, Heartland Leasing will continue to focus on reducing the vacancy rate with a view to enhancing the financial delivery of all of its five sites. The remediation strategy is also unchanged and projects will again be prioritised to ensure legal compliance and to facilitate eventual land re-use for the benefit of the AECI Group and its shareholders. The company is confident that its business will continue to prosper in the current buoyant property rental market.

CONCLUSION

The Group has made further progress in consolidating its position as a supplier of specialty products and services, with an increasing emphasis on the manufacturing and mining sectors. The major capital expenditure programmes already approved or under consideration demonstrate AECI's confidence in the growth prospects of these sectors.

Opportunities beyond AECI's traditional operational domain continue to be sought and the first small, but successful, venture in Brazil has increased the appetite for larger acquisitions.

A disappointment in 2006 was the Group's safety performance, which was not up to standard, and this will require a lot more attention in 2007. Our employees are our greatest asset and, therefore, their health and safety must remain a priority.

At the annual general meeting of AECI's shareholders to be held on 21 May 2007, Alan Pedder will retire from the Board. Alan joined the Board as a non-executive director in 1994 and has served as its chairman since January 2001. In that month, Anglo American relinquished a controlling interest in the Company through a specific repurchase by AECI of 61.9 million of its shares from Anglo. This transaction represented a watershed for the new, independent AECI.

In his first letter to shareholders subsequent to this, Alan wrote: "It is most gratifying . . . to report on a year of great progress in the reinvention of AECI as a focused specialty chemical company. The portfolio of businesses (has been) trimmed and each of the core (businesses) has in place a robust strategy for growth and delivery of world-class performance. While much remains to be done, AECI is now well positioned to build shareholder value from a strong base."

Since then, great strides have been made in delivering this value and building on the strong base to ensure that the Group's performance is sustainable. Alan has played an active role in this. His dedication to AECI's progress has been unfailing. My fellow Board members join me in thanking him and in paying tribute to his unwavering leadership and guidance during what has been, perhaps, the most challenging but at the same time the most rewarding era in the Company's history.

Finally, I wish to thank all employees across the Group for their contribution to an outstanding performance, unmatched in AECI's history.

Schalk Engelbrecht
Chief executive

Sandton, 19 February 2007

CORPORATE GOVERNANCE

AECI is proud of its record in areas relating to ethical behaviour and governance.

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

Some years ago, the Board subscribed to the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance of November 1994. The Board considers that the Company complies with all provisions of that Code. The Board has noted the set of principles embodied in the amended Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance for South Africa 2002 ("King II"). The Board considers that, as at the date of this report, the Company is also 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 four executive and seven non-executive directors, of whom six are independent. The role and person of the non-executive chairman is separate from that of the chief executive. The Board meets quarterly and on other occasions when necessary. 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 at the start of each 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.

BOARD ASSESSMENT

Board members undertake an annual self-assessment process to measure and verify their individual and collective effectiveness in complying with the Board Charter. In addition, every second or third year, as required, an independent third party undertakes a performance review of the Board in terms of the following: the quality and overall effectiveness of Board meetings; the information available to Board members to support decision-making; the Board's role in the formulation of and commitment to business strategy; the Board's evaluation of the chief executive and the planning for succession; evaluation of the Board's structure in terms of its executive and non-executive components; and the suitability of the Board's composition and sub-committees.

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 2006 during their tenure as directors is shown in the table below:

	Meetings held	Meetings attended
NC Axelson	5	5
CB Brayshaw	5	5
S Engelbrecht	5	5
MJ Leeming	5	5
LM Nyhonyha	3	3
AE Pedder CBE	5	5
F Titi	5	5
LC van Vught	5	5

BOARD COMMITTEES

The Board has established five permanent sub-committees to assist in the execution of its responsibilities. Each of these sub-committees has written terms of reference under which authority is delegated to each committee 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 at least three independent non-executive directors. The committee meets at least three times per year. Meetings are attended by the Company secretary as secretary to the committee and by the external auditors, the head of internal audit and the executive director responsible for finance. Current members of the committee are:

CB Brayshaw (Chairman, retiring 21 May 2007)
RMW Dunne (effective 1 January 2007)
MJ Leeming (Chairman designate)
LM Nyhonyha
F Titi (until 1 April 2007)

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

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

Nominations committee

The Board established a formal nominations committee in 2002. The committee is comprised of at least three non-executive directors. Meetings of the committee are held at least annually and additional meetings are held when deemed necessary. The general manager, Group human resources and SHE, attends all meetings of the committee as secretary and the chief executive by invitation. Current members of the committee are:

LC van Vught (Chairman)
CB Brayshaw (retiring 21 May 2007)
RMW Dunne (effective 1 April 2007)
F Titi (effective 1 April 2007)
AE Pedder CBE (retiring 21 May 2007)

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

Remuneration committee

The Board established a remuneration committee some years ago. The committee is comprised of at least three non-executive directors. Meetings of the committee are held at least twice a year and additional meetings are held when deemed necessary. The general manager, Group human resources and SHE, attends all meetings of the committee as secretary and the chief executive 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:

LC van Vught (Chairman)
CB Brayshaw (retiring 21 May 2007)
RMW Dunne (effective 1 April 2007)
AE Pedder CBE (retiring 21 May 2007)
F Titi (effective 1 April 2007)

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 at least 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 and the general manager, Group human resources and SHE, by invitation. The responsibilities of the committee include the review and assessment of progress by the Group in areas such as economic empowerment, employment equity, social responsibility investment, education, training, safety, occupational health and environmental practice. Current members of the committee are:
F Titi (Chairman, until 21 May 2007)
MJ Leeming
LM Nyhonyha (Chairman designate)
LC van Vught

Executive committee

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

REMUNERATION POLICY

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

For executives and senior management, an annual incentive bonus is provided with awards dependent partly on strategic delivery and partly on the achievement of defined financial targets over a three-year period. These targets incorporate a required rate of real growth in either or both operating profit after tax and 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 either in a share option scheme, as approved by shareholders in 2001, or in a benefit unit scheme which emulates the performance of share options. These schemes are intended to align the longer-term interests of executives with those of shareholders. In 2003, the remuneration committee approved an earnings-per-share-based scheme that supplements the existing option 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 25 and 26 to the financial statements.

ACCOUNTABILITY AND INTERNAL CONTROL

The directors are required by the Companies Act of South Africa to prepare annual financial statements which fairly present the state of affairs of the Company and the Group as at the end of the financial year and 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 the Companies Act, IFRS and the listing requirements of the JSE Limited.

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 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 and reports directly to the audit committee. In addition, the 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 year 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. First issued in 1997, the document was updated in 2006 and printed copies were distributed to all current employees. New employees will also receive copies and, to maximise the updated Code's accessibility, it has been made available on AECI's intranet and on the intranets of operating companies, where available.

As part of the Code's revision process, a new service known as the EthicsLine was put in place. It is a free service for both employees and other stakeholders and is administered by the professional accounting firm, Deloitte & Touche. Therefore, the service is totally independent of AECI and the anonymity of individuals reporting fraud or dishonest and inappropriate behaviour is protected. Legitimate issues and concerns reported are forwarded for appropriate action to the Group chief executive or his nominated representative.

DEALING IN SECURITIES

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

CORPORATE CITIZENSHIP

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.

Strategy: In corporate citizenship, a Board sub-committee guides the Group's direction and monitors progress against targets and guidelines.

The Group's interventions on HIV/Aids are focused in three main areas:

- training and awareness has had a high profile for a number of years
- increasingly, voluntary counselling and testing have been made available and encouraged
- treatment of HIV-positive individuals has been successful in the main. Since most AECI employees and their dependants are members of medical aids, they have access to the Aid for AIDS programme.

The employability of people, to enable them to participate meaningfully in South Africa's economy, continues to be an issue of concern at national level. AECI supports skills training and development initiatives that go beyond its traditional areas of business and include disciplines as diverse as catering, hair dressing, panel beating and fashion design via accredited NGOs and other institutions.

It is unlikely that the manufacturing sector, and other formal sectors, will create enough jobs into the future. Therefore, AECI recognises that enterprises such as arts and crafts have a role to play and it will continue to make resources available for capacity-building in these areas.

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. In AECI, such matters are guided by a sub-committee of the Board. The Board has instructed the corporate citizenship sub-committee to carry out its work in terms of clear guidelines.

ECONOMIC EMPOWERMENT

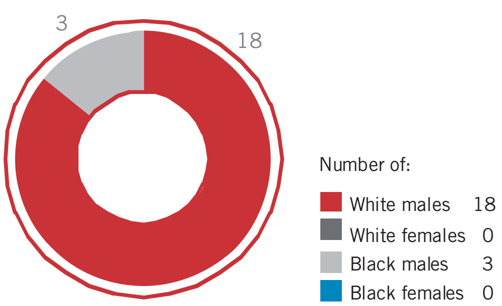
The Company endeavours to involve historically disadvantaged South Africans as equity partners in Group businesses, or as preferred suppliers to Group companies, to the extent that they are the true beneficiaries of such initiatives, without undue disadvantage to shareholders of the Company.

In 2006, a formal process to measure and verify the Group's status and performance in terms of a broad-based black economic empowerment scorecard was undertaken for the first time. This showed that the Group was a non-compliant contributor, with a score below 30 per cent, in terms of the Department of Trade and Industry's generic codes of good practice. In 2007, the results will be reviewed for the Group and its component businesses so as to refine and expand current action plans.

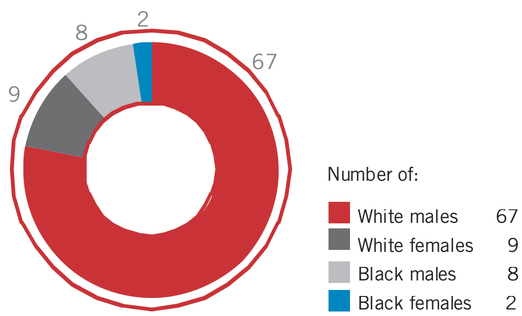
Employment equity

AECI Group companies' employment equity programmes are aimed at attracting, retaining and developing the best possible resources to support business objectives and strategies. To this end, companies have focused their recruitment and promotion practices on redressing imbalances and rectifying under-representation of designated employee groups.

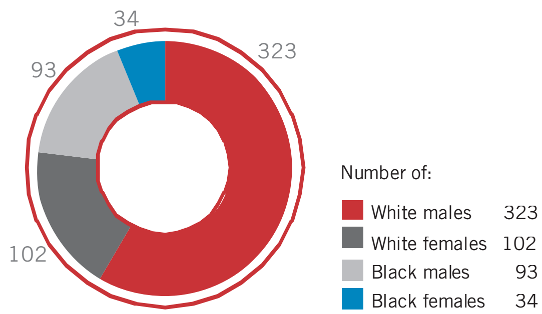
Top management
14% from designated groups



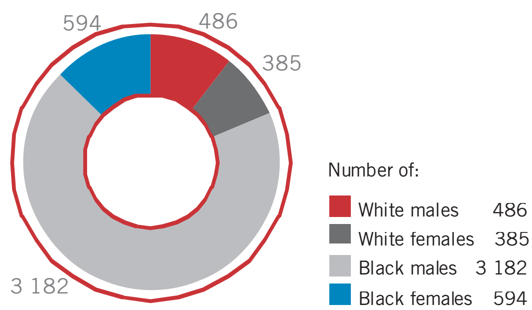
Senior management
22% from designated groups



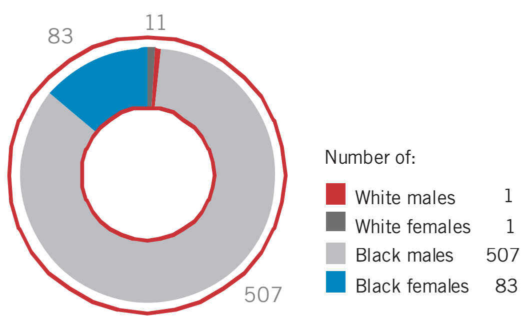
Middle management
42% from designated groups



Skilled and semi-skilled
89% from designated groups



Unskilled
99% from designated groups



Since the first employment equity report in 2002, the percentage of employees from historically disadvantaged groups has increased significantly. People from designated groups represent 85 per cent of AECI's workforce and occupy a substantial proportion of managerial positions at various levels (see graphs on previous page).

Employment equity consultative processes continue at AECI's businesses and, via relevant steering committees, formal development programmes have been introduced to ensure the continued advancement of employees from designated groups.

As a result of new employment equity legislation introduced in 2006, a more detailed reporting structure has been adopted by every business.

SKILLS DEVELOPMENT, LEARNERSHIPS AND TRAINING

The focus is on the training and development of individuals from historically disadvantaged backgrounds whilst at the same time supporting employment equity goals.

Through the participation of senior managers in the appropriate Sectoral Education Training Authorities (SETAs), the Group has made a significant impact on the structures of these SETAs, particularly in sectoral chambers and in Standards Generating Bodies where standards for industry-specific training programmes are set.

AECI companies continued to contribute to skills development in their specific industries. In total, 117 learnerships were completed by employees.

In terms of skills development, one of government's objectives is to provide unemployed people with work experience, thereby enhancing their longer-term employability. AECI companies also participated in this initiative.

Details on skills development, learnerships and training at AECI's businesses follow.

AEL

The provision of training for the National Certificate in Chemical Operations continued and benefited 70 employed and 10 unemployed learners.

Ten students completed level two of the chemical fitting, electrician and mechanical instrumentation qualification and will continue with level three in 2007. The artisan multi-skilling training programme progressed well with 26 fitters and electricians participating.

Numerous employees were involved in operator multi-skilling training. This effort will continue, with emphasis on training requirements particular to AEL's production automation projects.

At the company's annual graduation function in November, 150 employees graduated on completion of studies in NQF 1, 2 and 3, stock control, e-learning and the team manager development programme.

Chemical Services (Chemserve)

Individual growth and development of employees, especially the accelerated training and development of those previously disadvantaged, remains central to Chemserve's employee development strategy. Formal development programmes have been introduced to this end.

The company entered into learnership agreements with 15 artisan learners in the chemical fitter and electrician trades. At its Chloorkop site, a pay-related multi-skilling project was launched and the results are promising.

The initiative to provide in-service training for students, as part of their course requirements at various universities of technology across South Africa, gained further impetus. Chemserve is assisting more than 50 individuals studying in a range of disciplines that include chemical engineering, analytical chemistry, extraction metallurgy, polymer technology and agriculture.

SANS Fibres

The major area of focus was coaching skills. The company's objective is to achieve its business and strategic goals through leaders who have technical and interpersonal skills. Coaching is a core methodology in this regard. In 2006, 41 leaders participated in a formal process to develop coaching skills and to ensure that the skill is applied and sustained within the business.

Good progress was made with the development and facilitation of the assistant technical officer programme so as to meet SANS's need for additional capacity in this area. More than 200 production operators were recruited and trained to an appropriate level. In training people for skilled work, competence in numeracy and literacy remains a concern not only at SANS but at national level.

In training and development, the company selects plant operators to train their peers. The trainers receive instruction in adult learning principles and techniques and, thereafter, they impart knowledge to their colleagues at work instruction level.

It is most encouraging that 11 co-opted learning facilitators are in the final stages of achieving a nationally recognised qualification in competency assessment.

The NQF 2 learnership programme initiated some years ago continued. It is run entirely in-house, is SETA-accredited and targets team coordinators and technical operators. The programme is the foundation for career paths in production and technical disciplines. Ninety employees have completed the programme since 2004 and, for several of them, it has been a useful foundation for study in other courses such as the Business Development Programme at the Cape Peninsula University of Technology.

Dulux

Dulux established a learnership programme towards the National Certificate in Chemical Equipment Operations NQF 2. A total of 13 learners are benefiting from this initiative which is being facilitated by the industry SETA via a discretionary grant.

Six women from communities surrounding the company's operations have been employed on a temporary basis to provide them with work experience that will enable them to complete their qualification in Chemical Operations NQF 1.

Dulux's Adult Basic Education Programme had 26 active learners in 2006, 10 of whom wrote exams and passed. The balance will write exams during 2007 and 10 new learners are scheduled to join the programme which is funded via a discretionary grant from the industry SETA.

LABOUR RELATIONS

As has been the case for several years, relationships between the AECI Group and representative unions remained positive overall.

At AEL, agreements were concluded on issues such as hours of work, the disciplinary process, a revised Chemical Multi-skilling Agreement, the permanent appointment of some temporary employees, a revised Payroll Incentive Scheme and a Technical Operator Development Model.

Chemical Services had an excellent year in terms of labour relations. National substantive wage negotiations were conducted under the auspices of the National Bargaining Council for the Chemical Industry's Industrial Chemicals sector. Agreement was reached timeously and without disputes. At the Chloorkop site, a framework agreement between management and representative trade unions was concluded for the implementation of a multi-skilling programme.

At SANS Fibres, substantive negotiations for wages and other terms and conditions of employment were protracted, with two rounds of negotiations and two sets of conciliation sessions required to break the deadlock between the National Manufactured Fibres Employers' Association (NMFEA) and the representative union. Despite extensive efforts from the NMFEA to share market information and company performance with the union, the latter's leadership was not sufficiently mandated to negotiate a settlement.

Conciliation sessions resulted in agreement being reached after notice of intended strike action had been served on employers. Issues such as the relationships between the company and employees, employees and the representative union, employees and the shop stewards' committee all surfaced and impacted on the process. Further interventions will be required in the year ahead.

EMPLOYEE WELL-BEING

Some years ago, AECI's executive committee took a strategic decision to encourage all employees to join AECI's Medical Aid Society. To facilitate this, a low cost membership option was introduced and, as a result, the vast majority of Group employees and their dependants now have access to affordable medical aid cover. Membership of the medical aid is viewed as the first step in moving from a fragmented approach to employee well-being to a consolidated and holistic system. Ultimately, employee assistance programmes, industrial health initiatives, HIV/Aids and other chronic condition interventions, stress management and overall employee health and well-being will be integrated into an overall care system. It is expected that this will have a positive effect on the cost of providing quality employee benefits and care in future years. Costs associated with factors such as disability cover and employee absenteeism, and impacts on retirement funds, should reduce as a result.

In addition to Group-based initiatives, each AECI company has employee assistance programmes catering for its specific needs. Individual counselling is available for HIV/Aids, trauma, family-related matters, addiction, bereavement and stress-related issues in the workplace or at home. Where a prevalence of one or more chronic illnesses is detected, interventions are implemented to manage these and to monitor progress via formal assessments.

HIV/AIDS

The tragedy of HIV/Aids continues to escalate in South and Southern Africa. AECI commissioned an external party to update its assessment of the impact which HIV/Aids is having, and will continue to have, on the Group. The current estimated HIV prevalence rate among AECI employees is 10 per cent. It is believed that this is the peak prevalence level and a decline is expected by 2010.

Costs attributable to HIV/Aids are estimated at R14 million for 2006 and include amounts for paid sick leave, productivity losses, training and replacement expenses, disability processing expenses, and medical and funeral expenses. Costs are expected to grow, peaking at R21 million in 2011. The delay in incurring costs, when compared with the prevalence rate, is due to the lag between infection and the development of serious symptoms.

The Group's interventions are focused in three main areas:

- training and awareness has had a high profile for a number of years. Methods have ranged from newsletters to intranet-based quizzes, plays and seminars. Knowledge and perception surveys have been conducted to target these efforts more accurately. Condoms (including female condoms) are provided to employees. Peer educators are in place and are having a significant impact in their workplaces
- increasingly, voluntary counselling and testing has been made available and encouraged. This is an opportunity for one-on-one discussion of an individual's particular situation and, typically, provides the most effective way of communicating desired messages
- treatment of HIV-positive individuals has been successful in the main. Since most AECI employees and their dependants are members of medical aids, they have access to the Aid for AIDS programme. This provides a structure within which infected individuals can receive the best possible care.

All too often, however, HIV-positive individuals are only prepared to be tested and treated when they are already very ill. This makes recovery to a reasonable level of health longer and more difficult, and sometimes impossible.

SOCIAL RESPONSIBILITY

The focus of social responsibility programmes varies in line with the needs of individual AECI businesses, the communities in which they operate and social priorities. As a Group, AECI's 2006 investment totalled about R5 million.

At Group level, AECI bases its social responsibility policy on the need for partnerships between stakeholders such as business, government, NGOs and communities. An example is the 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 to tackle these. Using this approach, the NBI established its Education Quality Improvement Partnership and AECI became involved, some years ago, via a number of its businesses at various sites. This involvement continues.

Just a few examples of initiatives supported by AECI follow.

The Company has partnered with the *Ntataise Trust* in recent years. This NGO specialises in early childhood development and, through its network of training organisations, AECI also partners *KELRU*, in Daveyton, and Tshepang, in Bethlehem. Sixty pre-school teachers completed their early childhood development training at NQF level 4.

The *Siyavuka Lateral Improvement Foundation* runs a ceramic art education programme and 30 students completed their NQF-aligned training in the year. The students work in Soweto as well as at a venue in Newtown, which they also use as an exhibition space.

Sizakela Craft Centre develops product ranges with crafters from rural communities. These crafts are marketed to interior decorating, curio and corporate markets, thereby providing crafters with entrepreneurial job opportunities. Sizakela has developed 10 original baby bed linen ranges and the products are sold commercially.

The Johannesburg Youth Orchestra Company is also supported. A capacity- and skills-building programme for young adults has been introduced, with 30 students participating in 2006. Twenty-six musicians have written exams and six of them were accepted as learners with the Bloemfontein Police Band. The University of the Witwatersrand has expressed interest in recruiting students from the Orchestra Company for its degree and diploma courses.

The *Kylemore Community Crafters* organisation was founded in Stellenbosch in the Western Cape to address the near total lack of skills training in the arts and craft sector. AECI sponsored training in beading, patchwork, quiltmaking and fabric painting. The Department of Labour provided the training in registered courses.

Skills training at *Sparrow Educational Trust* and at *St Anthony's Education Centre* continued and more courses were registered through the South African Qualification Authorities to ensure NQF alignment. AECI assisted Sparrow with product development by funding two artists who designed beaded Christmas decorations. These articles were received enthusiastically in the overseas market. Further product development will continue.

Permaculture and agricultural projects encourage entrepreneurial farming and healthy living. AECI provided funding for the establishment of an organic food gardening project at the *Patantshwana Community Development Centre* in the remote settlement of Nebo in the Limpopo Province. The food garden will be planted adjacent to a community clinic and it will produce vegetables and herbs for the patients, the local community and children attending the nearby crèche.

Two women from Nebo were funded to attend a permaculture design course under the auspices of *Food and Trees for Africa*. Emphasis was placed on medicinal plants, herbs and nutrition in the context of the Aids pandemic. As a result, the community concerned will have better skills to plan, design and manage a more sustainable land-use programme.

In 2007, assistance will also be provided to the *Mnqobokazi* permaculture project in KwaZulu-Natal.

As an extension to AECI's own efforts the Tiso AEL Development Trust, which is a shareholder in the empowered AEL, contributed R1 million in support of the following initiatives:

Tembisa schools

R350 000 was allocated to three primary and three high schools. The focus was on upgrading the standard of mathematics and science education. Other projects included the installation of security and library software to control and safeguard educational media and training kits.

CIDA

The Trust allocated R65 000 for 11 students pursuing degrees in business administration at the CIDA City Campus. Funds covered university fees and a personal allowance. In addition, students were given vacation work and life skills and mentoring workshops. Some former students have been absorbed into AEL's internship programme.

Internship programme

R140 000 was invested to place seven qualified young people into positions at AEL. The objective is to provide them with experience, thereby enhancing their employability. Most of them have since found employment related to their qualifications.

Nurturing the Orphans of Aids for Humanity (NOAH)

NOAH in Ivory Park received R150 000, primarily for the purchase of groceries. Funds may be made available for building projects in future. AEL also supported and participated in the NOAH Christmas party.

THE WAY FORWARD

AECI believes that investment in its people, those who could be future employees and leaders, and social investment in communities where employees live and in which Group businesses operate are an integral component of the Group's socio-economic contribution. Therefore, the focus on fostering skills for individuals' career advancement and personal development will remain.

Every effort will continue to be made to meet individual needs in parallel with strategic business objectives. Skills shortages are a national concern and, in partnership with government and NGOs, business must continue to address the problem if South Africa is to maximise sustainable economic growth in the longer term.

It is also recognised that, going forward, the formal sector is unlikely to create enough employment opportunities. Therefore, the informal sector has an important role to play. AECI will continue to make resources available for this purpose via accredited NGOs and other structures that have proved their ability to make a difference.

SAFETY, HEALTH AND ENVIRONMENT (SHE)

POLICY

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

The AECI executive committee, 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

Schalk Engelbrecht
Chief executive

Sandton, 19 February 2007

The AECI Group's SHE-related philosophy 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 are reviewed periodically to ensure that they remain appropriate to AECI's diverse businesses and changing operating environment.

OBJECTIVE OF REPORTING

This section of the annual report is aimed at a variety of stakeholders ranging from employees and investors to regulators, affected communities and NGOs. Its purpose is to declare publicly the Group's intentions, programmes and performance in the area of SHE management.

The well-being of employees and contractors, customers and the community at large is of paramount importance. Further, it is essential that AECI protects the environment within which it operates.

Therefore this section describes:

- the attitude taken in managing SHE issues
- the standards to which AECI works in the area of SHE management
- the way AECI measures its SHE-related performance
- results achieved; and
- the challenges AECI faces.

MATERIALITY

The AECI Group comprises a broad spectrum of businesses that range from heavy chemical operations such as sulphuric acid production plants, to facilities for blending nutriceuticals, to property realisation. Consequently, the issues they face in SHE matters are very different and, when commenting on such diverse activities in a single report, some generalisations are inevitable.

AECI as a whole is under consideration here and, although the information disclosed is based on data received from each business, the focus is on issues of Group-wide concern.

ACHIEVEMENTS

The ISO 14 001 environmental management standard is the most widely recognised, externally verifiable standard in use internationally. It is now in place at 70 per cent of operating sites which can impact significantly on the environment. To complement this, several sites have also implemented OHSAS 18 000 which, although not formally part of the ISO set of standards, has become increasingly recognised as an appropriate basis for external auditing of a company's health and safety management system.

In 2006, Dulux's factory at Umbogintwini reached 2.5 million hours worked without a lost-time incident and this company's South African business recorded no lost-time incidents.

SANS Fibres (SANS) was awarded the Industrial Award by the National Association for Clean Air (NACA) in recognition of an outstanding contribution to the cause of clean air in South Africa. This award comes after the successful installation of smokeless heaters and boilers and continued efforts to minimise environmental impacts.

NACA also presented the Bellville South Environmental Forum (BELSEF) with a Management Award for exceptional efforts by a multi-representative group towards reducing air pollution levels. SANS is a founder member of BELSEF, where it has played a significant facilitation role.

The Chemical and Allied Industries' Association, the South African custodian of Responsible Care, presents three annual awards for excellence in Responsible Care. The winner in 2006 was Lake International Technologies, a subsidiary of Chemical Services. Responsible Care is dealt with in more detail later in this report.

Heartland Leasing and Enviroserv Waste Management won a merit award in the area of chemical safety in the Mail & Guardian's *Greening the Future* Awards. This was for the clean-up of AECI's Somerset West manufacturing site, described as the largest operation ever of its kind in the Western Cape.

DISAPPOINTMENTS

Regrettably, the Group recorded three work-related fatalities during the year. An AEL employee was fatally injured in a motor vehicle accident, while on company business; a Chemical Services (Chemserve) employee died after falling from an elevated platform and, at another Chemserve site, a contractor died of his injuries after falling from a scaffold.

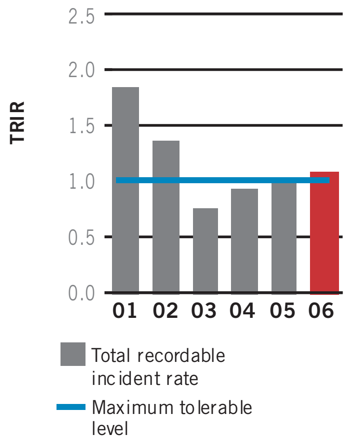
It is most disappointing that the Total Recordable Incident Rate (TRIR) for AECI employees rose in 2006 from 1.0 in 2005 to a rate of 1.06. This is above the maximum tolerable level set at 1.0. When contractors are included, the combined rate is 1.23. This performance is not up to standard and plans and actions for improvements across the Group will be a focus in 2007.

SAFETY AND OCCUPATIONAL HEALTH PERFORMANCE

This performance is expressed as the TRIR. It measures the number of injuries and occupational illnesses for every 200 000 hours worked. All work-related injuries and illnesses, requiring more than first aid treatment, are recorded.

AECI benchmarks itself against an appropriate grouping of international companies and remains of the opinion that, while zero incidents must be the target, the interim maximum tolerable level should remain at 1.0 for 2007. The disappointing result of 2006 indicates that the rising trend, after the low achieved in 2003, has not yet been turned around.

TRIR – AECI employees



TRIR PERFORMANCE BY COMPANY

	AECI employees	Contractors	Combined
AEL	0.57	0.50	0.56
Chemical Services	1.51	6.00	2.14
SANS Fibres	1.56	0.51	1.25
Dulux	0.65	2.56	1.04
Heartland	0.53	0.36	0.43
AECI Group	**1.06**	**1.93**	**1.23**

Excellent results were achieved by AEL, Heartland and Dulux. However, high incident rates at Chemserve and SANS impacted negatively on the overall TRIR.

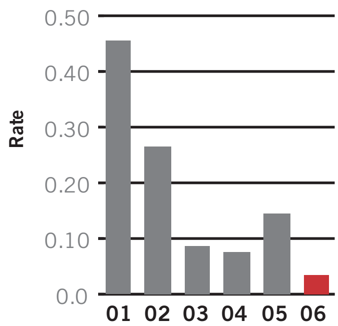
The incidents involved a wide range of mechanisms and several causes stand out:

- the number of chemical handling-related incidents is a concern. Whilst the nature of much of the Group's business involves dealing with sometimes hazardous chemicals, appropriate methods of working should reduce these occurrences
- injuries due to falling can be severe, even after a seemingly simple slip. Carelessness is the main contributory factor
- the nature of the Group's operations exposes many employees to hazards associated with moving machinery. In general, machines are adequately guarded. However, poor working practices typically lead to the type of injuries seen in this area
- manual handling is another major contributor. This has been partially addressed through automation in a number of operations. However, more attention to detail to address sub-standard operational habits is still required.

CAUSES OF INJURIES AND OCCUPATIONAL HEALTH INCIDENTS (EMPLOYEES)

	Serious	Moderate	Total
Explosion	3		3
Chemical exposure		2	2
Chemical burns	10	5	15
Injuries from falling	8	7	15
Injuries from moving machinery	6	3	9
Injuries from handling objects	5	8	13
Injuries from handling tools	2	2	4
Injuries from lifting objects	2		2
Noise-induced hearing loss		1	1
Road accidents			
– Company business	4	2	6
Cumulative trauma disorders	2		2
Other	3	11	14
Total	**45**	**41**	**86**

Occupational illness rate – AECI employess



Repetitive stress injuries (cumulative trauma disorders) are becoming a worldwide concern. Many AECI operations require significant levels of manual and repetitive work. Some companies have an aging workforce, more susceptible to such injuries.

OTHER SERIOUS AND MAJOR INCIDENTS

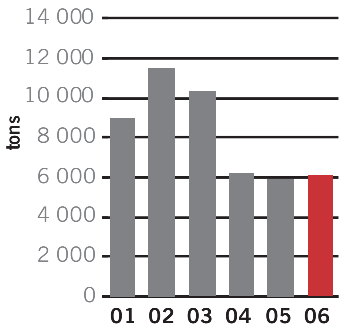
- Over-pressurising of a vessel at a Chemserve manufacturing site caused the top of the vessel to break, resulting in damage to the roof of the building that enclosed it. The over-pressurising was found to be the result of a vent blockage.
- A truck belonging to a third-party warehousing and distribution company, transporting Group products, left the road. The driver died in the incident. Some spillage of chemicals occurred, but clean-up operations were successful.

- In an incident on a construction site for a warehouse at Chloorkop, supports for the shuttering gave way during the pouring of concrete for the roof. As a result the roof collapsed, resulting in injuries to 13 employees of the construction company. The contracting company traced the cause of the collapse to a failed support jack.
- An overflow of sulphuric acid occurred from a storage tank at a Chemserve subsidiary, at Umbogintwini, and resulted in the contamination of the site's stormwater system. There was no off-site impact.

ENVIRONMENTAL PERFORMANCE

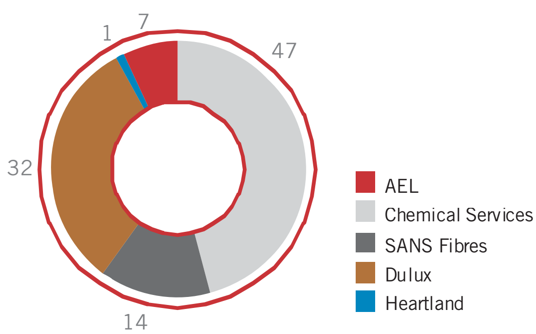
This section deals with current operations. Data do not include waste arisings from remediation activities.

Hazardous waste arisings (tons per year)



Hazardous waste arisings from Group operations increased marginally from 6 052 tons in 2005, to 6 221 tons. This needs to be seen in the context of increased production levels at Dulux, Chemserve, and SANS Fibres.

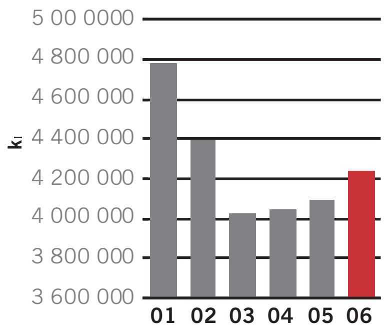
Hazardous waste arisings by company (%)



Notwithstanding increased production, Chemserve reported a pleasing reduction in hazardous waste, from 3 325 tons to 2 897 tons. SANS's arisings declined to 877 tons. As in 2005, Heartland Leasing generated 38 tons at the Umbogintwini Industrial Complex.

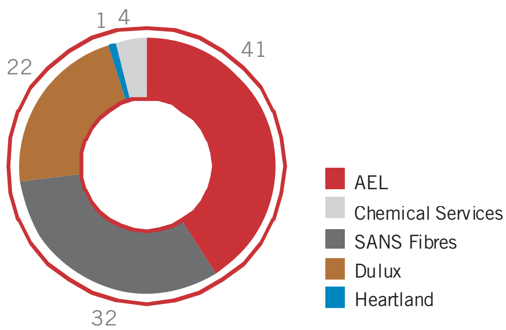
AEL's quantities increased to 417 tons and Dulux's to 1 992 tons. The latter is a direct result of a change in the product mix. More pigmented paints are being produced, which result in more cleaning-related waste being generated. Plans are in place to address this.

Water usage (kℓ per year)



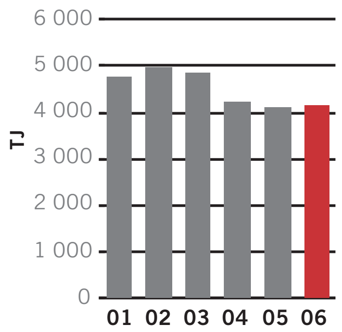
Water usage rose significantly to 4 217 248 kilolitres (kℓ). AEL, Dulux and Heartland Leasing all achieved reductions, with Dulux decreasing its consumption to 29 850 kℓ. Significant increases occurred at SANS and Chemserve, however, as a result of higher production and the incorporation of acquisitions.

Water usage by company (%)

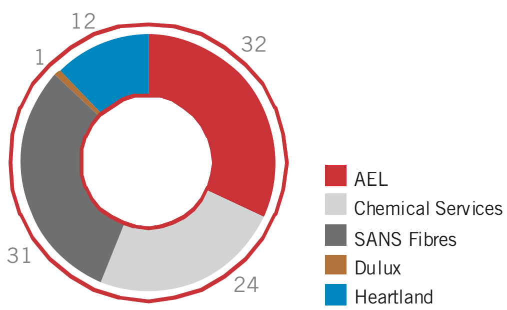


Overall energy usage rose slightly to 4 184 tetrajoules (TJ) owing to the inclusion in 2006 figures of a number of non-plant consumption points in AEL which had not previously been brought into consideration. Heartland Leasing at Umbogintwini consumed 11 per cent less electricity.

Energy usage (TJ per year)



Energy usage by company (%)



ENVIRONMENTAL TARGETS

In the 2005 AECI annual report, AECI's operating companies disclosed targets that they aim to achieve by the end of 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 (DWAF)."

Reported electricity consumption rose by 17 per cent due to the inclusion of non-plant related consumption, as mentioned. When this is allowed for, AEL's consumption showed a 3 per cent decrease, on track for the 2008 target.

Water consumption reduced by 3 per cent and the company believes that its water usage target remains achievable. The integrated water use licence was issued by DWAF late in the year. In the next phase of work, water and waste management plans will be prepared. Hazardous waste arisings at AEL have risen from 385 tons to 417 tons.

"Chemical Services is targeting a 5 per cent improvement in electricity, water usage and hazardous waste figures."

Electricity consumption by the Chemical Services group rose by nearly 3 per cent, largely as a result of increased production and the incorporation of acquisitions. Water consumption was 9 per cent higher, again attributable to acquisitions and increased production. Hazardous waste arisings dropped by 13 per cent, owing to better controls in this area.

"SANS Fibres will reduce electricity consumption by 5 per cent, water usage by 15 per cent and hazardous waste generation by 10 per cent."

Total electricity consumption at the Bellville site increased by 2 per cent, due to increased production. However, with all other energy sources taken into account, total consumption dropped by 2 per cent. Water usage was up by 12 per cent for the same reason. However, a large water saving project is planned for 2007 and this should make the 2008 target achievable. Hazardous waste generation showed a modest improvement of 1.5 per cent.

"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."

The 20 per cent reduction in water usage was achieved. Electricity usage remained unchanged at 2005's level and hazardous waste generation increased by 45 per cent, for reasons already referred to.

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 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, AECI declared 2 817 tons of sulphur dioxide equivalent emissions. Calculating on the same basis, the Group's emissions rose to 3 356 tons in 2006. This was due to increased coal burning at AEL's operations, together with higher nitrogen dioxide emissions from this company's production facilities.

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. Its programme involves two projects, for Nos. 9 and 11 Nitric Acid plants at Modderfontein.

For the first, the project baseline has been completed and externally audited. A draft audit report has been received and AEL is in the process of responding. The project proposal has been submitted to the local Designated National Authority, and has met with a favourable reception. Once final validation has been received from the external auditor, AEL expects to receive approval before end-2007.

For the second, the project baseline will be completed in the first quarter of 2007.

In 2005, AECI declared an EB of 608 000 tons of carbon dioxide equivalent. In 2006, calculated on a similar basis, an EB of 523 000 tons of carbon dioxide equivalent was emitted. The reduction was the result of lower nitrous oxide emissions from AEL's production facilities.

REMEDIATION

Since 1995, annual reviews of the Group's environmental liability have been conducted by independent consultants. The level of detail has increased each year and the scope of the 2006 review was to:

- list the sites owned or used
- establish the extent of potential contamination
- estimate remediation work and cost, and split the costs into "regulatory", required to ensure legal compliance, and "discretionary". The costs have not been validated and estimates for unknown costs are shown as a reserve, including costs likely to be incurred only at plant/site closure
- establish the timing of work by considering SHE legislation and the Group's development needs
- estimate potential post-remediation costs. Operation and maintenance will be required until remedial goals are reached and monitoring will be used to prove the success of remediation interventions
- record findings.

The guiding principles in remediation activities are to protect human health and the environment; to use good science, proven concepts and best available techniques not entailing excessive cost; and to work with regulatory authorities and share information with interested and affected parties.

A risk-based approach guides the process and human health and environmental risk assessments are undertaken at key stages in individual projects. These assessments influence subsequent activities.

The estimates are a reasonable approach to quantifying the potential future liability that has resulted from past operations, and it is assumed that good practice at current activities will reduce remediation requirements over time.

Liability study findings are used to focus detailed projects and to motivate Group companies to initiate necessary remediation and environmental management activities.

The environmental liability for the Group is currently estimated as R114 million for regulatory remediation, R46 million for discretionary remediation and R6 million for characterisation, the investigative phase of remedial undertakings. Post-remediation activities are estimated at R32 million. Remediation is scheduled for completion by 2010, except for that to be done only at plant/site closure.

CASE STUDY: FROM BROWNFIELD TO GREENFIELDS

AECI's Milnerton site, in Cape Town, was originally developed in 1965 as a fertilizer factory. At that time, with the adjacent Caltex oil refinery, it stood in the middle of the veld well away from urban development.

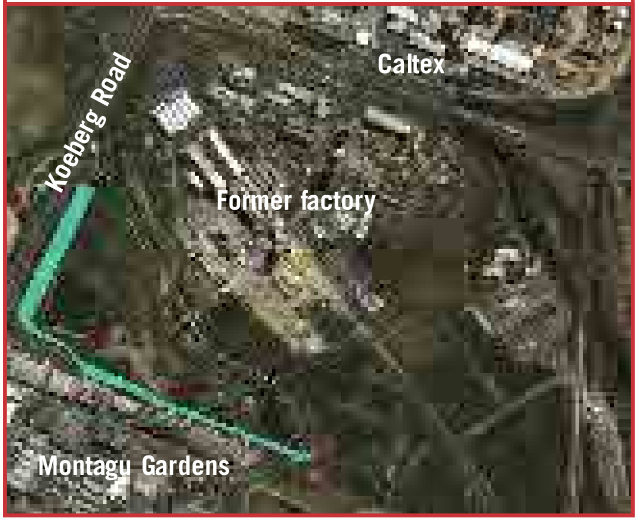
The site was taken over by several owners and operators during its lifetime, eventually belonging to AECI. In 1999, AECI decided to close all operations there. Most of the plants were shut in 2000 and the last ceased operating in December 2005. Over time, the location of the site had become increasingly desirable in a now very developed light industrial area.

In 2006, Heartland Leasing set out to remediate and rehabilitate the site for re-use. Demolition of site infrastructure had begun several years prior to this and was completed in September 2006.

A major obstacle to redevelopment was the fertilizer-contaminated soils, particularly in the vicinity of the Duikersvlei stream that traverses the site. Containment bunds, an isolated stormwater collection system and diluting dams to contain contamination had been in place during the plants' operating days. Nonetheless, soils and groundwater were found to contain ammonium nitrate in concentrations considerably higher than those acceptable to DWAF.

These issues were addressed by removing the most highly contaminated soil to a waste site, blending moderately contaminated soil with other soils and, in some cases, hydrated lime added to adjust pH, and by moving the alignment of the Duikersvlei stream to bypass the most contaminated areas.

Aerial view of the Milnerton site, indicating the realigned Duikersvlei stream in solid green



No less than 250 000m^3 of earthworks were undertaken for the stream's realignment.

Groundwater contamination was addressed by intercepting the natural flow towards the adjacent Rietvlei by means of a plastic membrane barrier installed underground adjacent to Koeberg Road. The raised water table is subsequently drained off by means of a series of subsoil drains. It is collected in a pond and then blended with treated effluent from the nearby Potsdam sewage treatment works to facilitate disposal.

All this work was undertaken after several months of extensive soil and water testing, characterisation of the site soils, environmental scoping reports and other research. The Department of Environmental Affairs and Development Planning ultimately supplied a Record of Decision authorising the work, including the Duikersvlei realignment.

Now that the systems are operational, contamination loads entering the water course downstream of the site have been reduced to levels well within the allowable DWAF permit standards.

RESPONSIBLE CARE

In 1984, the Canadian chemical industry launched the Responsible Care initiative. This aims to raise standards of operation in the industry through, *inter alia*, the provision of best practice standards. This initiative has been adopted worldwide and AECI is a signatory. Locally, the Chemical and Allied Industries' Association is the custodian of the Responsible Care programme.

Standards that have been in place for some time are:
- health and safety of persons
- transportation of chemicals
- storage and distribution of chemicals
- waste management and pollution control
- community awareness and emergency response; and
- product stewardship.

A standard on process safety, a matter of concern in the industry, was added more recently. Responsible Care signatories are required to submit self-assessment questionnaires against these standards every two years. In South Africa, the initiative has gone beyond this. A verification protocol has been developed to demonstrate, through third parties, a company's compliance with the management practice standards. AECI businesses have commenced this process, with Lake International Technologies' Umbogintwini site near Durban, and AECI Coatings' Struandale site, near Port Elizabeth, having been audited successfully.

CONFORMANCE WITH SHE STANDARDS

At the beginning of the year, each business submits a Letter of Assurance to the Group chief executive. The letter sets out the primary SHE-related risks facing the business, together with the approach taken to manage them. It also describes compliance with the AECI SHE policy and standards, noting any material issues in this regard.

Although the risks faced by businesses differ due to the diversity of operations, some are common to most areas of the Group:
- chemical exposure-related incidents, affecting mostly employees and contractors in close contact with raw materials and products
- process safety-related risks, resulting in fires, explosions or significant releases of hazardous materials. Such incidents may occur on company sites or when goods are in transit
- the dangers posed to employees and contractors travelling by road
- the dangers posed to employees and customers working on sites controlled and managed by customers. Such sites might range from chemical facilities to underground mining operations.

LOOKING TO THE FUTURE

A number of challenges lie ahead for the AECI Group. Further entrenchment of a culture of safe working practices is perhaps the greatest of these. Until this is in place too many relatively minor incidents, which have the potential for significant consequences, will continue to occur. Linked to this, a shortage of skills and competence at supervisory and middle-management level is hampering efforts to implement and maintain the necessary disciplines, particularly in operational areas. Adequate expertise and operational competence in process safety is of particular concern.

Significant effort in the remediation arena is still required to complete the work being done to rectify environmental legacies. Linked to this is the need to ensure that the mistakes of the past are not repeated, creating fresh legacies that, in turn, will require remediation by future generations.

HISTORICAL REVIEW

ABRIDGED FINANCIAL STATEMENTS

R millions	**2006**	2005	2004	2003	2002	2001
Income statements						
Revenue	**10 212**	8 768	7 911	7 659	7 818	6 745
Local	**7 910**	6 951	6 405	6 176	5 943	4 962
Foreign	**2 302**	1 817	1 506	1 483	1 875	1 783
Profit from operations	**1 102**	887	743	691	698	492
Net financing costs	**103**	90	139	150	164	141
Tax	**353**	225	173	135	155	(3)
Profit/(loss) attributable to ordinary shareholders	**916**	486	283	239	240	(88)
Headline earnings	**942**	530	427	337	318	240
Balance sheets						
Total shareholders' interest	**3 727**	2 940	2 646	2 521	2 315	2 475
Deferred tax (net)	**(111)**	(291)	(327)	(353)	(346)	(342)
Net interest-bearing debt	**940**	798	615	1 019	814	987
Capital employed	**4 556**	3 447	2 934	3 187	2 783	3 120
Represented by:						
Property, plant, equipment, goodwill and investments	**3 299**	2 734	2 557	2 711	2 283	2 606
Current assets, excluding cash, less interest-free liabilities	**1 257**	713	377	476	500	514
Employment of capital	**4 556**	3 447	2 934	3 187	2 783	3 120
Cash flow statements						
Cash generated by operations(1)	**1 076**	950	712	634	649	447
(Investment)/reduction in working capital	**(265)**	(295)	77	109	(99)	(72)
Expenditure relating to exceptional items and non-current provisions	**(143)**	(42)	(21)	(64)	(48)	(88)
Net investments to maintain operations(2)	**(177)**	(104)	(112)	(22)	(18)	(96)
	491	509	656	657	484	191
Dividends paid	**(206)**	(167)	(135)	(123)	(103)	(87)
	285	342	521	534	381	104
Investment in expansion of assets(2)	**(438)**	(453)	(179)	(1 042)	(130)	(374)
Proceeds from disposal of investments and businesses	**3**	27	58	1	167	65
Net cash (utilised)/generated(3)	**(150)**	(84)	400	(507)	418	(205)
Depreciation charges	**223**	212	224	223	221	221
Commitments						
Capital expenditure authorised	**650**	97	188	189	243	102
Future rentals on property, plant and equipment leased	**290**	235	196	158	147	179
	940	332	384	347	390	281

(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

	2006	2005	2004	2003	2002	2001
Profitability and asset management						
Profit from operations to revenue (%)	**10.8**	10.1	9.4	9.0	8.9	7.3
Trading cash flow to revenue (%)	**13.0**	12.5	12.2	11.9	11.8	10.6
Return on average net assets (%)(1)	**24.8**	23.4	20.4	19.3	19.7	14.1
Return on invested capital (ROIC) (%)(2)	**19.9**	19.3	16.8	16.0	16.4	11.7
Return on average ordinary shareholders' interest (%)	**29.2**	19.4	16.7	14.7	14.6	9.0
Net working capital to revenue (%)(3)	**17.1**	15.7	12.0	14.2	14.4	17.5
Stock cover (days)	**81**	74	68	67	70	81
Average credit extended to customers (days)	**70**	66	59	55	52	66
Liquidity						
Cash interest cover(4)	**12.9**	12.3	7.0	6.1	5.7	5.1
Interest-bearing debt to cash generated by operations	**0.7**	0.7	0.6	1.1	0.9	1.5
Gearing (%)(5)	**25.2**	27.1	23.2	40.4	35.2	39.9
Current assets to current liabilities	**1.4**	1.4	1.6	1.1	1.8	1.6
Employees						
Number of employees at year-end(6)	**7 705**	7 251	7 260	8 167	8 001	8 164
Employee remuneration (R millions)	**1 538**	1 375	1 395	1 324	1 210	1 123
Value added per rand of employee remuneration (rand)	**1.90**	1.81	1.71	1.72	1.80	1.68

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

JSE LIMITED AND SHARE PERFORMANCE

	2006	2005	2004	2003	2002	2001
Ordinary share statistics						
Market price (cents per share)						
High	**7 005**	5 300	3 942	3 400	2 650	1 890
Low	**5 041**	3 801	2 900	2 114	1 720	1 275
31 December	**6 825**	5 300	3 900	3 400	2 550	1 720
Earnings yield (%)	**12.5**	9.1	10.1	10.5	13.3	15.0
Dividend yield (%)*	**3.0**	3.3	3.5	3.5	4.4	5.1
Dividend cover*	**4.2**	2.8	2.8	3.0	3.0	3.0
In issue (millions)	**120.7**	120.7	119.7	118.5	104.2	103.5
Value traded (R millions)	**3 072.3**	2 555.1	1 476.1	995.0	1 135.8	865.6
Volume traded (millions)	**51.0**	55.9	44.2	38.2	51.1	52.7
Volume traded (%)	**42.3**	46.3	36.9	32.2	49.0	51.0
Market capitalisation (R millions)	**8 240.7**	6 399.4	4 669.2	4 029.1	2 657.1	1 780.0
Ordinary share performance						
(cents per share)						
Headline earnings	**853**	482	392	356	340	258
Dividends declared*	**205**	175	138	120	112	87
Net asset value	**3 255**	2 587	2 381	2 305	2 222	2 430

* The interim dividend in the current year and the final dividend declared, after the balance sheet date, 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.

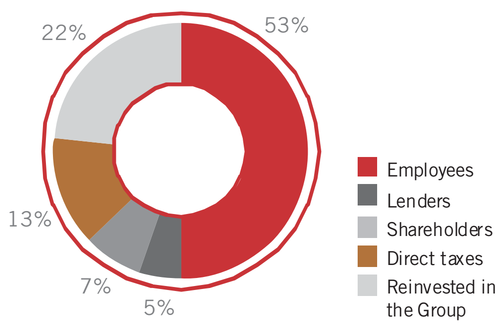
	2006 R millions	**%**	2005 R millions	%
Revenue	**10 212**	**100**	8 768	100
Purchased materials and services	**7 349**	**72**	6 314	72
Value added through operations	**2 863**	**28**	2 454	28
Other income	**54**	**1**	35	–
Total value added	**2 917**	**29**	2 489	28
Distributed to:				
Employees	**1 538**	**53**	1 375	55
Lenders	**150**	**5**	120	5
Shareholders	**206**	**7**	167	7
Direct taxes	**369**	**13**	247	10
Reinvested in the Group	**654**	**22**	580	23
	2 917	**100**	2 489	100

MONETARY EXCHANGES WITH THE STATE

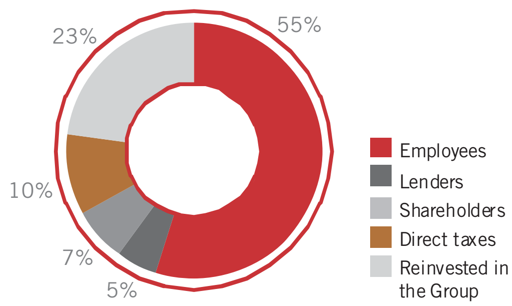
The following monetary exchanges with the state took place during the year:

	2006 R millions	2005 R millions
Direct taxes	**369**	247
Employees' tax collected on behalf of the state	**247**	246
Property taxes paid to local authorities	**24**	35
RSC levies paid to local authorities	**8**	16
Skills development levies paid to SA Revenue Services	**8**	7
VAT collected on behalf of the state	**132**	94
Channelled through the Group	**788**	645

Distribution of value added 2006



Distribution of value added 2005



FINANCIAL STATEMENTS

FOREIGN CURRENCIES

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

	2006 **R**	2005 R
Euro	**9.21**	7.51
Pound sterling	**13.72**	10.92
Swiss franc	**5.73**	4.72
US dollar	**6.99**	6.34

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF AECI LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements and Group annual financial statements of AECI Limited, which comprise the balance sheet at 31 December 2006, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 57 to 97.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of AECI Limited and the Group at 31 December 2006, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered auditor

A.Jaffer

Per AH Jaffer
Chartered accountant (SA)
Registered auditor
Director
85 Empire Road, Parktown, 2193
Johannesburg
19 February 2007

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

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

Review of operations
Corporate governance
Corporate citizenship
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, 19 February 2007

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.

EA Rea
Acting secretary

Sandton, 19 February 2007

DIRECTORS' REPORT

The activities and results of the Group have been reviewed on pages 11 to 50.

STATUTORY INFORMATION

Share capital

The issued ordinary share capital of the Company as at 31 December 2006 was R120 742 578 (2005 – R120 742 578). The Company also has in issue 3 000 000 5.5 per cent redeemable preference shares of R2 each.

Strate

Dematerialisation of the Company's issued shares commenced in July 2001. Shares still in paper form are no longer good for delivery and will require to be dematerialised before participation in any transaction. Shareholders may direct any enquiries in this regard to the Company's transfer secretaries on telephone number +27 0861 100 950 in South Africa or 0870 889 3176 in the United Kingdom.

Dividends

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2006 financial year are set out in note 20 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 21 May 2007:

In terms of article 22.4:
FPP Baker
RMW Dunne
GN Edwards
LM Nyhonyha

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

In terms of article 24.3:
S Engelbrecht

This director, being eligible, has offered himself for re-election.

As announced in December 2006, Messrs Brayshaw and Pedder will retire as directors of the Company at the annual general meeting on 21 May 2007.

At 31 December 2006, the directors had direct and indirect beneficial interests, including interests held through family trusts, in 14 950 ordinary shares of the Company (2005 – 14 950).

Subsidiaries and joint ventures

Details of each trading subsidiary and joint venture are set out in the appendices on pages 97 and 96 respectively.

The aggregate net profits and losses after taxation of South African subsidiaries and joint ventures attributable to the Company for the year 2006 were as follows:

Profits:	R423 million (2005 – R472 million)
Losses:	R57 million (2005 – R40 million)

The significant 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 Companies Act of South Africa.

The following accounting standards, interpretations and amendments to published accounting standards which are relevant to the Group but not yet effective, have not been adopted in the current year:

- IFRS7 financial instruments: disclosures
- IAS1 (amendment), presentation of financial statements (added disclosures about an entity's capital)
- IAS19 (amendment), employee benefits
- IAS39 (amendment), financial instruments: recognition and measurement (amendment of hedges of forecast intergroup transactions, the fair value option and financial guarantee contracts)
- IFRIC4, determining whether an arrangement contains a lease
- IFRIC8, scope of IFRS2.

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 certain investments to fair value.

Subsidiaries

Subsidiaries are those entities controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its 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 commenced and up to the dates control ceased. Intergroup transactions and balances between Group entities are eliminated on consolidation. Minority interests in the net assets of subsidiaries are identified separately from the Group's equity therein.

Joint ventures

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 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

An associate is an entity in which the Group holds an equity interest and over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.

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. Where a Group entity transacts with an associate of the Group, unrealised profits are eliminated to the extent of the Group's interest in the associate.

Subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures in the separate financial statements are recognised at cost less impairment losses.

GOODWILL

The excess of cost of business combinations over the net value of identifiable assets, liabilities and contingent liabilities at acquisition is capitalised as goodwill in the Group financial statements and is stated at cost less accumulated 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 and liabilities exceeds the cost of acquisition, this excess is recognised in the income statement immediately.

DEFERRED TAX

A deferred tax asset is the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and unused tax credits. A deferred tax liability is the amount of income taxes payable in future periods in respect of taxable temporary differences.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable or is the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible in respect of that liability in future periods.

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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. 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. 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 valued at cost and are depreciated over the estimated useful lives of the plants to which they relate.

IMPAIRMENT

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of its fair value, less costs to sell, 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 and the cash-generating units to which it has been allocated are tested for impairment on an annual basis even if there is no indication of impairment. Impairment losses on goodwill are not reversed.

INVENTORY

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

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

In all cases inventories are valued at the lower of 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, taking into account obsolescence.

PROVISIONS

A provision is 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. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Non-current provisions are determined by discounting the expected future cash flows to their present value at a pre-tax rate that reflects current market assessment of the time value of money.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 and early settlement 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 and when the amount of the revenue and the related costs can be measured reliably.

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 operations 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 initially at fair value. 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 directly 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 techniques.

Accounts receivable

Accounts receivable are stated at amortised cost after providing for impairment losses.

Cash and cash equivalents
Cash and cash equivalents are measured at fair value.

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

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

Derivative instruments
Derivative instruments 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 an asset or 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
Borrowing costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

All borrowing costs were recognised in the income statement in the current and previous year.

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 capitalised if they can be measured reliably, result in an asset that can be identified and it is probable that the asset will generate future economic benefits. Development costs 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 the inception of the lease, and depreciated over the estimated useful life of the asset. 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 finance lease liability to the lessor.

Operating leases

All other leases 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.

Accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amount of the Group's present obligation as a result of employees' services provided to the balance sheet date. Accruals 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 Group's net obligation in respect of defined benefit plans is determined using the projected unit credit method. Actuarial valuations are conducted every three years and interim adjustments to those valuations are made annually.

Cumulative unrecognised actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations or the fair value of plan assets are recognised 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 cash-settled 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 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 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 the 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 estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, tax 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 are depreciated over their useful lives 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 current market conditions, the remaining useful life of an asset and 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 2006

	Notes	Group 2006 R millions	Group 2005 R millions	Company 2006 R millions	Company 2005 R millions
ASSETS					
Non-current assets		**3 445**	3 056	**4 792**	4 684
Property, plant and equipment	1	**1 965**	1 723	**603**	540
Goodwill	2	**1 019**	920	**959**	885
Pension fund surplus	3	**196**	–	**196**	–
Investment in subsidiaries	4			**2 899**	2 940
Other investments	5	**119**	91	**63**	67
Deferred tax	6	**146**	322	**72**	252
Current assets		**4 350**	3 559	**2 338**	1 739
Inventory	7	**1 733**	1 372	**1 038**	835
Accounts receivable	8	**2 242**	1 778	**1 211**	872
Cash and cash equivalents		**375**	409	**89**	32
Total assets		**7 795**	6 615	**7 130**	6 423
EQUITY AND LIABILITIES					
Ordinary capital and reserves		**3 595**	2 857	**3 086**	2 653
Issued capital	9	**453**	453	**463**	463
Non-distributable reserves		**294**	275	**214**	210
Retained earnings		**2 848**	2 129	**2 409**	1 980
Preference capital	9	**6**	6	**6**	6
Shareholders' equity		**3 601**	2 863	**3 092**	2 659
Minority interest		**126**	77		
Total equity		**3 727**	2 940	**3 092**	2 659
Non-current liabilities		**942**	1 132	**1 826**	2 062
Deferred tax	6	**35**	31	**–**	–
Loans from subsidiaries	4			**1 328**	1 397
Borrowings	10	**518**	559	**185**	204
Provisions	11	**389**	542	**313**	461
Current liabilities		**3 126**	2 543	**2 212**	1 702
Accounts payable	12	**2 230**	1 777	**1 362**	1 077
Borrowings	13	**797**	648	**849**	620
Tax payable		**99**	118	**1**	5
Total liabilities		**4 068**	3 675	**4 038**	3 764
Total equity and liabilities		**7 795**	6 615	**7 130**	6 423

INCOME STATEMENTS

for the year ended 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**R millions**	R millions	**R millions**	R millions
REVENUE		**10 212**	8 768	**5 464**	4 384
Net operating costs	14	**(9 110)**	(7 881)	**(5 029)**	(4 240)
Profit from operations		**1 102**	887	**435**	144
Creation of pension fund employer surplus account	3	**196**	–	**196**	–
Release of provision for post-employment medical aid benefits	11	**131**	–	**103**	–
		1 429	887	**734**	144
Fair value adjustments on derivative instruments	15	**11**	–	**11**	–
Financing costs	15	**(150)**	(120)	**(144)**	(102)
Interest received	15	**36**	30	**142**	151
Investment income	16	**5**	4	**99**	173
Share of profit of associated company	5	**2**	1		
		1 333	802	**842**	366
Transitional provision for post-employment medical aid benefits	11	**–**	(20)	**–**	(20)
Impairment of goodwill	2	**(6)**	(10)	**(2)**	(22)
Exceptional items	17	**(21)**	(27)	**(6)**	(22)
Profit before tax		**1 306**	745	**834**	302
Tax	18	**(353)**	(225)	**(187)**	(49)
Profit for the year		**953**	520	**647**	253
Attributable to:					
Ordinary shareholders		**916**	486	**645**	251
Preference shareholders		**2**	2	**2**	2
Minority interest		**35**	32		
		953	520	**647**	253
Per ordinary share (cents)					
– Attributable earnings	19	**829**	442		
– Diluted attributable earnings	19	**819**	434		
– Headline earnings	19	**853**	482		
– Diluted headline earnings	19	**842**	473		
– Ordinary dividends paid	20	**185**	148		
– Ordinary dividends declared after the balance sheet date	20	**141**	121		

CASH FLOW STATEMENTS

for the year ended 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**R millions**	R millions	**R millions**	R millions
Cash generated by operations	i	**1 385**	1 165	**632**	327
Dividends received		**7**	4	**99**	173
Financing costs		**(150)**	(120)	**(144)**	(102)
Interest received		**36**	30	**142**	151
Taxes paid	ii	**(202)**	(129)	**(14)**	(4)
Changes in working capital	iii	**(265)**	(295)	**(189)**	(205)
Expenditure relating to non-current provisions		**(130)**	(33)	**(130)**	(24)
Expenditure relating to restructuring		**(13)**	(9)	**(4)**	(9)
Cash available from operating activities		**668**	613	**392**	307
Dividends paid	iv	**(206)**	(167)	**(225)**	(180)
Cash flows from operating activities		**462**	446	**167**	127
Cash flows from investing activities		**(612)**	(530)	**(320)**	(273)
Net replacement of property, plant and equipment to maintain operations		**(177)**	(104)	**(73)**	(27)
Replacement of property, plant and equipment		**(194)**	(116)	**(77)**	(32)
Proceeds from disposal of property, plant and equipment		**17**	12	**4**	5
Investments to expand operations		**(438)**	(453)	**(267)**	(253)
Acquisition of – property, plant and equipment		**(239)**	(235)	**(78)**	(60)
– investments		**(13)**	(14)	**–**	–
– subsidiaries		**(55)**	(113)	**(5)**	(2)
– businesses		**(131)**	(91)	**(126)**	(1 347)
Net loans with subsidiaries				**(58)**	1 156
Proceeds from disposal of investments and businesses		**3**	27	**20**	7
Proceeds from disposal of – subsidiaries		**–**	11	**–**	–
– businesses		**–**	7	**20**	7
– listed investments		**3**	9	**–**	–
Net cash utilised		**(150)**	(84)	**(153)**	(146)
Share options hedge premium paid		**–**	(120)	**–**	(120)
Non-current borrowings – raised		**212**	12	**199**	6
– repaid		**(349)**	(79)	**(318)**	(51)
Movement in current borrowings		**236**	279	**329**	280
Proceeds from ordinary shares issued		**–**	8	**–**	8
Cash flows from financing activities		**99**	220	**210**	243
(Decrease)/increase in cash and cash equivalents		**(51)**	16	**57**	(23)
Cash and cash equivalents at the beginning of the year		**409**	380	**32**	55
Translation gain on cash and cash equivalents		**17**	13	**–**	–
Cash and cash equivalents at the end of the year		**375**	409	**89**	32

NOTES TO THE CASH FLOW STATEMENTS

for the year ended 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
I.	**CASH GENERATED BY OPERATIONS**				
	Profit from operations	**1 102**	887	**435**	144
	Adjusted for non-cash movements:				
	Depreciation	**223**	212	**98**	97
	Impairment of investments	**–**	–	**36**	5
	Non-current provisions	**85**	84	**62**	79
	(Surplus)/loss on disposal of property, plant and equipment	**(8)**	1	**(2)**	2
	Surplus on disposal of listed investments	**(3)**	(2)	**–**	–
	Change in fair value of investments	**(17)**	(15)	**–**	–
	Other	**3**	(2)	**3**	–
		1 385	1 165	**632**	327
II.	**TAXES PAID**				
	Owing at the beginning of the year	**118**	81	**5**	20
	Current charge for the year	**177**	159	**10**	(11)
	Changes in the Group	**6**	7	**–**	–
	Owing at the end of the year	**99**	118	**1**	5
		202	129	**14**	4
III.	**CHANGES IN WORKING CAPITAL**				
	Increase in inventory	**(361)**	(212)	**(203)**	(455)
	Increase in accounts receivable	**(464)**	(358)	**(339)**	(479)
	Increase in accounts payable	**476**	126	**308**	409
		(349)	(444)	**(234)**	(525)
	Translation differences	**10**	(8)	**11**	8
	Changes in the Group	**74**	157	**34**	312
		(265)	(295)	**(189)**	(205)
IV.	**DIVIDENDS PAID**				
	Paid during the year	**206**	165	**225**	180
	Paid to minority shareholders	**–**	2		
		206	167	**225**	180
V.	**CHANGES IN THE GROUP**				
	Property, plant and equipment	**35**	(53)	**9**	163
	Investments	**–**	(2)	**–**	7
	Working capital	**74**	157	**34**	312
	Non-current provision	**–**	–	**–**	(34)
	Deferred and current tax	**(6)**	(7)	**–**	(9)
	Borrowings	**(9)**	(1)	**(13)**	–
	Minority interest	**(13)**	(12)	**–**	–
	Net surplus on disposal of investments and businesses	**–**	(4)	**–**	–
	Goodwill	**105**	108	**76**	903
	Net purchase price (see note 28)	**186**	186	**106**	1 342

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006

R millions	Ordinary share capital	Share premium	Total ordinary capital	Surplus arising on revaluation of property
Group				
Balance at 1 January 2005	109	336	445	288
Changes in the Group				
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(20)
Foreign operation 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**	**268**
Changes in the Group				
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(7)
Foreign operation translation differences				
Cash flow hedge fair value adjustments				
Deferred tax on fair value adjustments				
Recognition of share-based payments				
Profit for the year				
Dividends paid				
Balance at 31 December 2006	**110**	**343**	**453**	**261**
Company				
Balance at 1 January 2005	119	336	455	270
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(20)
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**	**250**
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(7)
Recognition of share-based payments				
Profit for the year				
Dividends paid				
Balance at 31 December 2006	**120**	**343**	**463**	**243**

Foreign currency translation reserve	Other non-distributable reserves	**Total non-distributable reserves**	**Retained earnings**	**Total**	**Minority interest**	**Preference share capital**	**Total equity**
(3)	3	288	1 872	2 605	35	6	2 646
		–		–	12		12
18		18		18			18
(5)		(5)		(5)			(5)
	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
3	**4**	**275**	**2 129**	**2 857**	**77**	**6**	**2 940**
					14		**14**
22		**22**		**22**			**22**
(6)		**(6)**		**(6)**			**(6)**
		(7)	**7**	**–**			**–**
1		**1**		**1**			**1**
	5	**5**		**5**			**5**
	1	**1**		**1**			**1**
	3	**3**		**3**			**3**
			916	**916**	**35**	**2**	**953**
			(204)	**(204)**		**(2)**	**(206)**
20	**13**	**294**	**2 848**	**3 595**	**126**	**6**	**3 727**
(49)	–	221	1 972	2 648		6	2 654
13		13		13			13
(4)		(4)		(4)			(4)
		(20)	20	–			–
			251	251		2	253
			(178)	(178)		(2)	(180)
			(120)	(120)			(120)
			35	35			35
				8			8
(40)	**–**	**210**	**1 980**	**2 653**		**6**	**2 659**
11		**11**		**11**			**11**
(3)		**(3)**		**(3)**			**(3)**
		(7)	**7**	**–**			**–**
	3	**3**		**3**			**3**
			645	**645**		**2**	**647**
			(223)	**(223)**		**(2)**	**(225)**
(32)	**3**	**214**	**2 409**	**3 086**		**6**	**3 092**

	Group		Company	
	2006	2005	**2006**	2005
	R millions	R millions	**R millions**	R millions
1. PROPERTY, PLANT AND EQUIPMENT				
Property				
Cost or valuation	**871**	824	**177**	176
At the beginning of the year	**824**	894	**176**	167
Additions	**37**	8	**1**	1
Disposals and transfers	**(4)**	(12)	**–**	(8)
Changes in the Group	**13**	(67)	**–**	16
Translation differences	**1**	1	**–**	–
***Less*: accumulated depreciation and impairment**	**206**	189	**71**	68
At the beginning of the year	**189**	180	**68**	66
Disposals and transfers	**(2)**	(7)	**–**	(4)
Changes in the Group	**–**	(1)	**–**	2
Translation differences	**2**	1	**–**	–
Depreciation for the year	**17**	16	**3**	4
Carrying amount	**665**	635	**106**	108
Plant and equipment				
Cost	**3 244**	2 877	**1 624**	1 489
At the beginning of the year	**2 877**	2 553	**1 489**	1 085
Additions	**396**	343	**154**	91
Disposals and transfers	**(73)**	(47)	**(27)**	(24)
Changes in the Group	**22**	24	**8**	337
Translation differences	**22**	4	**–**	–
***Less*: accumulated depreciation and impairment**	**1 944**	1 789	**1 127**	1 057
At the beginning of the year	**1 789**	1 608	**1 057**	788
Disposals and transfers	**(66)**	(39)	**(25)**	(21)
Changes in the Group	**–**	11	**–**	188
Translation differences	**10**	4	**–**	–
Impairment during the year	**5**	9	**–**	9
Depreciation for the year	**206**	196	**95**	93
Carrying amount	**1 300**	1 088	**497**	432
Total carrying amount	**1 965**	1 723	**603**	540
Cost of assets which are fully depreciated	**771**	784	**518**	582
Cost or valuation of land included in property	**435**	441	**58**	58
Investment property included in property				
– Cost	**120**	120	**120**	120
– Fair value	**422**	290	**422**	290
Insured value of property, plant and equipment	**8 421**	7 824	**5 991**	5 147

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

		Group		Company	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
2.	**GOODWILL**				
	Gross amount	**1 035**	930	**983**	907
	At the beginning of the year	**930**	822	**907**	–
	Additions	**105**	108	**76**	42
	Changes in the Group				
	– Purchase of Chemical Services businesses	**–**	–	**–**	865
	***Less:* accumulated impairment losses**	**16**	10	**24**	22
	At the beginning of the year	**10**	–	**22**	–
	Impairment charge for the year	**6**	10	**2**	22
	Carrying amount	**1 019**	920	**959**	885
3.	**PENSION FUND SURPLUS**				
	At the beginning of the year	**–**	–	**–**	–
	Employer surplus account created by the AECI Pension Fund	**750**	–	**750**	–
	Utilised during the year				
	– Creation of medical aid contribution payment account in the AECI Pension Fund	**(407)**	–	**(407)**	
	– Settlement of contribution shortfalls	**(164)**	–	**(164)**	–
	Pro rata share of investment returns earned by the AECI Pension Fund	**17**	–	**17**	–
	At the end of the year	**196**	–	**196**	–

Following the creation of the employer surplus account by the AECI Pension Fund on 1 October 2006 (see note 26), the Company has recognised a portion of the actuarial surplus of the AECI Pension Fund as an asset to the extent of the employer surplus account balance. In accordance with the provisions of the Pension Funds Act, the Company has allocated portion of the employer surplus account to create a medical aid contribution payment account in the AECI Pension Fund to fund a portion of the Company's obligation to provide post-employment medical aid benefits to its retired employees. The Company has also utilised a portion of the employer surplus account to settle contribution shortfalls, as calculated by the AECI Pension Fund's actuary, being the difference between the employer contribution rate required to fund the benefits provided by the AECI Pension Fund and the contribution rate actually payable.

	Group		Company	
	2006	2005	**2006**	2005
	R millions	R millions	**R millions**	R millions
4. INVESTMENT IN SUBSIDIARIES (see appendix 3)				
Unlisted shares			**936**	932
– At cost			**981**	976
– *Less*: impairment losses			**(45)**	(44)
Loans to subsidiaries			**1 963**	2 008
– Amounts owing			**2 095**	2 105
– *Less*: impairment losses			**(132)**	(97)
Investment in subsidiaries			**2 899**	2 940
Loans from subsidiaries			**(1 328)**	(1 397)
Net investment in subsidiaries			**1 571**	1 543
5. OTHER INVESTMENTS				
Associated company				
Dussek Campbell (Pty) Limited				
– Unlisted shares at fair value	*	*	**–**	–
– Indebtedness	**(2)**	(3)	**–**	–
Post-acquisition retained income	**4**	4		
Balance at the beginning of the year	**4**	3		
Dividend received	**(2)**	–		
Current year's share of retained income	**2**	1		
Total investment in associated company	**2**	1	**–**	–
Joint ventures				
(see appendix 2)			**43**	46
Unlisted shares at cost			**28**	28
Loans to joint ventures			**15**	18
Investments at fair value through profit and loss				
Listed investments at market value	**81**	59	**–**	–
Available-for-sale investments				
Unlisted investments at fair value	**36**	31	**20**	21
Shares				
– Botswana Ash (Pty) Limited	**15**	16	**15**	16
– Other	**5**	–	**2**	–
Indebtedness of unlisted investments	**16**	15	**3**	5
Total other investments	**117**	90	**63**	67
Total investments	**119**	91	**63**	67

* Nominal amount

	Group 2006 R millions	Group 2005 R millions	Company 2006 R millions	Company 2005 R millions
6. DEFERRED TAX				
At the beginning of the year	**(291)**	(327)	**(252)**	(289)
Transfer from net profit				
– normal activities	**178**	62	**178**	57
– exceptional items	**(1)**	(7)	**(1)**	(6)
– change in tax rate	**–**	11	**–**	9
Transferred directly (to)/from equity				
– foreign currency loan translation	**4**	5	**3**	4
– fair value adjustments	**(1)**	–	**–**	–
– share option hedge premium	**–**	(35)	**–**	(35)
Changes in the Group	**–**	–	**–**	8
At the end of the year	**(111)**	(291)	**(72)**	(252)
Analysis by major temporary differences:				
Property, plant and equipment	**126**	97	**69**	58
Provisions	**(226)**	(276)	**(166)**	(214)
Share options hedge premium	**(21)**	(35)	**(21)**	(35)
Pension fund surplus	**57**	–	**57**	–
Deferred foreign exchange differences	**(10)**	(14)	**(13)**	(16)
Computed tax losses	**(54)**	(79)	**–**	(44)
Fair value adjustments	**14**	9	**–**	–
Other	**3**	7	**2**	(1)
	(111)	(291)	**(72)**	(252)
Comprising:				
Deferred tax assets	**(146)**	(322)	**(72)**	(252)
Deferred tax liabilities	**35**	31	**–**	–
	(111)	(291)	**(72)**	(252)
7. INVENTORY				
Raw and packing materials	**572**	487	**300**	272
Products and intermediates	**1 101**	836	**700**	534
Merchandise	**15**	10	**–**	–
Spares and stores	**44**	37	**38**	29
Property developments	**1**	2	**–**	–
	1 733	1 372	**1 038**	835
8. ACCOUNTS RECEIVABLE				
Trade	**1 957**	1 593	**1 087**	809
Other	**285**	185	**124**	63
	2 242	1 778	**1 211**	872

		Group		Company	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
9.	**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: 110 431 458 shares (2005 – 109 412 418)	**110**	109		
	Company: 120 742 578 shares (2005 – 119 723 538)			**120**	119
	Issued during the year				
	Group: nil (2005 – 1 019 040)	**–**	1		
	Company: nil (2005 – 1 019 040)			**–**	1
	At the end of the year				
	Group: 110 431 458 shares (2005 – 110 431 458)	**110**	110		
	Company: 120 742 578 shares (2005 – 120 742 578)			**120**	120
	Share premium less share issue expenses	**343**	343	**343**	343
	At the beginning of the year	**343**	336	**343**	336
	Shares issued during the year	**–**	7	**–**	7
		453	453	**463**	463
	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 option scheme (see note 26)	**2**	3	**2**	3
	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.				
	Preference shares				
	Authorised and issued				
	3 000 000 5.5 per cent cumulative shares of R2 each	**6**	6	**6**	6

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

		Group 2006 R millions	Group 2005 R millions	Company 2006 R millions	Company 2005 R millions
10.	**NON-CURRENT BORROWINGS** (see appendix 1)				
	Unsecured	**737**	764	**403**	421
	Secured	**37**	146	**5**	106
		774	910	**408**	527
	Current portion (see note 13)	**256**	351	**223**	323
		518	559	**185**	204

		Group		Company	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
11.	**NON-CURRENT PROVISIONS**				
	At the beginning of the year	**542**	490	**461**	371
	Expenditure incurred during the year	**(130)**	(33)	**(130)**	(24)
	Charged to the income statement during the year				
	– Net operating costs	**85**	84	**62**	79
	– Transitional provision for post-employment medical aid benefits	**–**	20	**–**	20
	Liability assumed by the AECI Pension Fund	**(131)**	–	**(103)**	–
	Transferred from/(to) accounts payable	**23**	(19)	**23**	(19)
	Changes in the Group	**–**	–	**–**	34
	At the end of the year	**389**	542	**313**	461
	Made up as follows:				
	Environmental remediation	**114**	161	**113**	161
	Post-employment medical aid benefits	**340**	469	**265**	388
	Actuarial valuation of obligations (see note 26)	**767**	469	**598**	388
	Plan assets to meet post-employment medical aid contribution liability	**(427)**	–	**(333)**	–
	Current portion included in accounts payable (see note 12)	**(65)**	(88)	**(65)**	(88)
		389	542	**313**	461
12.	**ACCOUNTS PAYABLE**				
	Trade	**1 471**	1 080	**921**	682
	Other	**694**	609	**376**	307
		2 165	1 689	**1 297**	989
	Current portion of non-current provisions (see note 11)	**65**	88	**65**	88
		2 230	1 777	**1 362**	1 077
13.	**CURRENT BORROWINGS**				
	Current portion of non-current borrowings (see note 10)	**256**	351	**223**	323
	Other	**541**	297	**626**	297
		797	648	**849**	620

		Group		Company	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
14.	**NET OPERATING COSTS**				
	Cost of sales	**6 941**	5 789	**3 678**	2 913
	Selling and distribution expenses	**1 418**	1 284	**989**	903
	Administrative expenses	**751**	808	**362**	424
	Net operating costs	**9 110**	7 881	**5 029**	4 240
	Net operating costs have been arrived at after taking into account:				
	Auditors' remuneration	**14**	13	**6**	6
	– Audit fees	**13**	12	**6**	6
	– Other services	**1**	1	*****	*
	Change in fair value of investments	**(17)**	(15)	**–**	–
	Depreciation of property, plant and equipment	**223**	212	**98**	97
	– Buildings	**17**	16	**3**	4
	– Plant and equipment	**206**	196	**95**	93
	Foreign exchange gains	**(141)**	(109)	**(54)**	(45)
	– Realised	**(90)**	(45)	**(31)**	(16)
	– Unrealised	**(51)**	(64)	**(23)**	(29)
	Foreign exchange losses	**133**	97	**57**	39
	– Realised	**88**	33	**37**	13
	– Unrealised	**45**	64	**20**	26
	Inventory	**24**	12	**22**	19
	– Losses and write-downs	**40**	19	**27**	19
	– Reversal of losses and write-downs	**(16)**	(7)	**(5)**	*
	Impairment of investments	**–**	–	**36**	5
	Increase in non-current provisions	**85**	84	**62**	79
	– Environmental remediation	**82**	38	**81**	38
	– Post-employment medical aid benefits	**3**	46	**(19)**	41
	Operating lease costs	**85**	55	**50**	29
	Research and development expenditure	**7**	10	**4**	5
	Surplus on disposal of listed investments	**(3)**	(2)	**–**	–
	(Surplus)/loss on disposal of property, plant and equipment	**(8)**	1	**(2)**	2
	– Property	**(3)**	4	*****	4
	– Plant and equipment	**(5)**	(3)	**(2)**	(2)
	Salaries and other staff costs	**1 538**	1 375	**687**	635
	Technical fees paid	**10**	9	*****	*

* Nominal amount

		Group		Company	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
15.	**NET FINANCING COSTS**				
	Interest paid	**(150)**	(120)	**(144)**	(102)
	Non-current borrowings	**(83)**	(82)	**(47)**	(45)
	Current borrowings	**(67)**	(38)	**(97)**	(57)
	Interest received	**36**	30	**142**	151
	Fair value adjustments on derivative instruments	**11**	–	**11**	–
		(103)	(90)	**9**	49
16.	**INVESTMENT INCOME**				
	Dividends from investments	**5**	4	**2**	2
	– Listed	**3**	2	**–**	–
	– Unlisted	**2**	2	**2**	2
	Dividends from unlisted South African subsidiaries			**97**	171
		5	4	**99**	173
	Aggregate income from subsidiaries and joint ventures				
	Dividends			**97**	171
	Net interest received			**84**	109
	Secretarial and administrative fees			**10**	10
				191	290
17.	**EXCEPTIONAL ITEMS**				
	Costs related to restructuring	**(9)**	(17)	**(1)**	(13)
	– Impairment of property, plant and equipment	**(5)**	(2)	**–**	–
	– Retrenchment costs	**(3)**	(14)	**(1)**	(12)
	– Other	**(1)**	(1)	**–**	(1)
	Net surplus on disposal of investments and businesses	**–**	5	**–**	6
	Impairment of investments, property, plant and equipment	**(2)**	(10)	**(2)**	(10)
	Closure of joint venture business	**(7)**	–	**–**	–
	Other	**(3)**	(5)	**(3)**	(5)
	Exceptional items before tax	**(21)**	(27)	**(6)**	(22)
	Deferred tax effect	**1**	7	**1**	6
	Net exceptional items	**(20)**	(20)	**(5)**	(16)

	Group 2006 R millions	Group 2005 R millions	Company 2006 R millions	Company 2005 R millions
18. TAX				
Current tax	**(157)**	(156)	**(10)**	–
South African normal tax	**(134)**	(140)	**(1)**	–
Foreign taxes	**(4)**	*	*	*
Secondary tax on companies	**(19)**	(16)	**(9)**	–
Deferred tax	**(191)**	(81)	**(184)**	(57)
Temporary differences	**(192)**	(77)	**(185)**	(54)
Change in tax rate	**–**	(11)	**–**	(9)
Exceptional items	**1**	7	**1**	6
	(348)	(237)	**(194)**	(57)
Adjustment for prior years	**(5)**	12	**7**	8
South African normal tax	**(20)**	(3)	**–**	11
Deferred tax	**15**	15	**7**	(3)
	(353)	(225)	**(187)**	(49)
Analysis of deferred tax charge by major temporary differences:				
Property, plant and equipment	**(25)**	3	**(11)**	10
Provisions	**(45)**	25	**(51)**	39
Share options hedge premium	**(14)**	–	**(14)**	–
Pension fund surplus	**(57)**	–	**(57)**	–
Deferred foreign exchange differences	**–**	(2)	**–**	(1)
Computed tax losses	**(47)**	(96)	**(50)**	(89)
Fair value adjustments	**(5)**	(4)	**–**	–
Change in tax rate	**–**	(11)	**–**	(9)
Other	**2**	4	**(1)**	(7)
	(191)	(81)	**(184)**	(57)
Prior year adjustment	**15**	15	**7**	(3)
	(176)	(66)	**(177)**	(60)
Computed tax losses				
Utilised to reduce deferred tax liabilities or create deferred tax assets	**185**	276	**–**	156
Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	**164**	184	**–**	–
	349	460	**–**	156
	%	%	**%**	%
Reconciliation of tax rate computed in relation to profit before tax				
Effective rate	**27.0**	30.2	**22.4**	16.3
Capital and non-taxable receipts	**6.9**	2.8	**12.3**	17.2
Expenses not allowable	**(0.9)**	(2.3)	**(1.9)**	(3.9)
Secondary tax on companies	**(1.7)**	(1.2)	**(1.1)**	2.7
Adjustment for prior years	**(0.4)**	0.5	**0.9**	(0.1)
Change in tax rate	**–**	(1.4)	**–**	(3.1)
Other	**(1.9)**	0.4	**(3.6)**	(0.1)
South African standard rate	**29.0**	29.0	**29.0**	29.0

* Nominal amount

	Group 2006 R millions	Group 2005 R millions
19. EARNINGS PER SHARE		
Headline earnings are derived from:		
Profit attributable to ordinary shareholders	**916**	486
Impairment of goodwill	**6**	10
Transitional provision for post-employment medical aid benefits	**–**	20
Exceptional items before tax (see note 17)	**21**	27
Tax effects of the above items	**(1)**	(13)
Headline earnings	**942**	530

	Group 2006	Group 2005
Earnings per ordinary share (cents)		
– Attributable	**829**	442
– Headline	**853**	482
Weighted average number of ordinary shares in issue	**120 742 578**	120 292 828
Deduct: treasury shares held	**10 311 120**	10 311 120
	110 431 458	109 981 708

Attributable and headline earnings per share have been calculated on the profit for the financial year as shown above and on the weighted average number of ordinary shares in issue of 110 431 458, net of treasury shares (2005 – 109 981 708).

	Group 2006	Group 2005
Diluted earnings per ordinary share (cents)		
– Attributable	**819**	434
– Headline	**842**	473

At 31 December 2006, there were 1 896 080 (2005 – 2 849 040) 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 111 833 243 (2005 – 112 035 198). The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R58.38 (2005 – R45.77) compared with an average exercise price on the outstanding options of R15.22 (2005 – R12.78).

	Group 2006	Group 2005
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**110 431 458**	109 981 708
Number of options available for future exercise	**1 896 080**	2 849 040
Number of shares that would be issued at fair value	**(494 295)**	(795 550)
Weighted average number of ordinary shares for diluted earnings per share calculation	**111 833 243**	112 035 198

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	
		2006	2005	**2006**	2005
		R millions	R millions	**R millions**	R millions
20.	**DIVIDENDS**				
	Ordinary				
	Final for previous year: No. 144 of 121 cents (2005 – 94 cents) paid 24 April 2006	**134**	103	**146**	113
	Interim for current year: No. 145 of 64 cents (2005 – 54 cents) paid 18 September 2006	**70**	60	**77**	65
	Total ordinary dividend paid 185 cents (2005 – 148 cents)	**204**	163	**223**	178
	Preference				
	Nos. 136 and 137 paid 15 June 2006 and 15 December 2006 respectively	**2**	2	**2**	2
		206	165	**225**	180
	Proposed final dividend for the year ended 31 December 2006 of 141 cents (2005 – 121 cents) per share payable on 23 April 2007	**156**	134	**170**	146
	Secondary tax on companies thereon	**19**	17	**21**	18
21.	**BORROWINGS AND CONTINGENT LIABILITIES**				
	Borrowings	**1 315**	1 207	**1 034**	824
	Non-current (see note 10)	**518**	559	**185**	204
	Current (see note 13)	**797**	648	**849**	620
	Contingent liabilities	**85**	80	**–**	–
	Dispute with SA Revenue Service in respect of various tax matters				
	– property realisation companies	**67**	63	**–**	–
	– other	**18**	17	**–**	–
	Guarantees *	**36**	201	**209**	373
		1 436	1 488	**1 243**	1 197
22.	**COMMITMENTS**				
	Capital commitments authorised	**650**	97	**146**	14
	Contracted for	**91**	23	**1**	1
	Not contracted for	**559**	74	**145**	13
	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	**290**	235	**183**	142
	Payable within one year	**65**	47	**36**	28
	Payable between one and five years	**167**	127	**112**	84
	Payable thereafter	**58**	61	**35**	30
		940	332	**329**	156

* Company – inclusive of guarantee as described in appendix 1

23. 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.

	Foreign currency	Group Foreign amount 2006 millions	Group Foreign amount 2005 millions	Group Rand amount 2006 millions	Group Rand amount 2005 millions
Transactions in foreign currencies Forward exchange contracts at 31 December 2006, relating to specific balance sheet items					
Accounts receivable				**207**	201
	US dollar	**24**	26	**173**	172
	Euro	**2**	3	**23**	21
	Pound sterling	**1**	1	**11**	8
Accounts payable				**361**	252
	US dollar	**35**	25	**249**	166
	Euro	**6**	5	**56**	39
	Pound sterling	**2**	3	**31**	30
	Swiss franc	**4**	3	**22**	15
	Japanese yen	**57**	36	**3**	2
Non-current borrowings				**175**	–
	US dollar	**25**	–	**175**	–

		Foreign currency	Group 2006 R millions	Group 2005 R millions	Company 2006 R millions	Company 2005 R millions
23.	**FINANCIAL INSTRUMENTS (continued)** **Transactions in foreign currencies (continued)** Forward exchange contracts at 31 December 2006, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due					
	Imports				**58**	81
		US dollar	**5**	5	**33**	35
		Euro	**2**	4	**21**	28
		Pound sterling	**–**	2	**–**	18
		Swiss franc	**1**	–	**4**	–
		Japanese yen	**–**	8	**–**	–
	Exports				**35**	27
		US dollar	**5**	4	**35**	27

(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 2006, was:

Currency	**Total** **2006** **R millions**	2005 R millions	**Floating rate financial liabilities** **2006** **R millions**	2005 R millions	**Fixed rate financial liabilities** **2006** **R millions**	2005 R millions
Rand						
– Current	**772**	483	**770**	469	**2**	14
– Non-current	**334**	559	**310**	555	**24**	4
Other						
– Current	**25**	165	**25**	165	**–**	–
– Non-current	**184**	–	**179**	–	**5**	–
Total	**1 315**	1 207	**1 284**	1 189	**31**	18

	Fixed rate financial liabilities **2006** **R millions**	2005 R millions	**Weighted average interest rate** **2006** **%**	2005 %	**Weighted average period for which rate is fixed** **2006** **Months**	2005 Months
Rand						
– Current	**2**	14	**16.7**	6.0	**12.0**	12.0
– Non-current	**24**	4	**15.8**	9.5	**47.0**	57.2
Other						
– Non-current	**5**	–	**6.6**	–	**22.0**	–
	31	18	**14.0**	6.7	**55.7**	17.6

The fair value adjustments on interest rate swap contracts were a gain of R11 million in 2006 and R nil in 2005.

23. FINANCIAL INSTRUMENTS (continued)

(c) Maturity profile of financial instruments at 31 December 2006

	Within 1 year		1 to 2 years		2 to 3 years	
	2006	2005	**2006**	2005	**2006**	2005
	R millions	R millions	**R millions**	R millions	**R millions**	R millions
Financial assets						
Accounts receivable	**2 242**	1 778	**–**	–	**–**	–
Pension fund surplus	**–**	–	**–**	–	**–**	–
Investments	**104**	75	**–**	–	**–**	–
Cash and cash equivalents	**375**	409	**–**	–	**–**	–
Total financial assets	**2 721**	2 262	**–**	–	**–**	–
Percentage profile (%)	**93**	99	**–**	–	**–**	–
Financial liabilities						
Interest-bearing liabilities	**797**	648	**38**	225	**208**	31
Accounts payable	**2 165**	1 689	**–**	–	**–**	–
Total financial liabilities	**2 962**	2 337	**38**	225	**208**	31
Percentage profile (%)	**85**	80	**1**	8	**6**	1

(d) Fair values of financial assets and liabilities at 31 December 2006

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 equate to fair value.

(e) Credit risks

Credit risks arise on cash and cash equivalents, the pension fund surplus, investments and accounts receivable. The risk on cash and cash equivalents and the pension fund surplus 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.

	3 to 4 years		4 to 5 years		5 years or more		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	R millions	R millions	**R millions**	R millions	**R millions**	R millions	**R millions**	R millions
	–	–	**–**	–	**–**	–	**2 242**	1 778
	–	–	**–**	–	**196**	–	**196**	–
	–	–	**–**	–	**15**	16	**119**	91
	–	–	**–**	–	**–**	–	**375**	409
	–	–	**–**	–	**211**	16	**2 932**	2 278
	–	–	**–**	–	**7**	1	**100**	100
	27	24	**30**	24	**215**	255	**1 315**	1 207
	–	–	**–**	–	**–**	–	**2 165**	1 689
	27	24	**30**	24	**215**	255	**3 480**	2 896
	1	1	**1**	1	**6**	9	**100**	100

(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.

24. RELATED PARTY INFORMATION

The subsidiaries of the Group are identified in appendix 3, joint ventures in appendix 2 and the associated company in note 5.

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 the associated company amounted to R2 million (2005 – R nil) and the loan from the associated company amounted to R2 million (2005 – R3 million) (see note 5).

Transactions with directors are disclosed in notes 25 and 26.

24. RELATED PARTY INFORMATION (continued)

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

	Company 2006 R millions	Company 2005 R millions
Sales by the Company to		
– Subsidiaries	**230**	175
– Joint ventures	**4**	2
Sales to the Company by		
– Subsidiaries	**45**	80
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	**97**	171
– Associates	**2**	–
Interest received by the Company from		
– Subsidiaries	**116**	131
– Joint ventures	**1**	*
Interest paid by the Company to		
– Subsidiaries	**33**	22
Rental of premises to the Company by		
– AECI Pension Fund	**4**	4
– Subsidiaries	**14**	12
Commission and administration fees paid by the Company to		
– Subsidiaries	**41**	32
Fees received by the Company from		
– Subsidiaries	**10**	9
Outstanding balances with related parties of the Company at 31 December are as follows:		
Non-current amounts owing to the Company by		
– Subsidiaries	**2 095**	2 105
– Joint ventures	**15**	19
Non-current amounts owing by the Company to		
– Subsidiaries	**1 328**	1 397

25. DIRECTORS' EMOLUMENTS AND INTERESTS

Executive directors

R thousands	NC Axelson	S Engelbrecht	Total
2006			
Basic salary	1 830	2 472	**4 302**
Bonus and performance-related payments	2 004	2 650	**4 654**
Expense allowances, medical aid and insurance contributions	271	288	**559**
Retirement fund contributions	321	799	**1 120**
Aggregate emoluments paid by the Company	4 426	6 209	**10 635**
Share options exercised(1)	4 685	–	**4 685**
Benefit unit payments by subsidiary(1)	–	1 859	**1 859**
Aggregate emoluments	**9 111**	**8 068**	**17 179**
PAYE on aggregate emoluments			**6 153**
2005			
Aggregate emoluments paid by the Company	3 084	4 384	7 468
Share options exercised(1)	6 659	–	6 659
Benefit unit payments by subsidiary(1)	–	3 527	3 527
Aggregate emoluments	9 743	7 911	17 654
PAYE on aggregate emoluments			6 413

* Nominal amount

25. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

Non-executive directors

R thousands	Directors' fees	Chairman/ committee fees	Additional payments	**2006 Total**	2005 Total
CB Brayshaw	120	155	–	**275**	237
MJ Leeming	120	95	–	**215**	183
TH Nyasulu (resigned 18 November 2005)	–	–	–	**–**	145
LM Nyhonyha (appointed 28 June 2006)	70	–	–	**70**	–
AE Pedder CBE	120	421	103	**644**	566
CML Savage (resigned 23 May 2005)	–	–	–	**–**	75
F Titi (appointed 23 May 2005)	120	70	–	**190**	60
LC van Vught	120	79	–	**199**	145
	670	**820**	**103**	**1 593**	1 411
2005	660	660	91	–	1 411

Aggregate emoluments R thousands	**2006 Total**	2005 Total
Executive directors	**17 179**	17 654
Non-executive directors	**1 593**	1 411
	18 772	19 065

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 2006 were as follows:

	Number of shares			
	2006 Direct	**2006 Indirect**	2005 Direct	2005 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**	2 500	2 000
LC van Vught	**6 000**	**–**	6 000	–
	8 500	**2 000**	8 500	2 000
	12 950	**2 000**	12 950	2 000

Notes:

1. Share options issued to directors are set out in note 26. NC Axelson exercised 75 000 options (2005 – 150 000) which generated a benefit of R4 684 774 (2005 – R6 659 256) before tax. LC van Vught exercised 200 000 options in 2005 which generated a benefit of R8 845 000 before tax. None of the other directors exercised any of their options in either the current or the previous year. S Engelbrecht received R1 859 000 (2005 – R3 526 800) 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.

26. 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 2006 the following funds were in existence:

Defined benefit funds	Date of last statutory valuation
– AECI Pension Fund	1 March 2006
– AECI Employees Pension Fund	1 March 2004
– AECI Supplementary Pension Fund	1 March 2005
– Dulux Employees Pension Fund	1 March 2004
Defined contribution funds	
– 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 being 9 per cent. The Company has entered into an agreement with the AECI Pension Fund in terms of which the Company has undertaken not to reduce its contributions below 9 per cent, nor to suspend or terminate its contributions, for a period of 10 years from 1 October 2006 in exchange for the transfer by the AECI Pension Fund of an amount of R750 million to an employer surplus account (see note 3).

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, while for defined contribution funds no statutory valuations are required.

Principal actuarial assumptions at 31 December 2006 were as follows:

	Group	
	2006	2005
	%	%
Discount rate	**8.60**	8.10
Expected return on plan assets	**8.60**	8.10
Future price inflation	**4.80**	4.30
Future salary increases	**6.30**	5.80
Future pension increases	**4.32**	3.85

The total cost recognised in the income statement of R33 million (2005 – R30 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	
	2006	2005
	R millions	R millions
Current service cost	**61**	76
Interest cost	**422**	378
Expected return on plan assets	**(603)**	(492)
Employer surplus account	**(196)**	–
Net actuarial loss recognised in the year	**164**	71
Recognised in profit from operations in respect of defined benefit funds	**(152)**	33
Actual return on plan assets	**2 309**	1 700

26. EMPLOYEE BENEFITS (continued)

Based on interim valuations by the funds' actuaries, the funded status of the defined benefit funds at 31 December 2006 was as follows:

	Group	
	2006	2005
	R millions	R millions
Fair value of scheme assets	**9 651**	7 558
Present actuarial value of pension fund defined benefit obligations	**5 901**	4 965
Pension defined benefit obligations	**5 472**	4 965
Medical aid defined benefit obligations	**427**	–
Other	**2**	–
	3 750	2 593
Less: pension fund surplus	**196**	–
Net assets	**3 554**	2 593
Included in the fair value of scheme assets are:		
Financial instruments of the Group	**5**	4
Property occupied by the Group	**12**	9

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
- the Company has no legal entitlement to the surplus, either during the life of the funds or on their dissolution, beyond the amount credited to the employer surplus account.

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	
	2006	2005	**2006**	2005
	%	%	**%**	%
Annual increase in healthcare costs	**6.1**	5.9	**6.1**	5.9
Discount rate	**9.0**	8.5	**9.0**	8.5

	Group		Company	
	2006	2005	**2006**	2005
	R millions	R millions	**R millions**	R millions
Actuarial value of obligations	**767**	469	**598**	388
Provided at 31 December	**767**	469	**598**	388

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 2006 are disclosed in note 11. 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. In previous years the liability has been calculated on the basis that the Company portion of medical aid contributions paid to past employees would not be increased beyond an employee's retirement date and following the assumption of a substantial portion of the liability by the AECI Pension Fund, which has undertaken to pay contributions on an escalated basis, it has now been decided to compute the liability on an escalated basis.

26. EMPLOYEE BENEFITS (continued)

Post-employment medical aid benefits (continued)

The effect of this change in the basis of estimating the liability is as follows:

	Group 2006 R millions	Company 2006 R millions
Actuarial value of obligation at 31 December 2005	**469**	**388**
Adjustment to provision required at 31 December 2006 on the previous basis	**3**	**(19)**
Top-up of provision to recognise contribution inflation post-employment	**295**	**229**
Liability at 31 December 2006	**767**	**598**

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 2006 were:

		Number of shares			
Expiry date	Exercise price (rand)	Originally granted	Since exercised	Since lapsed	Still outstanding
30 November 2008	4.50	4 804 000	4 231 500	130 000	442 500
31 December 2009	7.00 – 15.80	410 000	199 400	104 000	106 600
31 December 2010	11.45 – 13.78	477 000	407 000	32 000	38 000
31 December 2011	17.50	1 460 000	533 000	–	927 000
30 June 2013	23.60	413 900	31 920	–	381 980
		7 564 900	**5 402 820**	**266 000**	**1 896 080**

26. EMPLOYEE BENEFITS (continued)

Share option scheme (continued)

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

	Number of options	
	2006	2005
Outstanding at the beginning of the year	**2 849 040**	3 971 080
Exercised during the year		
– New ordinary shares issued	**–**	(1 019 040)
– Exercised against share options hedge[(2)]	**(952 960)**	(103 000)
Outstanding at the end of the year	**1 896 080**	2 849 040
Details of share options exercised during the year		
Expiry date	2008 – 2013	2008 – 2013
Weighted average exercise price per share (rand)	7.93	7.72
Aggregate issue proceeds (R thousands)	7 557	8 658

	Group	
	2006	2005
	R millions	R millions
Equity-settled share-based payment transactions recognised in the income statement	**1**	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.

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

		Number of shares			
	Exercise price (rand)	Granted	Exercised	Lapsed	Outstanding
NC Axelson	4.50	350 000	225 000	–	125 000
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	**725 000**	**–**	**328 600**

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

	Number of options	
	2006	2005
Outstanding at the beginning of the year	**403 600**	753 600
Exercised during the year		
– New ordinary shares issued	**–**	(250 000)
– Exercised against share options hedge[(2)]	**(75 000)**	(100 000)
Outstanding at the end of the year	**328 600**	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.

26. EMPLOYEE BENEFITS (continued)

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 2006 were:

			Number of units			
Expiry date	Date granted	Exercise price	Granted	Exercised	Lapsed	Outstanding
31 March 2015	31 March 2005	R41.00	332 200	–	–	332 200
31 August 2016	31 August 2006	R56.00	221 085	–	–	221 085
			553 285	**–**	**–**	**553 285**

	Group 2006 R millions	Group 2005 R millions
Cash-settled share-based payment transactions recognised in the income statement	**5**	2
Total carrying amount of cash-settled share-based transaction liabilities	**7**	2

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

			Number of units			
	Date granted	Exercise price	Granted	Exercised	Lapsed	Outstanding
NC Axelson	31 March 2005	R41.00	38 000	–	–	38 000
NC Axelson	31 August 2006	R56.00	20 000	–	–	20 000
S Engelbrecht	31 March 2005	R41.00	57 000	–	–	57 000
S Engelbrecht	31 August 2006	R56.00	28 125	–	–	28 125
			143 125	**–**	**–**	**143 125**

27. INDUSTRY SEGMENT ANALYSIS

	2006 R millions	2005 R millions	2006 R millions	2005 R millions	2006 R millions	2005 R millions
Business segment analysis	Revenue		Profit from operations		Depreciation	
Mining solutions	**2 492**	2 314	**261**	257	**77**	70
Specialty chemicals	**4 729**	3 826	**501**	412	**70**	66
Specialty fibres	**1 780**	1 619	**(6)**	32	**60**	62
Decorative coatings	**774**	648	**70**	59	**11**	8
Property	**644**	607	**314**	185	**4**	5
Group services, development and intergroup	**(207)**	(246)	**(38)**	(58)	**1**	1
	10 212	8 768	**1 102**	887	**223**	212
Business segment analysis	Assets		Liabilities		Capital expenditure	
Mining solutions	**1 434**	1 247	**415**	284	**183**	131
Specialty chemicals	**3 381**	2 685	**989**	754	**162**	170
Specialty fibres	**1 209**	968	**374**	255	**68**	32
Decorative coatings	**391**	292	**191**	166	**20**	16
Property	**542**	578	**93**	78	**–**	2
Group services, development and intergroup	**2**	23	**168**	240	**–**	–
	6 959	5 793	**2 230**	1 777	**433**	351
Geographical segment analysis	Revenue		Assets		Capital expenditure	
Region						
Republic of South Africa	**7 910**	6 951	**6 620**	5 474	**408**	339
Rest of Africa	**1 186**	974	**152**	203	**24**	12
Europe	**405**	244	**9**	–	**–**	–
North America	**191**	168	**128**	115	**1**	–
South America	**149**	95	**49**	–	**–**	–
Rest of the world	**371**	336	**1**	1	**–**	–
	10 212	8 768	**6 959**	5 793	**433**	351

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

Assets in the property segment include land revaluation of R405 million (2005 – R412 million).

The mining solutions segment contains an impairment loss of R5 million recognised against plant and equipment during the year.

Transactions between segments are at prices considered to be at arm's length.

28. ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES

The following acquisitions, all paid for in cash, were made by the Group during the year:

Acquiree	Date of acquisition	% shares acquired	Paid R millions	Net profit after tax since acquisition R millions
Subsidiaries acquired				
Resitec Industria Quimica Limited	1 May 2006	60	**43**	7
Dulux Zambia 2005 Limited	1 October 2005	80	**5**	1
Dunrose Investments 148 (Pty) Limited	1 December 2006	100	**16**	–
Businesses acquired				
Leochem (Pty) Limited‡	1 March 2006		**96**	
Sent Packing (Pty) Limited	1 July 2006		**19**	1
EZ Bond (Pty) Limited‡	1 September 2006		**6**	
Noble Chemicals (Pty) Limited‡	1 January 2006		**5**	
Cape Town Chemicals (Pty) Limited‡	1 March 2006		**4**	
First Chemicals (Pty) Limited†			**1**	
			195	

† Additional amount due in terms of earn-out clause.
‡ The acquirees' profit or loss since the acquisition date cannot be determined due to the fact that the businesses acquired were merged with existing cash-generating units in the Group.

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

	R millions
Acquirees' net assets at the acquisition date	
Property, plant and equipment	**35**
Inventory	**49**
Accounts receivable	**47**
Cash and cash equivalents	**9**
Current borrowings	**(9)**
Tax payable and deferred tax	**(6)**
Accounts payable	**(22)**
Minority interest	**(13)**
Net identifiable assets and liabilities	**90**
Goodwill on acquisition	**105**
Consideration paid	**195**
Less: cash and equivalents acquired	**(9)**
Net cash flow	**186**

APPENDIX 1 NON-CURRENT BORROWINGS

	Weighted closing interest rate %	Group **2006** **R millions**	Group 2005 R millions	Company **2006** **R millions**	Company 2005 R millions
UNSECURED					
Local					
Loans					
1998/2012	9.00	**3**	3	**3**	3
2004/2007	10.10	**200**	400	**200**	400
2006/2008	–	**8**	–	**–**	–
Repaid		**–**	12	**–**	12
Foreign					
Loans – other	5.94	**205**	6	**200**	6
Secured					
Local					
Loans – other(1)	14.79	**36**	42	**5**	3
Repaid		**–**	103	**–**	103
Foreign					
Loans – other	23.24	**1**	1	**–**	–
		453	567	**408**	527
Minority shareholder loan to subsidiary					
2004/2012(2)	9.46	**321**	343		
		774	910	**408**	527

(1) Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R9 million (2005 – R15 million) and mortgages over property having a net book value of R27 million (2005 – R27 million).
(2) Equity loan from empowerment consortium to AEL Holdco Limited. Interest and capital repayments on R201 million (2005 – R201 million) of the loan have been guaranteed by the Company.

Summary of repayments

R millions	Year	Local	Foreign	Total
	2007	234	22	256
	2008	38	–	38
	2009	28	180	208
	2010	27	–	27
	2011	26	4	30
	After 2012	215	–	215
		568	206	774

APPENDIX 2 SIGNIFICANT JOINT VENTURES

	Effective percentage held by AECI Limited 2006	2005
Crest Chemicals (Pty) Limited	**50**	50
DetNet Detonadores Electronicos Limitada[1]	**50**	–
DetNet International Limited[2]	**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[3]	**50**	50

	2006 R millions	2005 R millions
The aggregate of proportionately consolidated amounts included in the consolidated results is as follows:		
Balance sheets		
Property, plant, equipment and investments	**131**	106
Current assets	**192**	161
Total assets	**323**	267
Equity	**148**	132
Non-current borrowings	**53**	38
Current liabilities	**122**	97
Total equity and liabilities	**323**	267
Income statements		
Revenue	**545**	475
Net trading profit	**68**	99
Net loss	**(11)**	(1)
Cash flow statements		
Cash (utilised)/generated by operations	**(9)**	33
Net interest paid	**(2)**	–
Taxes paid	**(17)**	(9)
Changes in working capital	**36**	(19)
	8	5
Dividends paid	**–**	(3)
Cash retained from operating activities	**8**	2
Cash utilised in investing activities	**(10)**	(20)
Increase in funding requirements	**(2)**	(18)
Commitments		
Capital expenditure authorised	**4**	5
Future rentals on property, plant and equipment leased	**15**	17
	19	22

(1) Chile
(2) Ireland
(3) United States of America

APPENDIX 3 PRINCIPAL SUBSIDIARIES

	Issued share capital	Effective shareholding		Interest of AECI Limited#			
				Shares		Net indebtedness	
	2006	**2006**	2005	**2006**	2005	**2006**	2005
	Number of shares	**%**	%	**R millions**	R millions	**R millions**	R millions
Holding companies							
Directly held							
AECI International (Ireland) Limited (1)	**1**	**100**	100	*****	*	*****	10
AECI Treasury Holdings (Pty) Limited	**100**	**100**	100	*****	*	**150**	150
Athena Paint Investments S.A. (3)	**230 000**	**100**	100	**1**	*	**(2)**	*
Capex (Pty) Limited	**1 000 000**	**100**	100	*****	*	*****	*
Indirectly held							
African Explosives Holdings (Pty) Limited	**43 311 779**	**75**	75	**–**	–	**–**	–
African Explosives International Limited (2)	**1 307**	**75**	75	**–**	–	**–**	–
Athena Investments Limited S.A. (3)	**24 243 800**	**75**	75	**–**	–	**–**	–
Insurance							
Directly held							
AECI Captive Insurance Company Limited	**810 000**	**100**	100	**11**	11	**(3)**	(20)
Chemrisk Services (Pty) Limited	**20 000**	**100**	100	*****	*	*****	*
Mining solutions							
Directly held							
DetNet Solutions (Pty) Limited	**100**	**100**	100	*****	*	**–**	10
Expert Explosives Limited	**1 000**	**100**	100	*****	*	*****	*
AEL Holdco Limited	**99 800 000**	**75**	75	**75**	75	**1 228**	1 283
Indirectly held							
AEL Chemico-Mali SARL (14)	**8 659**	**75**	75	**–**	–	**–**	–
AEL (Mauritius) Limited (13)	**866**	**75**	75	**–**	–	**–**	–
African Explosives Limited ++	**100**	**75**	75	**–**	–	**–**	–
African Explosives (Botswana) Limited (4)	**3**	**75**	75	**–**	–	**–**	–
African Explosives (Burkina Faso) Limited (16)	**100 000**	**75**	–	**–**	–	**–**	–
African Explosives (DRC) Limited (17)	**10 000**	**75**	–	**–**	–	**–**	–
African Explosives (Ghana) Limited (5)	**1 000 000**	**75**	75	**–**	–	**–**	–
African Explosives (Nigeria) Limited (6)	**352 000**	**75**	75	**–**	–	**–**	–
African Explosives (Tanzania) Limited (7)	**26**	**75**	75	**–**	–	**–**	–
African Explosives (Zambia) Limited (8)	**25 508 250**	**60**	60	**–**	–	**–**	–
Paints and allied products							
Directly held							
Dulux (Moçambique) Limitada (10)	**100**	**100**	80	**1**	1	**3**	4
Dulux Namibia (Pty) Limited	**100**	**100**	100	*****	*	**4**	4
Dulux (Pty) Limited +	**4**	**100**	100	*****	*	**–**	–
Dulux Swaziland (Pty) Limited (11)	**100 000**	**100**	100	*****	*	**1**	2
Dulux Zambia 2005 Limited (8)	**100 000**	**80**	–	**5**	–	**3**	–
Indirectly held							
Dulux Botswana (Pty) Limited (4)	**1 150 000**	**100**	100	**–**	–	**2**	5
Dulux Limited (9)	**500 000**	**100**	100	**–**	–	**2**	2
Property							
Heartland Properties (Pty) Limited	**100**	**100**	100	*****	*	**(62)**	2
Other property subsidiaries				**3**	3	**186**	165
Specialty chemicals							
Directly held							
Chemical Services Limited	**8 312 795**	**100**	100	**818**	818	**(929)**	(1 048)
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**	75	**–**	–	**–**	–
ImproChem (Pty) Limited	**4 000**	**75**	75	**–**	–	**–**	–
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	**–**	–	**–**	–
Resitec Industria Quimica Limited (15)	**2 905 200**	**60**	–	**–**	–	**–**	–
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)**	(15)
Indirectly held							
SANS Fibers Incorporated (12)	**100**	**100**	100	**–**	–	**140**	116
SANS Fibres (Europe) Limited (2)	**1 000**	**100**	100	**–**	–	**(3)**	*
Other				**14**	16	**(162)**	(151)
				936	932	**635**	611

\# Cost less impairments
\+ 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 (15) Brazil (16) Burkina Faso (17) Democratic Republic of Congo

SECRETARY AND REGISTERED OFFICE
EA Rea (Acting)

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AECI Place
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St James's Corporate Services Limited
6 St James's Place
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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 is hereby given that the 83rd annual general meeting of shareholders of AECI Limited will be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton on Monday, 21 May 2007 at 09:00 for the following purposes:

1. to receive and consider the annual financial statements for the year ended 31 December 2006;
2. to elect directors in place of Messrs FPP Baker, RMW Dunne, GN Edwards, S Engelbrecht and LM Nyhonyha who are required to retire in terms of the provisions of the articles of association but, being eligible, offer themselves for re-election (condensed biographies of these directors appear on pages 6 and 7 of this 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

"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 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 this special resolution, the following general information is included in the annual report which is distributed together with this notice of annual general meeting:

(i) directors (pages 6 and 7)
(ii) major shareholders (page 2)
(iii) directors' interest in securities (page 87)
(iv) share capital of the Company (page 74)

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2006.

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 pages 6 and 7 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, 17 May 2007.

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

EA Rea
Acting secretary

Sandton, 19 February 2007

FORM OF PROXY

AECI LIMITED
Incorporated in the Republic of South Africa
(Registration number: 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, 21 May 2007, on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton.

Holders of ordinary shares in the Company (whether certificated or dematerialised) through a nominee must not complete this form of proxy but should timeously inform that nominee, or, if applicable, their Central Securities Depository Participant (CSDP) or 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/her, the chairman of the meeting as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company to be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton, at 09:00 on Monday, 21 May 2007, 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 FPP Baker 2.2 Mr RMW Dunne 2.3 Dr GN Edwards 2.4 Mr S Engelbrecht 2.5 Mr LM Nyhonhya			
3. Shares under the control of the directors			
4. Special: 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 ____________________ 2007

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.