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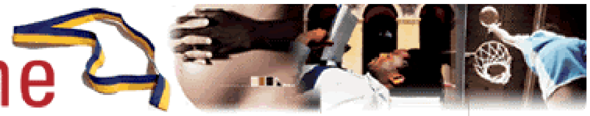

the world without specialty product and service solutions

AECI

Group audited results

For the year ended 31 December 2003

Income statement

	% change	2003 R millions	2002 R millions
Revenue (2)	**- 2**	**7 659**	7 818
Net trading profit	**- 1**	**691**	698
Net financing costs		**(150)**	(164)
Income from associates and investments		**4**	8
		545	542
Transitional provision for post-employment medical aid benefits (3)		**(20)**	(20)
Amortisation of goodwill		**(75)**	(59)
Exceptional items		**(31)**	(19)
Net profit before taxation		**419**	444
Taxation		**(135)**	(155)
Normal activities		**(143)**	(156)
Exceptional items		**8**	1
Net profit		**284**	289
Attributable to preference and outside shareholders		**(45)**	(49)
Normal activities		**(59)**	(62)
Amortisation of goodwill		**14**	13
Net profit attributable to ordinary shareholders		**239**	240
Headline earnings are derived from:			
Net profit attributable to ordinary shareholders		**239**	240
Transitional provision for post-employment medical aid benefits (3)		**20**	20
Amortisation of goodwill		**75**	59
Exceptional items		**31**	19
Outside shareholders' share of the above items		**(14)**	(13)
Tax effects of the above		**(14)**	(7)

Per ordinary share (cents):			
Headline earnings	**+5**	**356**	340
Diluted headline earnings		**345**	328
Attributable earnings		**252**	257
Diluted attributable earnings		**244**	248
Dividends declared	**+7**	**120**	112
Dividends paid		**114**	95
Ordinary shares (millions)			
– in issue		**108**	94
– weighted average number of shares		**95**	93
– diluted weighted average number of shares		**98**	97

Notes

(1) Accounting policies are in accordance with South African Statements of Generally Accepted Accounting Practice, conform to International Accounting Standards and are consistent with those applied in the previous financial year.

(2) Includes foreign sales of R1 483 million (2002 - R1 875 million).

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

(4) The auditors, KPMG Inc, have issued their opinion on the Group financial statements for the year ended 31 December 2003.

A copy of the auditors' unqualified report is available for inspection at the Company's registered office.

Balance sheet

at 31 December 2003	**2003 R millions**	2002 R millions
Assets		
Non-current assets	**3 110**	2 643
Property, plant and equipment	**1 708**	1 734
Goodwill	**916**	467
Investments	**87**	82
Deferred taxation assets	**399**	360
Current assets	**2 911**	3 211
Inventory	**1 170**	1 248
Accounts receivable	**1 280**	1 321
Cash and cash equivalents	**461**	642

Total assets	**6 021**	5 854
Equity and liabilities		
Ordinary capital and reserves	**2 494**	2 086
Preference capital and outside shareholders' interest in subsidiaries	**27**	229
Total shareholders' interest	**2 521**	2 315
Non-current liabilities	**756**	1 712
Deferred taxation liabilities	**46**	14
Long-term borrowings	**209**	1 196
Long-term provisions	**501**	502
Current liabilities	**2 744**	1 827
Accounts payable	**1 361**	1 446
Provision for restructuring	**48**	56
Short-term borrowings	**1 271**	260
Taxation	**64**	65
Total equity and liabilities	**6 021**	5 854

Cash flow statement

	2003 R millions	2002 R millions
Cash generated by operations	**898**	899
Dividends received	**3**	8
Net financing costs	**(150)**	(164)
Taxes paid	**(119)**	(94)
Changes in working capital	**111**	(99)
Expenditure relating to long-term provisions	**(21)**	(16)
Expenditure relating to restructuring	**(43)**	(32)
Cash available from operating activities	**679**	502
Dividends paid	**(123)**	(103)
Cash retained from operating activities	**556**	399
Cash utilised in investment activities	**(1 064)**	(148)
Acquisition of remaining shares in Chemical Services Limited	**(602)**	–
Investments	**(281)**	(20)
Net capital expenditure	**(181)**	(128)

Proceeds from disinvestment and restructuring	**1**	167
Expenditure in respect of repurchasing own shares	**–**	(206)
Net cash (utilised)/generated	**(507)**	212
Cash effects of financing activities	**9**	(108)
Proceeds from issue of new shares	**340**	4
(Decrease)/increase in cash and cash equivalents	**(158)**	108
Cash and cash equivalents at the beginning of the year	**642**	577
Translation loss on cash and cash equivalents	**(23)**	(43)
Cash and cash equivalents at the end of the year	**461**	642

Statement of changes in shareholders' equity

	2003 R millions	2002 R millions
Headline earnings	**337**	318
Amortisation of goodwill net of outside shareholders' interest	**(61)**	(46)
Transitional provision for post-employment medical aid benefits net of taxation	**(14)**	(14)
Exceptional items net of taxation and outside shareholders' interest	**(23)**	(18)
Net profit attributable to ordinary shareholders	**239**	240
Dividends paid	**(107)**	(89)
Fair value adjustments	**(7)**	–
Foreign currency translation differences net of deferred taxation	**(50)**	(127)
Ordinary shares issued	**340**	4
Other	**(7)**	-
Net increase in equity for the year before share buy-back	**408**	28
Expenditure in respect of repurchasing own shares	**-**	(206)
Equity at the beginning of the year	**2 086**	2 264
Equity at the end of the year	**2 494**	2 086
Made up as follows:		
Share capital and share premium	**437**	97
Non-distributable reserves	**347**	390

Surplus arising on revaluation of property, plant and equipment	**329**	330
Foreign currency translation reserve net of deferred taxation	**18**	54
Retained earnings of associates	**1**	1
Other	**(1)**	5
Retained income	**1 710**	1 599
	2 494	2 086

Performance

Headline earnings of 356 cents per ordinary share were 5 per cent higher than in 2002. This result was achieved after recognising a provision for restructuring in SANS Fibres equivalent to 11 cents per share. An increased final dividend of 78 cents per ordinary share has been declared (72 cents in 2002) to bring the total dividends for the year to 120 cents (112 cents in 2002) with a dividend cover of 3.0 (3.0 in 2002).

Sales volumes of Group businesses, excluding those sold in 2002, increased by 3 per cent while revenues were lower by 0.4 per cent. Demand improved in most local markets towards the year-end but the strong appreciation of the rand against the US dollar substantially eroded the rand value of dollar-based revenues with a particularly severe impact on trading margins at SANS Fibres. Nonetheless, enhanced efficiencies and a focus on higher value added business throughout the Group’s portfolio enabled a small improvement in trading margin to 9.0 per cent of sales from 8.9 per cent in 2002. The return on invested capital (ROIC) for the Group, excluding revaluation of land, was lower at 15 per cent (16 per cent in 2002).

African Explosives posted an impressive 37 per cent gain in net trading profit as growth in the platinum sector, a favourable business mix and well contained costs more than offset lower rand returns from African operations.

Chemical Services sustained its distinguished growth record with some increase in volumes and the successful integration of the Senmin and Ondeo-Nalco acquisitions, which contributed to a further increase in trading margin.

Dulux achieved a most pleasing result for the year as demand for its branded products recovered strongly in the final quarter. The property activities of Heartland benefited from declining interest rates in the second half, which resulted in a much improved performance for the year.

As forewarned in previous announcements, trading profit at SANS Fibres was progressively eroded by the strength of the rand throughout 2003. In dollar terms yarn revenue and gross margin increased from 2002 by 6 and 12 per cent respectively but declined by 24 and 20 per cent in rand. Such sharp margin reduction could not be offset by containing expenses and in October SANS announced the closure of the nylon apparel yarn business and a major restructuring of the other Bellville operations. The full cost of closure, estimated at R22 million before tax, has been recognised as an exceptional charge in 2003 while the estimated cost of restructuring of R15 million before tax has been charged against net trading income for the year.

The SANS US joint venture operations in Stoneville, North Carolina approached break-even in the final quarter of 2003.

Subject to the average exchange rate not appreciating significantly from 2003, the restructuring programme with its intense focus on product mix, margins, conversion efficiencies and cost reduction should enable SANS to deliver a meaningful improvement in performance in the full 2004 year.

Financial

Capital expenditure of R241 million was controlled to a level slightly higher than the depreciation charge for the period. Investment expenditure was R883 million. This included the acquisitions by Chemical Services of the mining and alkylate chemicals businesses of Sentrachem (R160 million) and the 50 per cent interest in Ondeo-Nalco SA which it did not already own (R120 million). It also included the cost of acquiring all the ordinary shares in

Chemical Services not held by AECI Limited at the previous year-end (R602 million). Of this last amount, R335 million was settled by the issue of 13.3 million new AECI shares to shareholders in Chemical Services.

Notwithstanding the cash outlay of R548 million on investments, net borrowings at year-end were contained to R1 019 million. Group working capital was well managed at an impressive 14 per cent of sales. Cash interest cover improved further to 6.1 times while gearing increased from 35 to 40 per cent of shareholder funds.

Portfolio

As announced in December, the Group has signed a heads of agreement with Dyno Nobel ASA of Norway regarding the establishment of an international 50:50 joint venture in electronic detonation systems. The joint venture represents a major step for AECI in gaining access to world markets for its innovative and leading electronic detonator technology with a partner who is the global leader in explosives initiation systems. Subject to completion of final agreements and regulatory approvals, it is expected that the joint venture will commence operations in the second quarter of 2004.

Discussions are well advanced with selected parties regarding the participation of an empowered partner in the business of African Explosives Limited. Shareholders will be advised when the key features of such participation have been finalised.

The Group’s segmental reporting has been amended to include “Decorative and packaging coatings” as a distinct and ongoing component of the business portfolio. Revenue and trading profit from non-core businesses sold during 2002 have been included in the segment “Group services, intergroup and other” for that year.

Outlook

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

ALAN PEDDER
CHAIRMAN SCHALK ENGELBRECHT
CHIEF EXECUTIVE
Sandton, 23 February 2004