- Headline earnings per share up **23%**
- Dividend per share increased to **175 cents**
- Revenue up **11%**
- Return on invested capital (ROIC) higher at **18%**

GROUP AUDITED FINANCIAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Commentary

Performance

Headline earnings of 482 cents per ordinary share were 23 per cent higher than in 2004. Restructuring costs equivalent to 15 cents per share were incurred compared to 27 cents per share in 2004. An increased final dividend of 121 cents per ordinary share has been declared (94 cents in 2004) to bring the total dividends for the year to 175 cents (138 cents in 2004) with a dividend cover of 2.7 (2.8 in 2004). The dividend declaration is published in full elsewhere.

Sales revenues of Group businesses increased by 11 per cent from 2004, bolstered in part by additions to the Chemical Services (Chemserve) portfolio. Revenue-weighted volume was some 2 per cent higher in aggregate. Demand from the local mining and manufacturing sectors continued to improve from the second quarter in response to strong export markets and a somewhat weaker rand exchange rate against the US dollar. Gross margins were largely maintained despite the effect of high oil prices on many raw material costs. The ongoing containment of operating costs enabled a further increase in the overall trading margin to 10.1 per cent of sales from 9.4 per cent in 2004. The return on invested capital (ROIC) for the Group, excluding revaluation of land, was higher at 18 per cent (16 per cent in 2004).

In African Explosives (AEL), an outstanding performance by operations elsewhere in Africa more than offset the effects of a continuing decline in gold mining activity in South Africa. Local margins were pressured by the lagged recovery of steep increases in ammonia costs. State-subsidised initiators from China continued to have a limited volume impact on some sectors of the South African initiating systems market during the year, but contributed to extreme resistance to price adjustments by some gold mining customers. Commissioning of the first phase of automated production of initiating systems at Modderfontein is expected in the first half of 2006.

DetNet, the 50:50 joint venture with Dyno Nobel ASA, recorded an improved result for the period with accelerating international sales of the new generation electronic detonator in the second half of the year.

Chemserve again experienced varied trading conditions with buoyant growth in demand from suppliers to local markets outpacing that from export-dependent sectors. Highlights included a remarkable turnaround in automotive coatings following restructuring and new alliances with strong technology partners, an outstanding performance by the polyurethanes business, and a pleasing contribution from Chemiphos, the food-grade phosphate business acquired in May 2005. Restructuring costs of R15 million were incurred in the period. The benefits of these and other actions are expected to enhance further the performance of the specialty chemicals portfolio in 2006.

SANS Fibres delivered a much improved result for the year with higher margins on US dollar based sales to international markets supported by the disciplined containment of local manufacturing costs. Customer accreditation of new products such as airbag yarns has proved a longer process than envisaged, and significant sales of such products are not expected before 2007. The outlook for sales volumes and margins of existing products to international markets is positive. However, SANS' performance will continue to be sensitive to this dollar based business until the programme of initiatives to reduce this exposure is further advanced.

Dulux again achieved excellent results in South Africa from significantly higher sales volumes of its premium branded products, despite the impact of escalating raw material costs on margins. Profits from its export and African operations were lower due to currency effects and unfavourable market conditions.

The property activities of Heartland delivered impressive profits and cash flow in supportive market conditions. Further substantial sales of land for residential, commercial and light industrial use were recorded at Modderfontein, Somerset West and Umbogintwini.

Financial

Profit from operations included restructuring costs of R23 million (R42 million in 2004), a R40 million top-up of the post-employment medical aid provision and an additional R28 million provision for environmental remediation. Mark-to-market adjustments related to interest rate hedging instruments were not material in the year. Taxation included a R11 million deferred tax charge consequent upon the reduction in the rate of corporate tax to 29 per cent.

The increase in net profit attributable to outside shareholders reflected the 25.1 per cent interest of the empowerment consortium led by the Tiso Group in the Group's explosives business for a full year as opposed to six months in 2004.

Net capital expenditure of R339 million during the year was R127 million higher than the depreciation charge. The investments comprised mainly expansion projects in AEL and Chemserve, which company in addition acquired five businesses to the value of R207 million. Group working capital increased to R1 373 million and 15.6 per cent of sales from 12 per cent of sales in 2004, a deterioration which will be the focus of management attention in 2006.

The Group's net borrowings of R798 million were R183 million higher than at December 2004 with property activities contributing net cash flow of R270 million in the year. Cash interest cover improved further to 12 times while gearing increased to 27 per cent of shareholder funds from 23 per cent at December 2004.

In late 2005 the Company purchased call options over 2.95 million AECI ordinary shares from a local bank for a total cash premium of R120 million. This will obviate the need for the Company to issue new shares when participants in the AECI share option scheme exercise their rights in terms of the scheme, and hence will eliminate any future dilution of earnings per share from this source. No repurchases of shares were undertaken in the year.

Portfolio

The empowerment transaction involving the sale of a 25.1 per cent equity interest in ImproChem, a Chemserve business, to the Tiso Group became effective in September 2005. Chemserve also completed the acquisition of J E Orlick and Associates in October 2005 and announced the acquisition of Leochem, a producer of personal care intermediates, for a consideration of R100 million. This transaction will take effect in March 2006.

The packaging coatings business has been included in the specialty chemicals segment of the portfolio, and the site services business at Umbogintwini is reported under property instead of Group services. Comparative figures for 2004 have been restated.

Outlook

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

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

Alan Pedder CBE
Chairman

Schalk Engelbrecht
Chief executive

Sandton
20 February 2006

www.aeci.co.za

Income statement

	% change	2005 R millions	2004 R millions
Revenue (2)	+11	8 768	7 911
Profit from operations	+19	887	743
Net financing costs		(90)	(139)
Income from associates and investments		5	3
		802	607
Transitional provision for post-employment medical aid benefits (3)		(20)	(20)
Impairment/amortisation of goodwill		(10)	(104)
Exceptional items		(27)	(23)
Net profit before taxation		745	460
Taxation		(225)	(173)
Normal activities		(232)	(167)
Exceptional items		7	(6)
Net profit		520	287
Attributable to preference and outside shareholders		(34)	(4)
Net profit attributable to ordinary shareholders		486	283
Headline earnings are derived from:			
Net profit attributable to ordinary shareholders		486	283
Transitional provision for post-employment medical aid benefits (3)		20	20
Impairment/amortisation of goodwill		10	104
Exceptional items		27	23
Outside shareholders' share of the above items		–	(3)
Tax effects of the above items		(13)	–
Headline earnings		530	427
Per ordinary share (cents):			
Headline earnings	+23	482	392
Diluted headline earnings (4)		473	383
Attributable earnings		442	260
Diluted attributable earnings (4)		434	254
Dividends declared	+27	175	138
Dividends paid		148	122
Ordinary shares (millions)			
– in issue		110	109
– weighted average number of shares		110	109
– diluted weighted average number of shares (4)		112	111

Notes

(1) Accounting policies are in accordance with International Financial Reporting Standards and are consistent with those applied in the previous financial year except for the adoption of IFRS 2 (Share-based payments) and IFRS 3 (Business combinations), IAS 16 (Property, plant and equipment), IAS 36 (Impairment of assets) and IAS 38 (Intangible assets). With the adoption of IFRS 3, the amortisation of goodwill has ceased with effect from the current financial year. The adoption of the other standards has not had a material impact on the Group's financial results.
(2) Includes foreign sales of R1 817 million (2004 – R1 506 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) Calculated in accordance with IAS 33. The Company has purchased call options over AECI 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.
(5) The auditors, KPMG Inc, have issued their opinion on the Group financial statements for the year ended 31 December 2005. A copy of the auditors' unqualified report is available for inspection at the Company's registered office.

Balance sheet

at 31 December

	2005 R millions	2004 R millions
Assets		
Non-current assets	3 056	2 917
Property, plant and equipment	1 723	1 659
Goodwill	920	822
Investments	91	76
Deferred tax assets	322	360
Current assets	3 559	2 960
Inventory	1 372	1 160
Accounts receivable	1 778	1 420
Cash and cash equivalents	409	380
Total assets	6 615	5 877
Equity and liabilities		
Ordinary capital and reserves	2 857	2 605
Preference capital and outside shareholders' interest in subsidiaries	83	41
Total shareholders' interest	2 940	2 646
Non-current liabilities	1 132	1 422
Deferred tax liabilities	31	33
Long-term borrowings	559	899
Long-term provisions	542	490
Current liabilities	2 543	1 809
Accounts payable	1 777	1 632
Short-term borrowings	648	96
Taxation	118	81
Total equity and liabilities	6 615	5 877

Industry segment analysis

	Revenue 2005	Revenue 2004	Profit from operations 2005	Profit from operations 2004	Assets 2005	Assets 2004
	R millions		R millions		R millions	
Mining solutions	2 314	2 140	257	212	963	842
Specialty chemicals	3 826	3 363	412	388	1 931	1 463
Specialty fibres	1 619	1 595	32	3	713	661
Decorative coatings	607	610	59	51	126	118
Property	648	467	185	137	500	531
Group services, intergroup and other	(246)	(264)	(58)	(48)	(217)	(186)
	8 768	7 911	887	743	4 016	3 429

Assets consist of property, plant, equipment and goodwill, inventory, accounts receivable less accounts payable. Assets in the property segment include land revaluation of R412 million (2004 – R432 million).

Cash flow statement

	2005 R millions	2004 R millions
Cash generated by operations	1 165	964
Dividends received	4	2
Net financing costs	(90)	(126)
Taxes paid	(129)	(128)
Changes in working capital	(295)	113
Expenditure relating to long-term provisions and restructuring	(42)	(57)
Cash available from operating activities	613	768
Dividends paid	(167)	(135)
Cash retained from operating activities	446	633
Cash utilised in investment activities	(530)	(233)
Proceeds from disposal of investments and businesses	27	58
Investments	(218)	(22)
Net capital expenditure	(339)	(269)
Net cash (utilised)/generated	(84)	400
Cash effects of financing activities	212	(485)
Share options hedge (4)	(120)	–
Proceeds from issue of new ordinary shares	8	8
Increase/(decrease) in cash and cash equivalents	16	(77)
Cash and cash equivalents at the beginning of the year	380	474
Translation gain/(loss) on cash and cash equivalents	13	(17)
Cash and cash equivalents at the end of the year	409	380

Statement of changes in equity

	2005 R millions	2004 R millions
Net profit	520	287
Dividends paid	(167)	(135)
Revaluation of derivative instruments	–	5
Foreign currency translation differences net of deferred tax	6	(53)
Ordinary shares issued	8	8
Changes in the Group	12	13
Share options hedge net of deferred tax (4)	(85)	–
Net increase in equity for the year	294	125
Equity at the beginning of the year	2 646	2 521
Equity at the end of the year	2 940	2 646
Made up as follows:		
Share capital and share premium	453	445
Non-distributable reserves	276	289
Surplus arising on revaluation of property, plant and equipment	268	288
Foreign currency translation reserve net of deferred tax	3	(3)
Retained earnings of associates	1	1
Other	4	3
Retained earnings	2 128	1 871
Preference capital	6	6
Outside shareholders' interest in subsidiaries	77	35
	2 940	2 646

Other salient features

	2005 R millions	2004 R millions
Capital expenditure	351	277
– expansion	235	157
– replacement	116	120
Capital commitments	97	188
– contracted for	23	25
– not contracted for	74	163
Future rentals on property, plant and equipment leased	235	196
– payable within one year	47	43
– payable thereafter	188	153
Net contingent liabilities and guarantees	292	278
Net borrowings	798	615
Gearing (%)	27	23
Current assets to current liabilities	1.4	1.6
Net asset value per ordinary share (cents)	2 587	2 381
Depreciation	212	224

Directorate
AE Pedder CBE* (Chairman), S Engelbrecht (Chief executive), NC Axelson†, CB Brayshaw, MJ Leeming, F Titi, LC van Vught
*British †Executive

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

specialty product and service solutions

Mining solutions
Development, manufacture and supply of value-adding services, initiating systems and explosives to the mining, quarrying, and allied industries.

Specialty chemicals
Chemical Services Limited
Largest specialty chemical operation in southern Africa, supplying a diverse range of specialties, raw materials and related services to a broad spectrum of industries.

Specialty fibres
Production, marketing and distribution of specialty nylon and polyester yarn for local and export markets; production of PET bottle polymer.

Decorative coatings
A leading decorative coatings supplier in southern Africa. Dulux enjoys a strong market position as an innovator and supplier of high performance products to a wide variety of customers.

Property
Heartland manages the realisation of land and related assets that have become surplus to the Group's requirements.

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