AECI

Group interim results

for the half-year ended 30 June 2004

Specialty product and service solutions

• Headline earnings per share up 5% • Dividend per ordinary share increased to 44c • Sales volumes and revenues up 6 and 3 per cent respectively

Commentary

Performance

Headline earnings for the first half year were 158 cents per ordinary share and 7 cents or 5 per cent higher than in the first half of 2003. An increased dividend of 44 cents per ordinary share has been declared (42 cents in 2003) with a dividend cover of 3.6 (3.6 in 2003). The dividend declaration is published in full elsewhere.

Sales volumes and revenues of Group businesses were increased by 6 and 3 per cent respectively. While demand was better in most local markets, the 20 per cent appreciation of the average exchange rate of the rand against the US dollar compared to the first half of 2003 led to reduced activity in some customer sectors and eroded both rand selling prices and the rand value of dollar-based revenues. The operating margin declined to 7.8 per cent from 8.2 per cent in the same period last year. The 12 month return on average invested capital (ROIC) for the Group, excluding revaluation of land, was lower at 14 per cent from 15 per cent in June 2003.

African Explosives achieved a pleasing gain in underlying trading profit as further growth in platinum and mining activity elsewhere in Africa more than offset some decline in sales to the local gold mining sector and negative exchange rate effects. Ongoing cost reduction remained a key focus and an R11 million restructuring charge was recognised as an expense in the period. Imports of state-subsidised initiators from China present an increasing competitive challenge and a number of actions are in hand to counter this potential threat to parts of the initiating systems market.

Intensified product development of the new generation electronic detonator technology in advance of the global launch planned for the last quarter of 2004 led to a small loss at DetNet. Implementation of the 50:50 joint venture with Dyno Nobel ASA is expected to be delayed to September 2004 pending regulatory clearance.

Chemical Services experienced difficult trading conditions as the benefit of higher volumes, partly the result of acquisitions, was offset by significant pressure on rand prices in some markets. Rationalisation of costs to support margins in these business areas could include restructuring, plant relocations or selective closure in the second half.

While the restructuring programme at SANS Fibres was progressed in line with plan, the further appreciation of the rand negated much of the benefit at trading profit level. The joint venture operations in Stoneville, North Carolina, achieved break-even in the period. SANS' performance will continue to be particularly sensitive to exchange rate movements in the short term.

A strong performance by Dulux in South Africa more than compensated for lower profits from its African operations due to currency effects.

The property activities of Heartland delivered much improved results in favourable market conditions, with significant sales at both Modderfontein and Somerset West.

Financial

Capital expenditure of R116 million remained under tight control and was in line with the depreciation charge for the period. Group working capital of R1 153 million was well contained to 15 per cent of sales despite the inclusion of R130 million of property sales concluded but not yet transferred to purchasers.

The Group's net borrowings of R1 034 million were R23 million lower than at June 2003. Cash interest cover at 6.7 times was substantially higher than the 5.3 times achieved in the first half of 2003 while gearing reduced to 41 per cent of shareholders' funds from 46 per cent at June 2003 (40 per cent at December 2003).

Portfolio

As announced in April, the acquisition of a 25.1 per cent interest in the Group's explosives business by an empowerment consortium led by the Tiso Group Limited took effect on 1 July 2004. This post balance sheet event had no impact on the Group's first-half results. While the transaction is not expected to have a material effect on the Group consolidated balance sheet at year-end, modest earnings dilution is projected in the second half of the year.

Outlook

The rand exchange rate, with its linkage to inflation and interest rates, has become the predominant factor influencing the fortunes of most Group customers in South Africa and hence AECI as a whole. While exchange rates may remain unpredictable, a competitive and more stable rate is a must for most South African businesses. Whatever the value of the rand, however, the Group will continue to focus on delivering real growth with superior returns on assets managed by improving customer service, enhancing competitiveness and margins through efficiency gains, and investing selectively in value-adding specialty businesses related to the current portfolio.

At prevailing exchange rates, and with a further contribution in prospect from property activities, management is targeting at least to maintain headline earnings for the full 2004 financial year.

Alan Pedder
Chairman

Schalk Engelbrecht
Chief executive

Sandton, 26 July 2004

Income statement

	% change	2004 First half Unaudited R millions	2003 First half Unaudited R millions	2003 Year Audited R millions
Revenue [1]	+3	**3 867**	3 753	7 659
Net trading profit	-3	**300**	309	691
Net financing costs		**(61)**	(79)	(150)
Income from associates and investments		**1**	3	4
		240	233	545
Transitional provision for post-employment medical aid benefits [2]		**(10)**	(10)	(20)
Amortisation of goodwill		**(52)**	(34)	(75)
Exceptional items		**(3)**	–	(31)
Net profit before taxation		**175**	189	419
Taxation		**(63)**	(61)	(135)
Normal activities		**(64)**	(61)	(143)
Exceptional items		**1**	–	8
Net profit		**112**	128	284
Attributable to preference and outside shareholders		**(1)**	(20)	(45)
Normal activities		**(1)**	(27)	(59)
Amortisation of goodwill		**–**	7	14
Net profit attributable to ordinary shareholders	+3	**111**	108	239
Headline earnings are derived from:				
Net profit attributable to ordinary shareholders		**111**	108	239
Transitional provision for post-employment medical aid benefits [2]		**10**	10	20
Amortisation of goodwill		**52**	34	75
Exceptional items		**3**	–	31
Outside shareholders' share of the above items		**–**	(7)	(14)
Tax effects of the above items		**(4)**	(3)	(14)
		172	142	337
Per ordinary share (cents):				
Headline earnings	+5	**158**	151	356
Diluted headline earnings		**154**	146	345
Attributable earnings		**102**	115	252
Diluted attributable earnings		**99**	111	244
Dividends declared	+5	**44**	42	112
Dividends paid		**78**	72	95
Ordinary shares (millions)				
– in issue		**109**	94	108
– weighted average number of shares		**109**	94	95
– diluted weighted average number of shares		**112**	98	98

Notes

(1) Includes foreign sales of R743 million (2003 – R772 million).
(2) 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.
(3) Accounting policies are in accordance with South African Statements of Generally Accepted Accounting Practice, conform to International Financial Reporting Standards and are consistent with those applied in the previous financial year.

Industry segment analysis for the half-year ended 30 June

	Revenue		Net trading profit		Assets	
	2004 Unaudited R millions	2003	**2004** Unaudited R millions	2003	**2004** Unaudited R millions	2003
Mining solutions	**1 045**	987	**101**	94	**892**	881
Specialty chemicals	**1 615**	1 537	**169**	164	**1 388**	1 163
Specialty fibres	**810**	935	**1**	45	**746**	849
Decorative and packaging coatings	**301**	291	**12**	11	**115**	91
Property	**168**	84	**37**	14	**657**	620
Group services, intergroup and other	**(72)**	(81)	**(20)**	(19)	**(108)**	(80)
	3 867	3 753	**300**	309	**3 690**	3 524

Assets consist of property, plant, equipment and goodwill, inventory, accounts receivable less accounts payable.
Assets in the property segment include land revaluation of R460 million (2003 – R493 million).

Balance sheet at 30 June

	2004 30 June Unaudited R millions	2003 30 June Unaudited R millions	2003 31 Dec Audited R millions
Assets			
Non-current assets	**3 018**	2 685	3 110
Property, plant and equipment	**1 685**	1 696	1 708
Goodwill	**852**	537	916
Investments	**89**	83	87
Deferred taxation assets	**392**	369	399
Current assets	**2 931**	3 052	2 911
Inventory	**1 081**	1 232	1 170
Accounts receivable	**1 442**	1 381	1 280
Cash and cash equivalents	**408**	439	461
Total assets	**5 949**	5 737	6 021
Equity and liabilities			
Ordinary capital and reserves	**2 507**	2 093	2 494
Preference capital and outside shareholders' interest in subsidiaries	**13**	218	27
Total shareholders' interest	**2 520**	2 311	2 521
Non-current liabilities	**771**	1 731	756
Deferred taxation liabilities	**45**	18	46
Long-term borrowings	**215**	1 198	209
Long-term provisions	**511**	515	501
Current liabilities	**2 658**	1 695	2 744
Accounts payable	**1 370**	1 322	1 361
Provision for restructuring	**21**	26	48
Short-term borrowings	**1 227**	298	1 271
Taxation	**40**	49	64
Total equity and liabilities	**5 949**	5 737	6 021

Statement of changes in shareholders' equity

	2004 First half Unaudited R millions	2003 First half Unaudited R millions	2003 Year Audited R millions
Net profit attributable to ordinary shareholders	**111**	108	239
Dividends paid	**(85)**	(68)	(107)
Revaluation of derivative instruments	**4**	(5)	(7)
Foreign currency translation differences net of deferred taxation	**(18)**	(30)	(50)
Ordinary shares issued	**6**	2	340
Other	**(5)**	–	(7)
Net increase in equity for the period	**13**	7	408
Equity at the beginning of the period	**2 494**	2 086	2 086
Equity at the end of the period	**2 507**	2 093	2 494
Made up as follows:			
Share capital and share premium	**443**	98	437
Non-distributable reserves	**311**	355	347
Surplus arising on revaluation of property, plant and equipment	**307**	330	329
Foreign currency translation reserve net of deferred taxation	**–**	24	18
Retained earnings of associates	**1**	1	1
Other	**3**	–	(1)
Retained income	**1 753**	1 640	1 710
	2 507	2 093	2 494

Cash flow statement

	2004 First half Unaudited R millions	2003 First half Unaudited R millions	2003 Year Audited R millions
Cash generated by operations	**404**	418	898
Dividends received	**1**	3	3
Net financing costs	**(61)**	(79)	(150)
Taxes paid	**(81)**	(69)	(119)
Changes in working capital	**(62)**	(93)	111
Expenditure relating to long-term provisions	**(4)**	(5)	(21)
Expenditure relating to restructuring	**(30)**	(29)	(43)
Cash available from operating activities	**167**	146	679
Dividends paid	**(86)**	(77)	(123)
Cash retained from operating activities	**81**	69	556
Cash utilised in investment activities	**(97)**	(300)	(1 064)
Acquisition of remaining shares in Chemical Services Limited	**–**	(49)	(602)
Investments	**(2)**	(160)	(281)
Net capital expenditure	**(95)**	(91)	(181)
Proceeds from disinvestment and restructuring	**–**	1	1
Net cash utilised	**(16)**	(230)	(507)
Cash effects of financing activities	**(38)**	40	9
Proceeds from issue of new shares	**6**	2	340
Decrease in cash and cash equivalents	**(48)**	(188)	(158)
Cash and cash equivalents at the beginning of the period	**461**	642	642
Translation loss on cash and cash equivalents	**(5)**	(15)	(23)
Cash and cash equivalents at the end of the period	**408**	439	461

Other salient features

	2004 First half Unaudited R millions	2003 First half Unaudited R millions	2003 Year Audited R millions
Capital expenditure	**116**	109	241
– expansion	**63**	73	159
– replacement	**53**	36	82
Capital commitments	**179**	134	189
– contracted for	**25**	73	23
– not contracted for	**154**	61	166
Future rentals on property, plant and equipment leased	**156**	154	158
– payable within one year	**41**	40	41
– payable thereafter	**115**	114	117
Net contingent liabilities and guarantees	**234**	187	223
Net borrowings	**1 034**	1 057	1 019
Gearing (%)	**41**	46	40
Current assets to current liabilities	**1.1**	1.8	1.1
Net asset value per ordinary share (cents)	**2 302**	2 223	2 305
Depreciation	**111**	108	223

Directorate

AE Pedder* (Chairman), S Engelbrecht (Chief executive), NC Axelson†, CB Brayshaw, MJ Leeming, TH Nyasulu, CML Savage, 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

www.aeci.co.za

AEL

Mining solutions

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

Chemical Services Limited

Specialty chemicals

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

SANS FIBRES

Specialty fibres

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

Any colour you can think of. Dulux

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.

HEARTLAND

Property

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

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