AECI

Group interim financial results

for the half-year ended 30 June 2005

Specialty product and service solutions

- Headline earnings per share up 23%
- Dividend increased to 54 cents per ordinary share
- Operating margin up from 7.8% to 9.3%
- Return on average invested capital (ROIC) increased to 16%

Commentary

Performance

Headline earnings for the first half-year were 194 cents per ordinary share, 23 per cent higher than in the first half of 2004. An increased dividend of 54 cents per ordinary share has been declared, giving a dividend cover of 3.6 times compared with 44 cents per share and 3.6 times cover in 2004. The dividend declaration is published in full elsewhere.

Sales revenues of Group businesses increased by 3 per cent over the same period last year though revenue-weighted volume was marginally lower in aggregate. Demand from the local mining and manufacturing sectors improved in the second quarter in response to a somewhat weaker rand exchange rate against the US dollar. Gross margins were maintained despite the effect of high oil prices on certain raw material costs whilst the operating margin increased to 9.3 per cent from 7.8 per cent in the same period last year. The 12 month return on average invested capital (ROIC) for the Group, excluding revaluation of land, increased to 16 per cent from 14 per cent in June 2004.

African Explosives achieved a pleasing result as an excellent performance by operations elsewhere in Africa together with the benefits of last year's restructuring more than offset some decline in sales to the local gold mining sector. The competitive challenge posed by imports of state-subsidised initiators from China continued but was reasonably contained in the period.

DetNet, the 50:50 joint venture with Dyno Nobel ASA, accelerated international trials of the new generation electronic detonator technology and sales are expected to gather pace in the second half of the year.

Chemical Services posted a solid result despite adverse trading conditions as customers in the mining and manufacturing sectors continued to wrestle with the effects of the strong exchange rate in the first quarter. Initiatives taken last year to raise the performance of certain businesses in the portfolio, particularly automotive coatings, have been productive and further positive results are expected to accrue in the second half.

At SANS Fibres, the recovery programme of new product development, conversion efficiency and cost reduction delivered a much improved performance. The joint venture operations in Stoneville, North Carolina, USA, traded profitably in the period. In the short term, SANS' performance will continue to be sensitive to exchange rate movements.

A good performance by Dulux in South Africa more than compensated for lower profits from its other African operations.

The property activities of Heartland delivered better than expected results as favourable market conditions persisted with significant sales at both Modderfontein and Umbogintwini.

Financial

Capital expenditure of R152 million, incurred mainly on expansion projects in African Explosives and Chemical Services, was R39 million higher than the depreciation charge for the period. In addition, Chemical Services invested approximately R140 million in two acquisitions during the half-year. Group working capital was influenced in part by the weaker exchange rate at 30 June relative to December 2004 and increased to R1 349 million and 17 per cent of sales compared with 15 per cent in June 2004.

The Group's net borrowings of R941 million were R93 million lower than at June 2004. Cash interest cover at 10.3 times was substantially higher than the 6.7 times achieved in the first half of 2004 whilst gearing reduced to 34 per cent of shareholders' funds from 41 per cent at June 2004 (24 per cent at December 2004).

At the Annual General Meeting of the Company held on 23 May, shareholders authorised a general repurchase of up to 10 per cent of the ordinary shares in the Company. No repurchases were undertaken in the period.

Portfolio

As previously announced, Chemical Services acquired UAP, a distributor of agro-chemicals, with effect from January 2005 and Chemiphos, a producer of food-grade phosphates, with effect from May 2005. Both companies have performed in line with expectation since acquisition. Subject to regulatory approvals, Chemical Services will also acquire J E Orlick and Associates with effect from September 2005.

In a further empowerment transaction, negotiations are well-advanced regarding the sale by Chemical Services of a 25.1 per cent equity interest in ImproChem (Pty) Limited, a wholly-owned subsidiary engaged in the business of water treatment, to the Tiso Group. Tiso is the Group's empowerment partner in African Explosives. The transaction is expected to take effect in September 2005.

Outlook

The progressive benefit of actions taken in prior years in response to a relatively strong exchange rate and low inflation will continue to emerge in the second half-year. If the current and somewhat more competitive level of the exchange rate were to be sustained it would be helpful to the Group's export businesses and also to most of the local customer base.

Volatility in oil intermediates and hence raw material prices seems likely to continue for some time. Nonetheless, with a similar contribution in prospect from property activities in the second half, management is targeting a significant increase in headline earnings per share for the full 2005 financial year.

Alan Pedder CBE
Chairman

Schalk Engelbrecht
Chief executive

Sandton
25 July 2005

Income statement

	% change	2005 First half Unaudited R millions	2004 First half Unaudited R millions	2004 Year Audited R millions
Revenue [(1)]	+3	**3 998**	3 867	7 911
Profit from operations	+24	**371**	300	743
Net financing costs		**(47)**	(61)	(139)
Income from associates and investments		**2**	1	3
		326	240	607
Transitional provision for post-employment medical aid benefits [(2)]		**(10)**	(10)	(20)
Amortisation of goodwill [(3)]		**–**	(52)	(104)
Exceptional items		**3**	(3)	(23)
Profit before taxation		**319**	175	460
Taxation		**(94)**	(63)	(173)
Normal activities		**(94)**	(64)	(167)
Exceptional items		**–**	1	(6)
Net profit		**225**	112	287
Attributable to preference and outside shareholders		**(16)**	(1)	(4)
Normal activities		**(16)**	(1)	(7)
Amortisation of goodwill		**–**	–	2
Exceptional items		**–**	–	1
Net profit attributable to ordinary shareholders		**209**	111	283
Headline earnings are derived from:				
Net profit attributable to ordinary shareholders		**209**	111	283
Transitional provision for post-employment medical aid benefits [(2)]		**10**	10	20
Amortisation of goodwill [(3)]		**–**	52	104
Exceptional items		**(3)**	3	23
Outside shareholders' share of the above items		**–**	–	(3)
Tax effects of the above items		**(3)**	(4)	–
		213	172	427
Per ordinary share (cents):				
Headline earnings	+23	**194**	158	392
Diluted headline earnings		**190**	154	383
Attributable earnings		**190**	102	260
Diluted attributable earnings		**186**	99	254
Dividends declared	+23	**54**	44	138
Dividends paid		**94**	78	122
Ordinary shares (millions)				
– in issue		**110**	109	109
– weighted average number of shares		**110**	109	109
– diluted weighted average number of shares		**112**	112	111

Notes

(1) Includes foreign sales of R887 million (2004 – R743 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) The interim financial results have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and conform to International Financial Reporting Standards. Accounting policies 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.

Industry segment analysis

for the half-year ended 30 June

	Revenue Unaudited R millions 2005	2004	Profit from operations Unaudited R millions 2005	2004	Assets Unaudited R millions 2005	2004
Mining solutions	**1 089**	1 045	**116**	101	**923**	892
Specialty chemicals	**1 670**	1 615	**174**	169	**1 803**	1 388
Specialty fibres	**828**	810	**19**	1	**700**	746
Decorative and packaging coatings	**293**	301	**15**	12	**139**	115
Property	**174**	168	**68**	37	**531**	657
Group services, intergroup and other	**(56)**	(72)	**(21)**	(20)	**(167)**	(108)
	3 998	3 867	**371**	300	**3 929**	3 690

Assets consist of property, plant, equipment and goodwill, inventory, accounts receivable less accounts payable. Assets in the property segment include land revaluation of R423 million (2004 – R460 million).

Balance sheet

at 30 June

	2005 30 June Unaudited R millions	2004 30 June Unaudited R millions	2004 31 Dec Audited R millions
Assets			
Non-current assets	**2 959**	3 018	2 935
Property, plant and equipment	**1 693**	1 685	1 659
Goodwill	**887**	852	822
Investments	**87**	89	94
Deferred taxation assets	**292**	392	360
Current assets	**3 309**	2 931	2 942
Inventory	**1 352**	1 081	1 160
Accounts receivable	**1 622**	1 442	1 420
Cash and cash equivalents	**335**	408	362
Total assets	**6 268**	5 949	5 877
Equity and liabilities			
Ordinary capital and reserves	**2 744**	2 507	2 605
Preference capital and outside shareholders' interest in subsidiaries	**58**	13	41
Total shareholders' interest	**2 802**	2 520	2 646
Non-current liabilities	**1 222**	771	1 426
Deferred taxation liabilities	**22**	45	33
Long-term borrowings	**689**	215	899
Long-term provisions	**511**	511	494
Current liabilities	**2 244**	2 658	1 805
Accounts payable	**1 625**	1 370	1 619
Provision for restructuring	**3**	21	9
Short-term borrowings	**587**	1 227	96
Taxation	**29**	40	81
Total equity and liabilities	**6 268**	5 949	5 877

Statement of changes in equity

	2005 First half Unaudited R millions	2004 First half Unaudited R millions	2004 Year Audited R millions
Net profit	**225**	112	287
Dividends paid	**(104)**	(86)	(135)
Revaluation of derivative instruments	**1**	4	5
Foreign currency translation differences net of deferred taxation	**26**	(18)	(53)
Ordinary shares issued	**6**	6	8
Changes in the Group	**–**	(14)	13
Other	**2**	(5)	–
Net increase in equity for the period	**156**	(1)	125
Equity at the beginning of the period	**2 646**	2 521	2 521
Equity at the end of the period	**2 802**	2 520	2 646
Made up as follows:			
Share capital and share premium	**451**	443	445
Non-distributable reserves	**307**	311	289
Surplus arising on revaluation of property, plant and equipment	**279**	307	288
Foreign currency translation reserve net of deferred taxation	**22**	–	(3)
Retained earnings of associates	**1**	1	1
Other	**5**	3	3
Retained income	**1 986**	1 753	1 871
Preference capital	**6**	6	6
Outside shareholders' interest in subsidiaries	**52**	7	35
	2 802	2 520	2 646

Cash flow statement

	2005 First half Unaudited R millions	2004 First half Unaudited R millions	2004 Year Audited R millions
Cash generated by operations	**487**	404	957
Dividends received	**1**	1	2
Net financing costs	**(47)**	(61)	(126)
Taxes paid	**(89)**	(81)	(128)
Changes in working capital	**(299)**	(62)	120
Expenditure relating to long-term provisions	**(3)**	(4)	(21)
Expenditure relating to restructuring	**(6)**	(30)	(36)
Cash available from operating activities	**44**	167	768
Dividends paid	**(104)**	(86)	(135)
Cash (applied to)/retained from operating activities	**(60)**	81	633
Cash utilised in investment activities	**(276)**	(97)	(238)
Proceeds from disposal of investments and businesses	**17**	–	58
Investments	**(143)**	(2)	(27)
Net capital expenditure	**(150)**	(95)	(269)
Net cash (utilised)/generated	**(336)**	(16)	395
Cash effects of financing activities	**281**	(38)	(485)
Proceeds from issue of new shares	**6**	6	8
Decrease in cash and cash equivalents	**(49)**	(48)	(82)
Cash and cash equivalents at the beginning of the period	**362**	461	461
Translation gain/(loss) on cash and cash equivalents	**22**	(5)	(17)
Cash and cash equivalents at the end of the period	**335**	408	362

Other salient features

	2005 First half Unaudited R millions	2004 First half Unaudited R millions	2004 Year Audited R millions
Capital expenditure	**152**	116	277
– expansion	**108**	63	157
– replacement	**44**	53	120
Capital commitments	**171**	179	294
– contracted for	**6**	25	25
– not contracted for	**165**	154	269
Future rentals on property, plant and equipment leased	**183**	156	196
– payable within one year	**43**	41	43
– payable thereafter	**140**	115	153
Contingent liabilities and guarantees	**283**	234	278
Net borrowings	**941**	1 034	633
Gearing (%)	**34**	41	24
Current assets to current liabilities	**1.5**	1.1	1.6
Net asset value per ordinary share (cents)	**2 491**	2 302	2 381
Depreciation	**113**	111	224

Directorate

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

www.aeci.co.za

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

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

GRAPHICOR 32416