Commentary

Performance

Headline earnings for the first half-year were 378 cents per ordinary share, 95 per cent higher than in the first half of 2005. An unusually large disposal lifted profit from operations in the property segment to R292 million from R68 million in the comparable period last year, equivalent to an increase in earnings of approximately 180 cents per share. An increased dividend of 64 cents per ordinary share has been declared, giving a dividend cover of 5.9 times compared with 54 cents per share and 3.6 times cover in 2005.

Revenues of Group businesses increased by 17 per cent over the same period last year. Excluding the effect of acquisitions, revenue increased by 12 per cent. Demand from the local manufacturing sector improved in the second quarter largely due to the weaker rand exchange rate. Gross margins were under pressure from increases in oil-based and certain other raw material costs which could not be fully recovered in the market. The operating margin improved to 12.4 per cent of sales from 9.3 per cent in the same period last year and the 12 month return on average invested capital (ROIC) for the Group, excluding revaluation of land, was 19 per cent compared to 16 per cent at June 2005.

African Explosives' detonator margins continued to be under pressure from imports of state-subsidised products from China which precluded any price adjustments in the South African market. However, operations elsewhere in Africa again delivered pleasing results, whilst the profitable exports of ammonium nitrate achieved in 2005 could not be sustained. Commissioning of the first phase of automated production of initiating systems at Modderfontein is well advanced with production expected in October. The second phase, estimated to cost R100 million, is underway with completion scheduled for the third quarter of 2007.

DetNet, the 50:50 joint venture with Dyno Nobel, increased international sales and broadened international validation of the new generation electronic detonator.

Chemical Services posted an excellent result with profit from operations 19 per cent higher than in 2005, supported by pleasing performances from the seven businesses acquired over the past 18 months. Demand from the local manufacturing sector was resilient and is expected to strengthen if the recent weaker tendency in the exchange rate is sustained. The acquisition of a 60 per cent interest in Resitec in Brazil, at a cost of R43 million, was completed with effect from 1 April. Further potential acquisitions in that country are being evaluated.

The recovery programme at SANS Fibres was set back severely in the first quarter by two unexpected and extended power outages which impacted operations for weeks thereafter. An insurance claim covered only part of the overall cost. In addition, output of polyester polymer and PET was restricted for a period following a scheduled maintenance shutdown of the plants in March. Trading performance improved in the latter part of the period, assisted by the weaker exchange rate, and international demand for the company's specialty fibres remains strong. Plant operating performance remains the key focus of the recovery programme. The joint venture operations in Stoneville, North Carolina further improved profitability in the period.

At Dulux, higher sales volumes of its premium branded products in South Africa offset the effect of higher raw material costs on margins. Profits from its other African operations were higher than in 2005.

Realisation of property surplus to operating requirements substantially exceeded expectation with the sale by AECI Limited of the 61 hectare Milnerton site for R260 million. In addition, the property activities of Heartland recorded profit from operations of R38 million after recognising R37 million of remediation costs as an expense. The cash spend on remediation activities amounted to R90 million in the period.

Financial

Capital expenditure of R210 million, incurred mainly on expansion projects in African Explosives and Chemical Services, was almost double the depreciation charge for the period. In addition, Chemical Services invested R145 million in several acquisitions during the half-year. Group working capital was inflated by the Milnerton property sale in June. Excluding this receivable, working capital increased to R1 624 million and 18 per cent of sales from 17 per cent of sales in June 2005.

The Group's net borrowings of R1 250 million were R327 million higher than at June 2005. Cash interest cover at 13 times was substantially higher than the 10 times achieved in the first half of 2005. Gearing increased to 38 per cent of shareholders' funds from 33 per cent at June 2005 (27 per cent at December 2005).

At the Annual General Meeting of the Company held on 23 May, shareholders authorised a general repurchase of up to 5 per cent of the ordinary shares in the Company. No repurchases were undertaken in the period.

Post balance sheet event

On 19 July the Trustees of the AECI Pension Fund resolved to establish a general reserve account of R750 million within the Fund, and to effect transfers on a regular basis from that reserve to an employer surplus account, on condition that the Company undertakes at least to maintain for 10 years the present rate of contribution to the Fund in respect of employee members. The employer surplus account would be utilised primarily to fund an allowance to each pensioner older than 65 equivalent to the portion of the medical aid contribution paid by the Company on behalf of the pensioner. The Board resolved today to give this undertaking. The effect of the arrangement will be to reduce in future years the amount of medical aid contributions paid by the Company on behalf of retired employees, and hence the value of the provision for post-employment medical aid benefits in the balance sheet. The quantum of the reduction in the provision has not been finalised by the independent actuary. No adjustment to the provision was made at 30 June.

Portfolio

As previously announced, Chemical Services acquired Leochem, a producer of personal care intermediates, with effect from March 2006 and Resitec, a producer of oleo-chemicals in Brazil, with effect from April 2006. Both companies have performed in line with expectation since acquisition.

Outlook

Global growth appears robust despite heightened geo-political uncertainty in the Middle East and an upward tendency in interest rates. Maintaining and improving margins through timeous response to volatile raw material prices and exchange rates represents the major challenge for the Group in the second half of the year.

The contribution from property activities is likely to be substantially lower in the second half than in 2005 as the stock of land immediately available for sale is currently limited. However, earnings may be boosted by the release of part of the provision for post-employment medical aid benefits following the agreement with the AECI Pension Fund. Excluding this release, management is targeting a second half result similar to that of 2005.

Alan Pedder CBE
Chairman

Schalk Engelbrecht
Chief executive

Sandton
24 July 2006

Notice to shareholders

Interim ordinary dividend no. 145

NOTICE IS HEREBY GIVEN that on Monday, 24 July 2006 the directors of AECI Limited declared an interim ordinary dividend of 64 cents per share, in respect of the financial year ending 31 December 2006, payable on Monday, 18 September 2006 to ordinary shareholders recorded in the books of the Company at the close of business on Friday, 15 September 2006.

The last day to trade cum dividend will be Friday, 8 September 2006 and shares will commence trading ex dividend as from Monday, 11 September 2006.

Any change of address or dividend instruction must be received on or before Friday, 8 September 2006.

Share certificates may not be dematerialised or rematerialised from Monday, 11 September 2006 to Friday, 15 September 2006, both days inclusive.

This announcement will be mailed to all recorded shareholders on or about Tuesday, 25 July 2006.

By order of the Board

E A Rea
Acting secretary

Sandton
24 July 2006

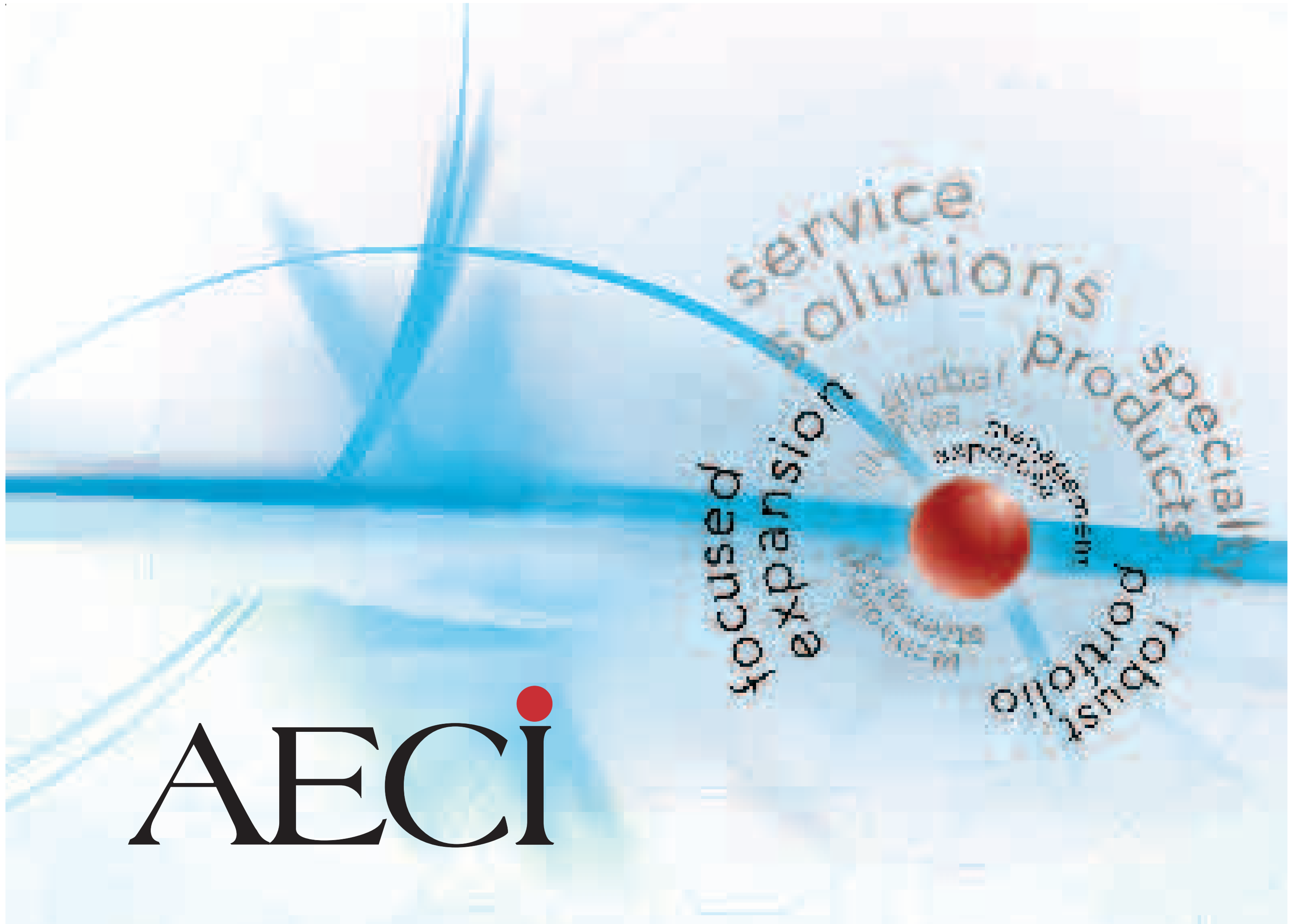
Directorate
AE Pedder CBE* *(Chairman)*, S Engelbrecht *(Chief executive)*,
NC Axelson†, CB Brayshaw, MJ Leeming, LM Nyhonyha, F Titi, LC van Vught
*British †Executive

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

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg, 2001
and
Computershare Investor Services plc
PO Box 82, The Pavilions, Bridgwater Road
Bristol BS 99 7NH, England

Sponsor
JP Morgan Equities Limited

AECI
www.aeci.co.za



specialty product and service solutions

GROUP INTERIM FINANCIAL RESULTS

FOR THE HALF-YEAR ENDED 30 JUNE 2006

- Headline earnings per share up **95%**
- Dividend per ordinary share increased to **64 cents**
- Revenue up **17%**
- Return on invested capital (ROIC) higher at **19%**

Income statement

	% change	2006 First half Unaudited R millions	2005 First half Unaudited R millions	2005 Year Audited R millions
Revenue (2)	+17	**4 666**	3 998	8 768
Profit from operations	+56	**580**	371	887
Net financing costs		**(43)**	(47)	(90)
Income from associates and investments		**4**	2	5
		541	326	802
Transitional provision for post-employment medical aid benefits (3)		**–**	(10)	(20)
Impairment of goodwill		**–**	–	(10)
Exceptional items		**(2)**	3	(27)
Profit before tax		**539**	319	745
Tax		**(111)**	(94)	(225)
Net profit		**428**	225	520
Attributable to preference and outside shareholders		**(13)**	(16)	(34)
Net profit attributable to ordinary shareholders		**415**	209	486
Headline earnings are derived from:				
Net profit attributable to ordinary shareholders		**415**	209	486
Transitional provision for post-employment medical aid benefits (3)		**–**	10	20
Impairment of goodwill		**–**	–	10
Exceptional items before tax		**2**	(3)	27
Tax effects of the above items		**–**	(3)	(13)
Headline earnings		**417**	213	530
Per ordinary share (cents):				
Headline earnings	+95	**378**	194	482
Diluted headline earnings (4)		**372**	190	473
Attributable earnings		**376**	190	442
Diluted attributable earnings (4)		**370**	186	434
Dividends declared	+19	**64**	54	175
Dividends paid		**121**	94	148
Ordinary shares (millions) (5)				
– in issue		**110**	110	110
– weighted average number of shares		**110**	110	110
– diluted weighted average number of shares (4)		**112**	112	112

Notes

(1) The interim financial results have been prepared in compliance with International Financial Reporting Standards. Accounting policies are consistent with those applied in the previous financial year.

(2) Includes foreign sales of R990 million (2005 – R887 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 IAS33. In 2005, the Company 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. Therefore, there will be no future dilution of earnings from this source.

(5) Net of 10 311 120 (2005 – 10 311 120) treasury shares held by a subsidiary company.

Balance sheet

at 30 June

	2006 30 June Unaudited R millions	2005 30 June Unaudited R millions	2005 31 Dec Audited R millions
Assets			
Non-current assets	**3 210**	2 941	3 056
Property, plant and equipment	**1 849**	1 693	1 723
Goodwill	**1 001**	887	920
Investments	**101**	69	91
Deferred tax assets	**259**	292	322
Current assets	**4 024**	3 327	3 559
Inventory	**1 497**	1 352	1 372
Accounts receivable	**2 182**	1 622	1 778
Cash and cash equivalents	**345**	353	409
Total assets	**7 234**	6 268	6 615
Equity and liabilities			
Ordinary capital and reserves	**3 186**	2 744	2 857
Preference capital and outside shareholders' interest in subsidiaries	**109**	58	83
Total shareholders' interest	**3 295**	2 802	2 940
Non-current liabilities	**1 064**	1 222	1 132
Deferred tax liabilities	**26**	22	31
Long-term borrowings	**549**	689	559
Long-term provisions	**489**	511	542
Current liabilities	**2 875**	2 244	2 543
Accounts payable	**1 795**	1 628	1 777
Short-term borrowings	**1 046**	587	648
Tax	**34**	29	118
Total equity and liabilities	**7 234**	6 268	6 615

Industry segment analysis

for the half-year ended 30 June

	Revenue 2006 Unaudited R millions	Revenue 2005 Unaudited R millions	Profit from operations 2006 Unaudited R millions	Profit from operations 2005 Unaudited R millions	Assets 2006 Unaudited R millions	Assets 2005 Unaudited R millions
Mining solutions	**1 152**	1 089	**105**	116	**1 037**	923
Specialty chemicals	**2 082**	1 696	**210**	176	**2 219**	1 807
Specialty fibres	**786**	828	**(28)**	19	**691**	700
Decorative coatings	**297**	267	**13**	13	**168**	135
Property	**458**	226	**292**	68	**786**	545
Group services, intergroup and other	**(109)**	(108)	**(12)**	(21)	**(167)**	(184)
	4 666	3 998	**580**	371	**4 734**	3 926

Assets consist of property, plant, equipment and goodwill, inventory, accounts receivable less accounts payable. Assets in the property segment include land revaluation of R404 million (2005 – R423 million).

Statement of changes in equity

	2006 First half Unaudited R millions	2005 First half Unaudited R millions	2005 Year Audited R millions
Net profit	**428**	225	520
Dividends paid	**(135)**	(104)	(167)
Revaluation of derivative instruments	**–**	1	–
Foreign currency translation differences net of deferred tax	**46**	26	6
Ordinary shares issued	**–**	6	8
Changes in the Group	**13**	–	12
Other	**3**	2	–
Share options hedge premium net of deferred tax	**–**	–	(85)
Net increase in equity for the period	**355**	156	294
Equity at the beginning of the period	**2 940**	2 646	2 646
Equity at the end of the period	**3 295**	2 802	2 940
Made up as follows:			
Share capital and share premium	**453**	451	453
Non-distributable reserves	**319**	307	276
Surplus arising on revaluation of property, plant and equipment	**263**	279	268
Foreign currency translation reserve net of deferred tax	**49**	22	3
Retained earnings of associates	**1**	1	1
Other	**6**	5	4
Retained income	**2 414**	1 986	2 128
Preference capital	**6**	6	6
Outside shareholders' interest in subsidiaries	**103**	52	77
	3 295	2 802	2 940

Other salient features

	2006 First half Unaudited R millions	2005 First half Unaudited R millions	2005 Year Audited R millions
Capital expenditure	**210**	152	351
– expansion	**142**	108	235
– replacement	**68**	44	116
Capital commitments	**226**	171	97
– contracted for	**50**	6	23
– not contracted for	**176**	165	74
Future rentals on property, plant and equipment leased	**236**	183	235
– payable within one year	**46**	43	47
– payable thereafter	**190**	140	188
Contingent liabilities and guarantees	**238**	283	292
Net borrowings	**1 250**	923	798
Gearing (%)	**38**	33	27
Current assets to current liabilities	**1.4**	1.5	1.4
Net asset value per ordinary share (cents)	**2 885**	2 491	2 587
Depreciation	**106**	113	212

Cash flow statement

	2006 First half Unaudited R millions	2005 First half Unaudited R millions	2005 Year Audited R millions
Cash generated by operations	**689**	487	1 165
Dividends received	**3**	1	4
Net financing costs paid	**(51)**	(47)	(90)
Taxes paid	**(142)**	(89)	(129)
Changes in working capital	**(422)**	(299)	(295)
Expenditure relating to long-term provisions	**(59)**	(3)	(33)
Expenditure relating to restructuring	**–**	(6)	(9)
Cash available from operating activities	**18**	44	613
Dividends paid	**(135)**	(104)	(167)
Cash (applied to)/retained from operating activities	**(117)**	(60)	446
Cash utilised in investment activities	**(354)**	(276)	(530)
Proceeds from disposal of investments and businesses	**2**	17	27
Investments	**(154)**	(143)	(218)
Net capital expenditure	**(202)**	(150)	(339)
Net cash utilised	**(471)**	(336)	(84)
Cash effects of financing activities	**388**	281	212
Share options hedge premium paid	**–**	–	(120)
Proceeds from issue of new shares	**–**	6	8
(Decrease)/increase in cash and cash equivalents	**(83)**	(49)	16
Cash and cash equivalents at the beginning of the period	**409**	380	380
Translation gain on cash and cash equivalents	**19**	22	13
Cash and cash equivalents at the end of the period	**345**	353	409

AECI

Mining solutions

AEL

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

SANS FIBRES

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

Decorative coatings

Dulux

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

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