



AECI

Group audited financial results: 2006

Presentation to investors, analysts and media

20 and 21 February 2007

SPECIALTY PRODUCT AND SERVICE SOLUTIONS



Summary

- **Satisfactory performance. HEPS +33%, excluding non-recurring boost of 210 cents per share from agreement with AECI Pension fund**
- **Revenue and profit from operations at record levels, exceeding R10b and R1b respectively**
- **Outstanding performance from Chemserve, Dulux and Heartland. AEL steady despite intense competition and SANS disappointed, a consequence of several adverse factors**
- **Meaningful progress with R1b investment programme in production facilities at Chemserve and AEL**



Business environment

- **South African economy grew by almost 5%**
- **Consumer-driven demand remained strong in spite of interest rate hikes**
- **Local manufacturing benefits from consumer demand and weaker currency**
- **Mining healthy, aided by commodity prices**
- **Rand volatile (R6/\$ - R7.75/\$)**
- **Infrastructure under pressure, but large spend announced and started**
- **Oil off mid-year peak**
- **Shortage of specialised skills**



Impact on AECI

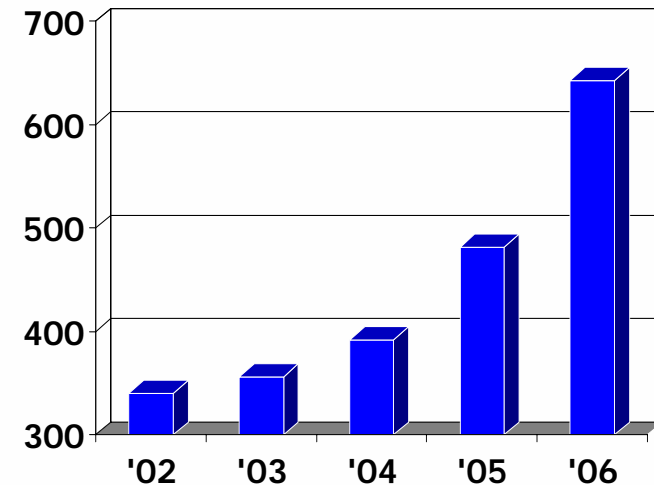
- **Healthy demand for products, services and land**
- **Volatile and rising rand input costs**
- **Margin pressures**
- **Production disruptions (SANS)**
- **Growth and investment opportunities**



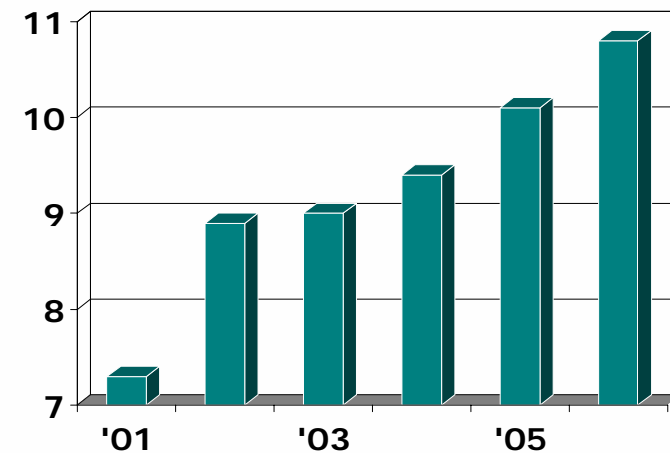
Results for 2006

- **HEPS +33%, excluding once-off PRMA effect**
- **Revenue-weighted volumes +8%**
- **TP margin 10.8% (10.1%)**
- **TP +24%**
- **Foreign sales +27% in rand**

Headline earnings per share (cents)



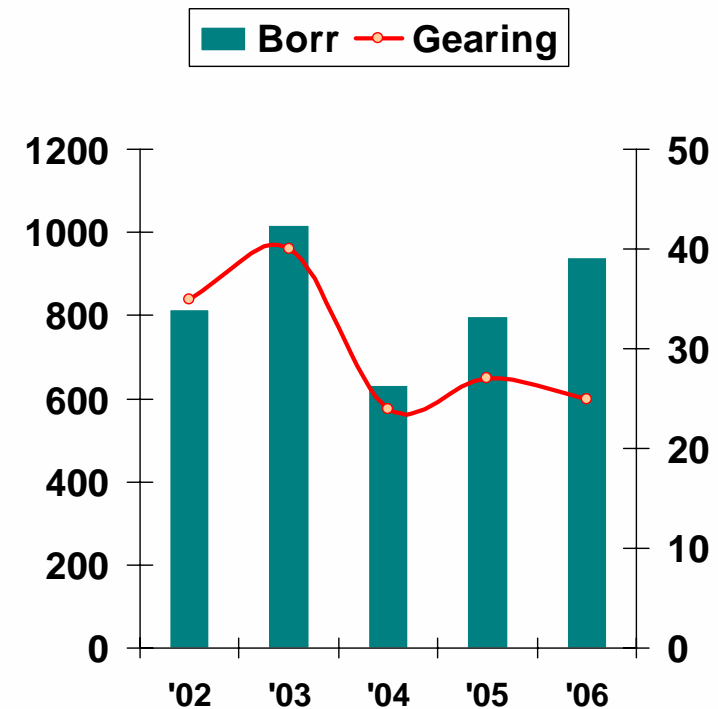
Trading margin (%)





Financial

- Chemserve, Dulux acquisitions R175m
- Capex R416m, R193m higher than depreciation charge; AEL and CSL expansions
- WC 17.1% at year-end, compared to 15.7% in 2005; strong second half
- Borrowings up by R142m to R940m = gearing ratio of 25% (27% at Dec '05)
- Cash interest cover up to 13x





Financial

- **PRMA transaction**
- **AECI Pension Fund Trustees resolved to establish Employer Surplus Account of R750m**
- **Will be used primarily to fund an allowance to pensioners over 65 equivalent to portion of medical aid contributions paid by Company**



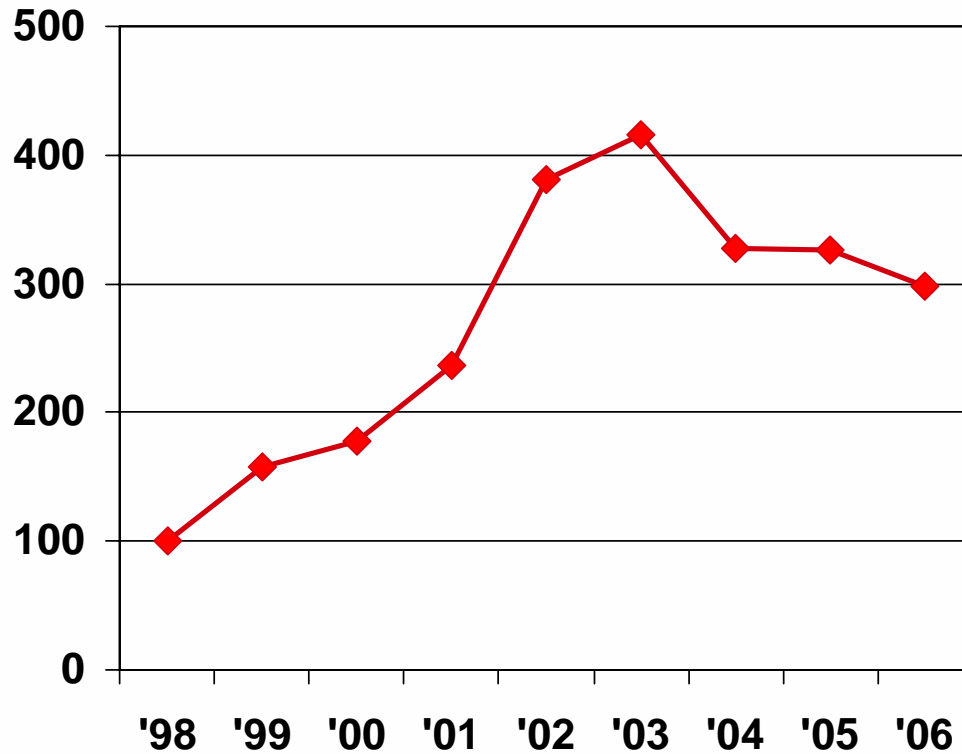
Financial cont.

- **Company undertakes at least to maintain for 10 years the present rate of contribution to the Pension Fund iro employee members**
- **Agreement released R131m from PRMA provision and recognised R196m balance in Employer Surplus Account as an asset**



Share price

**AECI share price
relative to JSE Ind index**

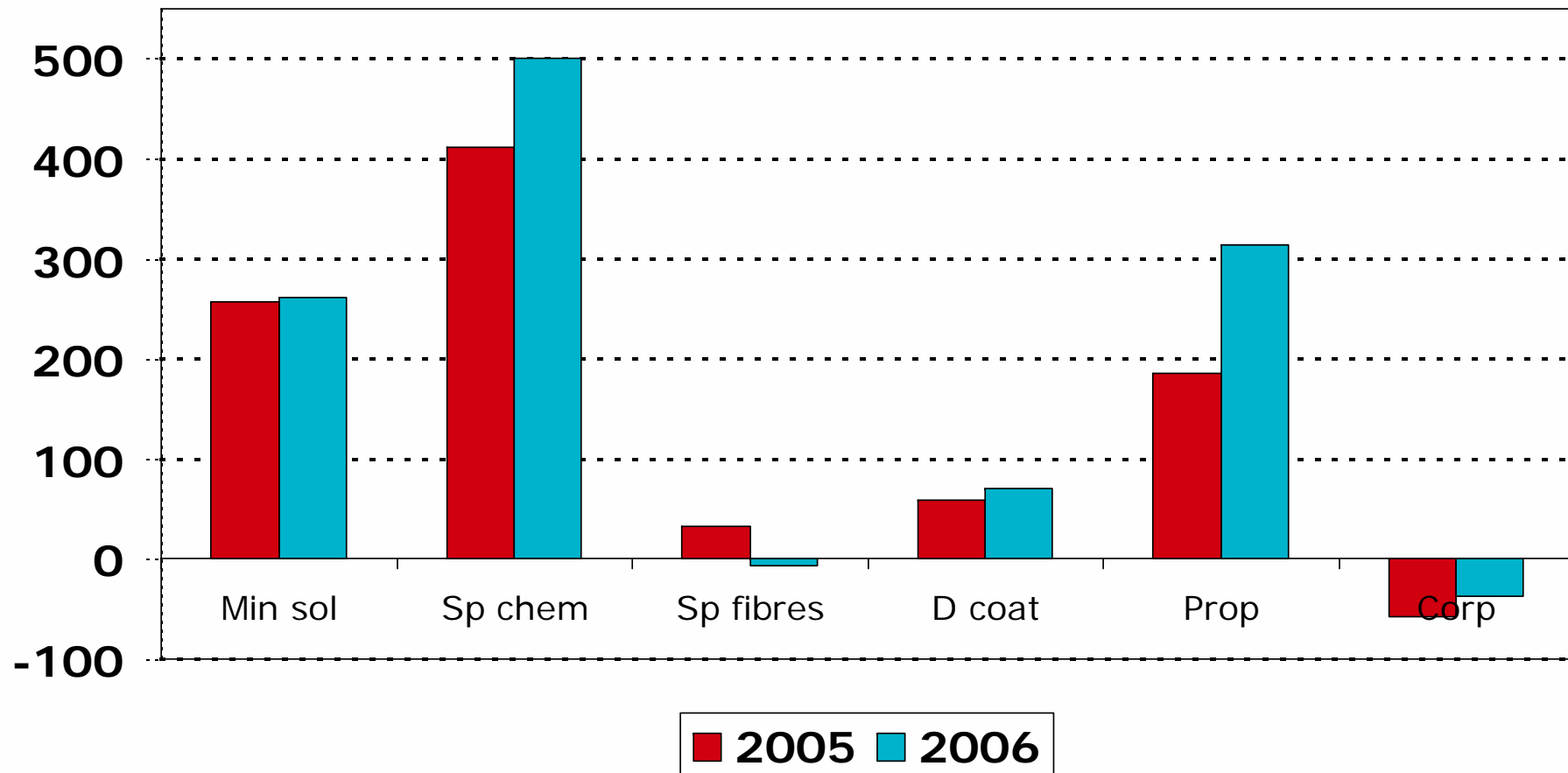


**Relative rating to industrials
(at year-end) marginally down
on previous two years; below
02/03 peak**

Graph adjusted for R6 special dividend
(Nov '99)

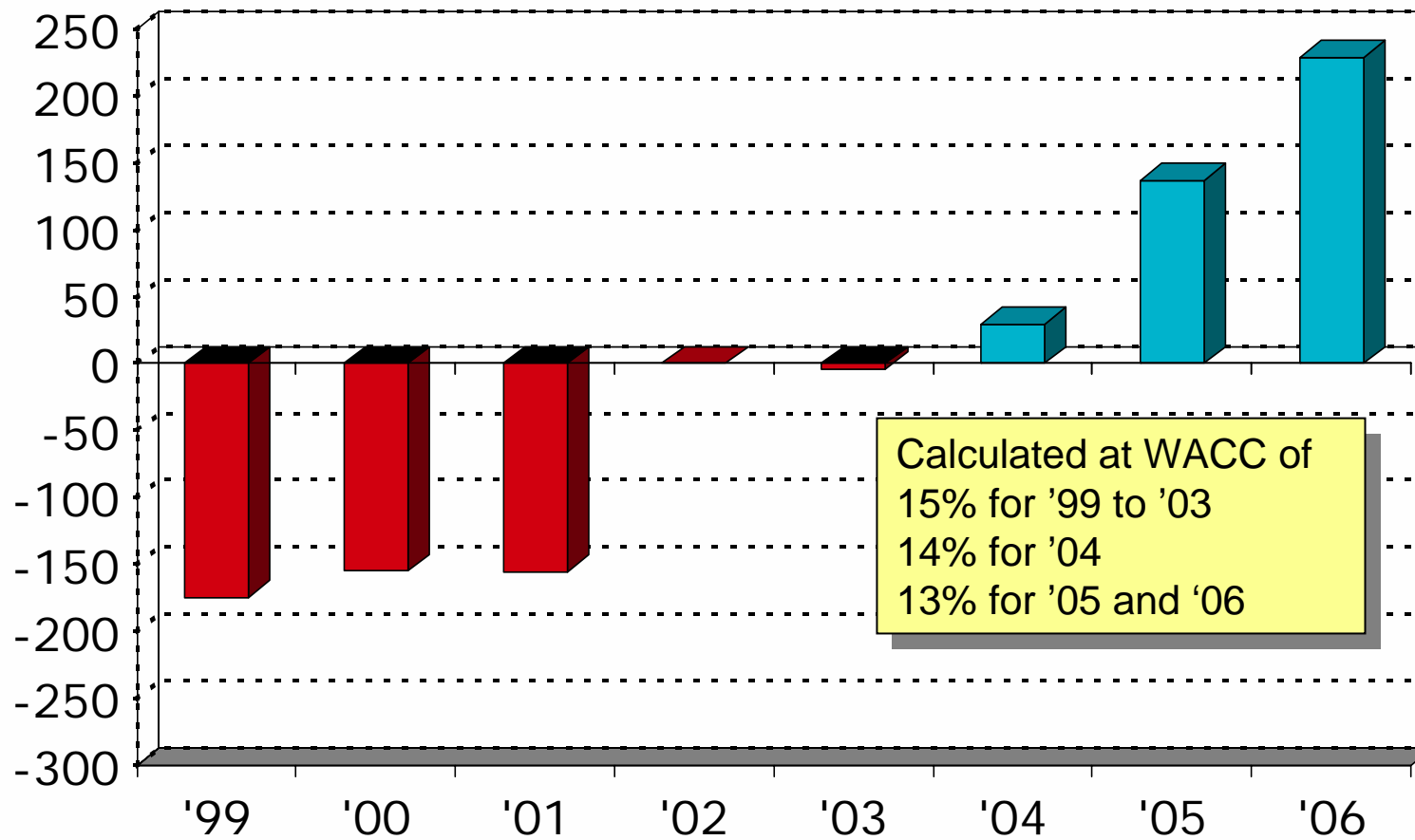


Segmental trading profit (Rm)



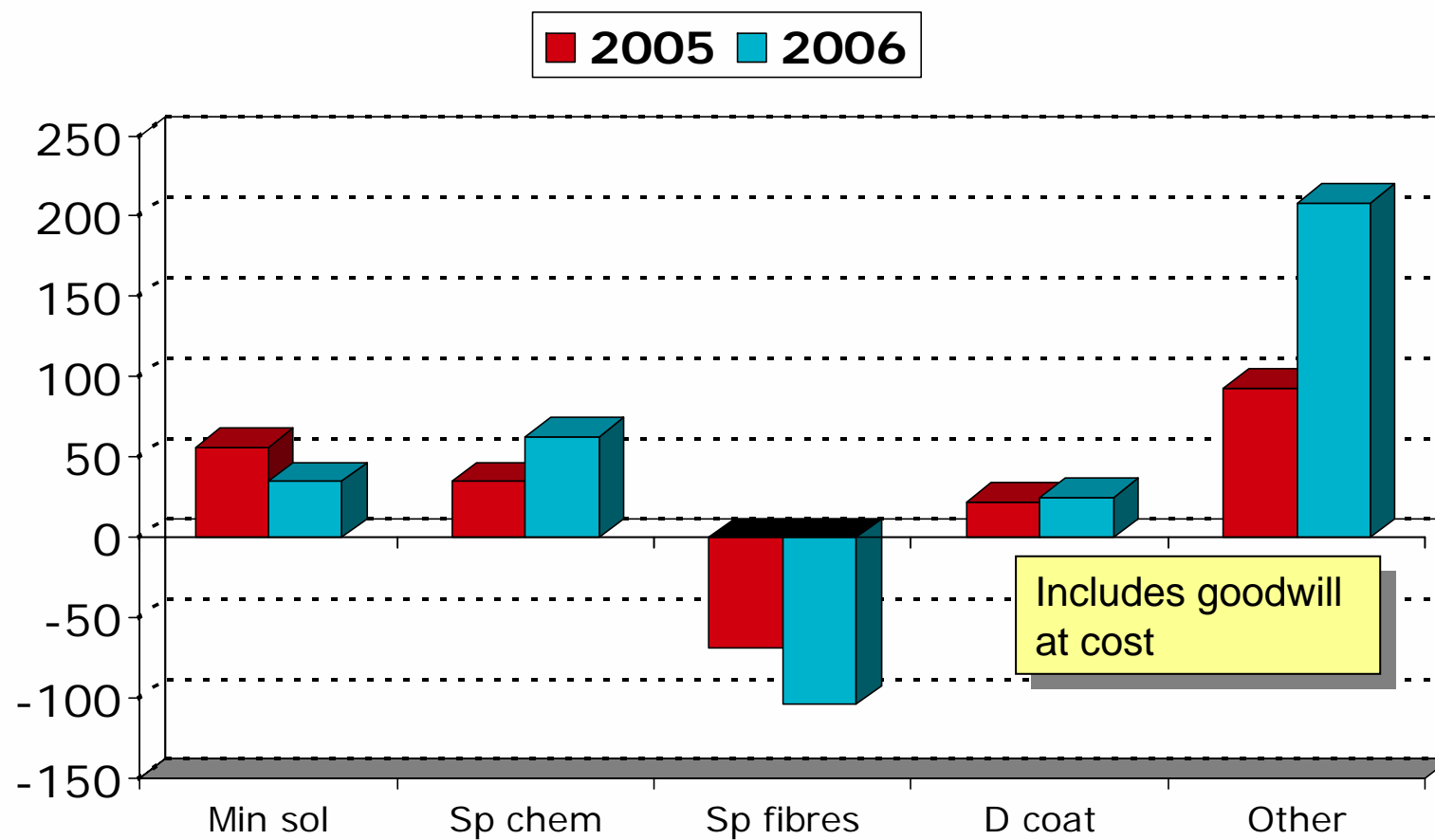


Group EVA[®] (Rm)





EVA[®] by business (Rm)





Mining solutions

- Revenue R2 492m (+8%); TP R261m (+2%)
- Margin 10.6% (11.1%)
- Stronger second half in 2006 compared to 2005
- Ammonia prices volatile and continuing to trend upwards
- Excluding ammonium nitrates exports, explosives volumes grew while initiating systems declined somewhat
- Volumes in the rest of Africa grew strongly in the second half
- Fixed costs well controlled, somewhat offsetting decline in margins
- **R21m less profit from reduced export of ammonium nitrate in 2006, compared to opportunistic export in 2005**



Mining solutions cont.

- **Factory modernisation and automation programme progressing well**
- **Market is converting from capped fuse to shocktube, and automation strategy designed for this**
- **First phase, project Bernice, (cost = R75m) commissioned in Q4 '06, and ramp-up will take place in Q1 '07**
- **Project Bernice is an automated detonator manufacturing plant designed to produce 40 million detonators**
- **The next automation phase, project Charlize, (cost = R100m) is designed to double Bernice's detonator capacity, manufacture shocktube, and install automated assembly**



Mining solutions cont.

- **Project Charlize scheduled for commissioning in Q4 '07**
- **Expenditure on the final phase, project Denise, (cost = R250m) has been brought forward**
- **As a result of project Bernice and Charlize, AEL is planning to introduce 30 million more shock tube units into the market in '07**
- **AEL is continuing its anti-dumping initiative and has approached the High Court to review ITAC's decision to revoke its investigation into AEL's petition. A date for the court hearing is awaited**



Mining solutions cont.

DetNet

- **International sales disappointingly slow due to teething problems with product and competition in distribution channels**
- **Digidet, the hybrid shocktube/electronic detonator previously developed by Dyno Nobel, discontinued and production in US closed in Q4 '06**
- **The business model for DetNet has been modified with the channel partners taking more responsibility for sales and market conversion**
- **Looking to break even this year**

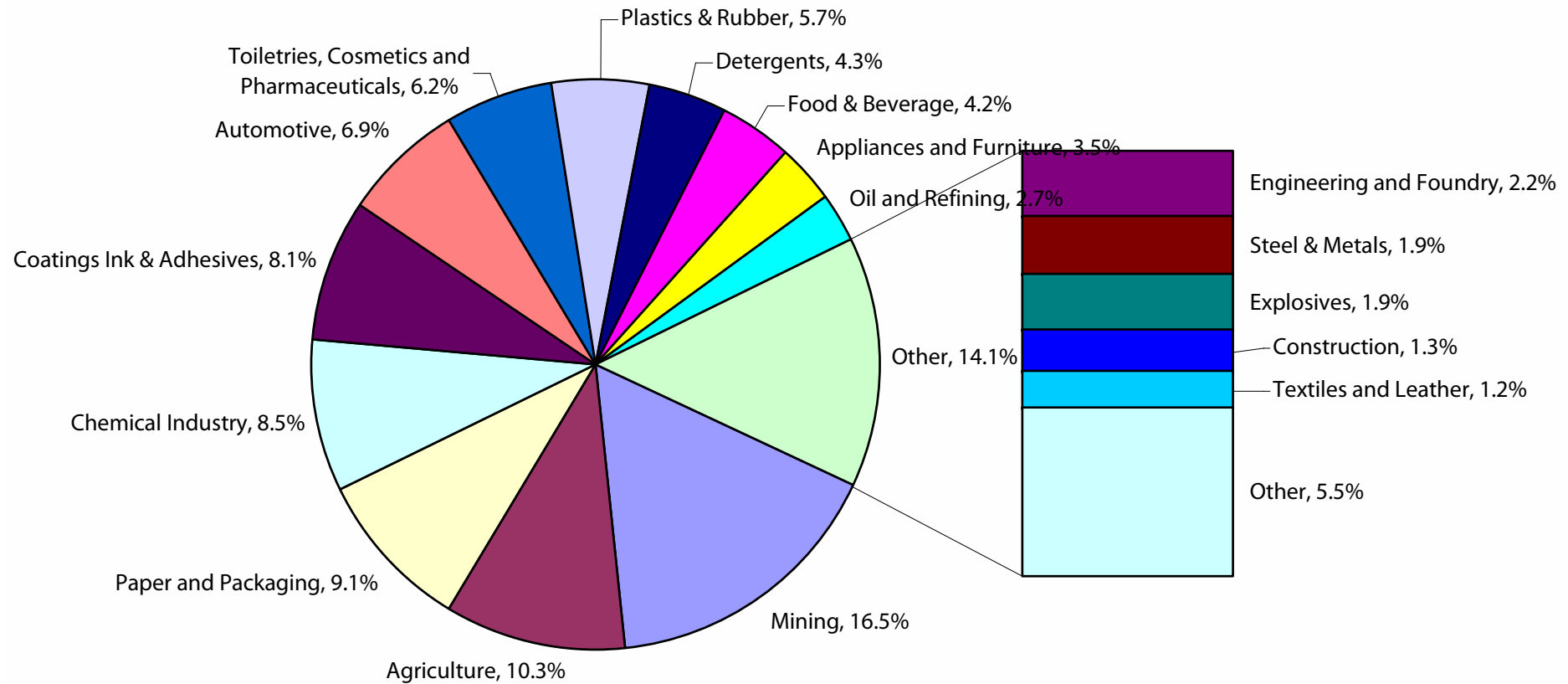


Specialty chemicals

- Revenue R4 729m (+24%); TP R501m (+22%)
 - margin 10.6% (10.8%)
 - about 50% of improvement from organic growth
- High and volatile oil prices and raw material shortages, together with a weaker rand, reversed deflationary pricing of '05
- Strong demand from revitalised manufacturing, consumer-driven and mining sectors



SALES BY INDUSTRY 2006





Specialty chemicals cont.

- **Growth strategies**
- **Acquisitions: R155m spent including**
 - **Leochem (petroleum jelly merged with Akulu)**
 - **Noble Industries (granular enhancement products merged with Lake)**
 - **60% shareholding in Resitec, Brazilian supplier to rubber industry**
 - **Cape Town Chemicals (solvent distributor) acquired by Crest**
 - **Tradezone merged with Industrial Urethanes**
- **All performing to expectation**



Specialty chemicals cont.

- **Growth strategies**
- **Brazilian country strategy**
 - Resitec delivered pleasing performance notwithstanding a strong currency
 - expansions underway to increase capacity
 - actively seeking further acquisitions in Brazil
- **Other; with resource-based economy and value added opportunities**



Specialty chemicals cont.

- Mining chemical thrust
- Successful commissioning of depressant plant at Senmin
- Vendor management programme and expansion of African footprint gained momentum
- Two major capital projects
 - carbon disulphide capacity at Senmin to be expanded and pelletised xanthate facilities installed for R230m
 - deal under discussion with global technology partner to construct world-scale plant costing R380m for specialty mining chemical



Specialty chemicals cont.

- Other
- Decided to exit overtraded Masterbatch operation; sold business subject to competition Commission approval
- Presentation on 10 May



Specialty fibres

- Revenue R1 780m (+10%); TP R-6m (+R32m in '05)
- **Recovery programme set back severely in Q1 by power outages which impacted operations for weeks**
- **Insurance claim covered only part of the cost**
- **Output of polyester polymer and PET restricted following scheduled maintenance shutdown and expansion project in March**
- **This and initial quality problems led to concerns among some customers, resulting in reduced market share. However, local volumes regained progressively**



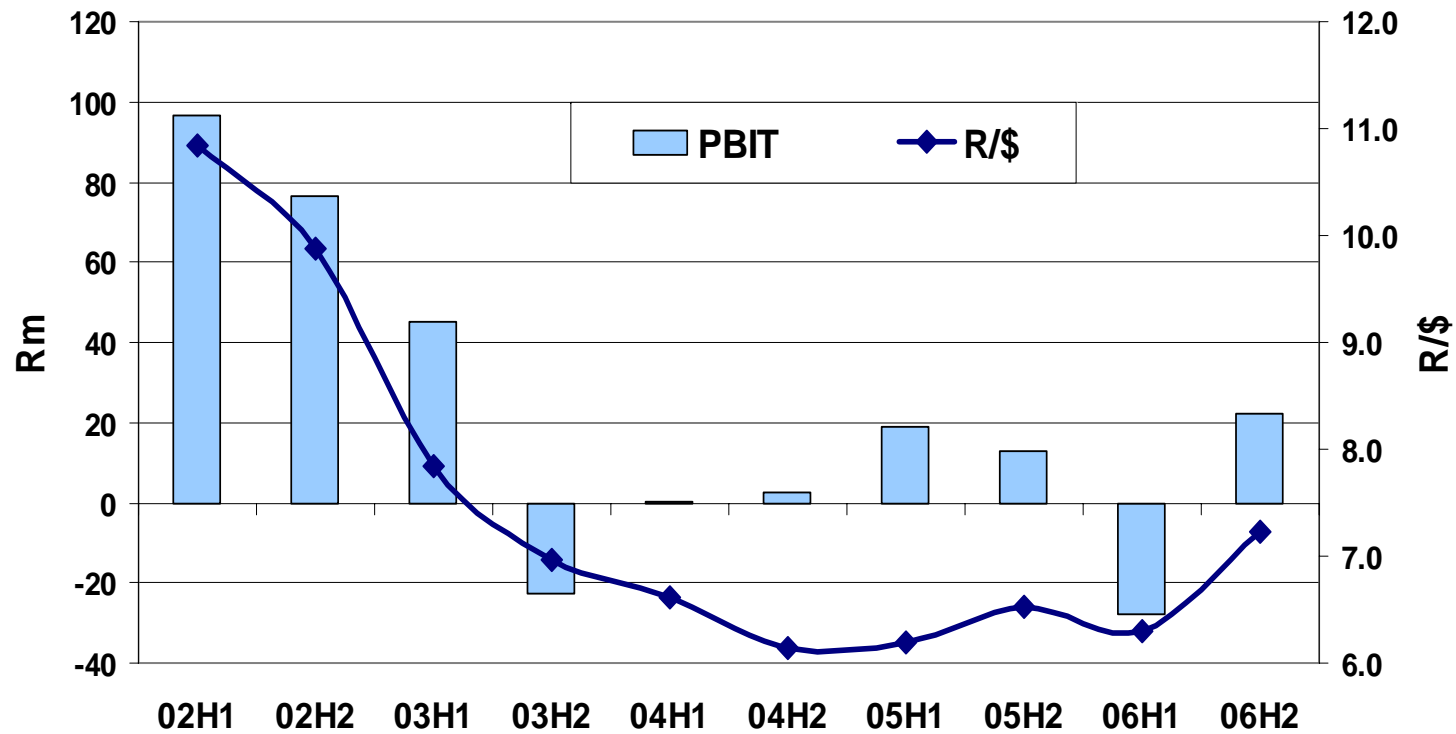
Specialty fibres cont.

- In second half, two incidents of *force majeure* by the major supplier of nylon polymer restricted output and a carbon dioxide shortage reduced local peak season PET demand
- Early in '07, Unifi Inc, partner in US-based joint venture advised its intention to exercise put option against SANS; provided for in initial joint venture agreement
- Unifi will exit in Q1 '08, for value still to be determined
- Opportunity will be taken to seek a strategic alliance with a new partner which could add value to SANS's business as a whole



Specialty fibres

Profit and exchange rate





Decorative coatings

- Revenue R774m (+19%); TP R70m (+19%)
 - margin 9.0% (9.1%)
 - maintained higher margin trend with focus on branded sector
- Volume increased by 10% supported by strong housing sales
- Acquired Sent Packing, for niche applications in specialised protective coatings
- Launched new colour system (sourced from ICI)



Property

- Revenue R644m (+6%); TP R314m (+70%)
- Includes R66m for environmental remediation
- Net cash flow of R296m, after expenditure of R134m on remediation
- Healthy demand continued in all areas for commercial, residential and retail sectors
- 1 460ha of the original 4 300ha excess land available has been sold (160ha in '06)



Property cont.

- In December, agreement regarding Gautrain concluded with the Province of Gauteng
- Agreement addresses the concerns regarding connectivity between various parts of Modderfontein
- Province agreed that seven additional road bridges will be constructed
- Agreement recognises the desirability of a station at Modderfontein when justified in terms of passenger volumes and economic considerations



Outlook

- **Favourable international environment and firm commodity prices should support local mining and manufacturing sectors**
- **Group to benefit from major investment programmes and property development activities, but mainly in '08 and '09**
- **Expect consumer demand to moderate but remain healthy**
- **Operating businesses well positioned to post aggregate gains, provided rand exchange rate does not strengthen materially**
- **Limited land ready for release and sale, and profit from property likely to be substantially below 2006**



Calendar

- **10 May:** Chemserve presentation, Johannesburg
- **21 May:** AGM
- **24 July:** Half-year results released
- **24 July:** Presentation, Johannesburg
- **25 July:** Presentation, Cape Town



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