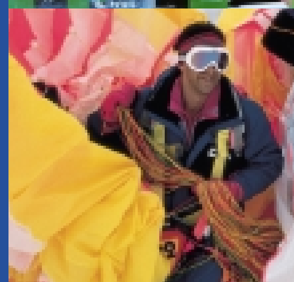
AECI LIMITED
ANNUAL REPORT
1999



transformation.....paying off

AECI LIMITED

76TH ANNUAL REPORT

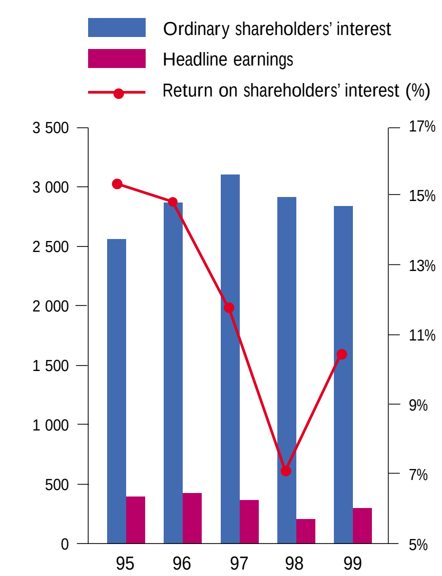
Year ended
31 December 1999

Registration number 04/02590/06

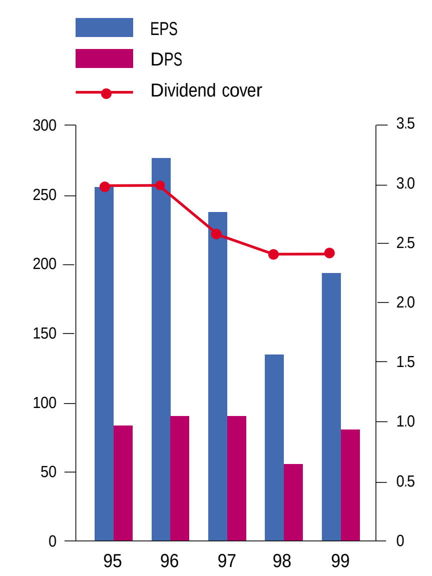
www.aeci.co.za

- Headline earnings up by 44 per cent
- Final dividend increased to 50 cents
- Gearing down from 50 per cent to 4 per cent
- Restructuring well advanced
- Improved earnings in prospect for 2000

Return on shareholders' interest (Rm)



Headline earnings and normal dividends per ordinary share (cents)



PROFILE

The current profile of AECI is the result of a wide-ranging business Transformation Programme initiated in 1998. This Programme aimed to restructure and revitalise AECI from a traditional, diverse chemical conglomerate to a focused, specialties Group in the chemical sector.

The strategy for rebuilding shareholder value was to exit the manufacture of bulk commodity chemicals which are subject to cyclical uncertainties and require scale and feedstock strengths.

Serving both global and regional markets, **explosives and initiating systems**; **specialty fibres**; and a diverse range of **specialty, fine and industrial chemicals** now comprise the three core business clusters of the new Group with an emphasis, more than ever before, on customer and service delivery.

Major Transformation aspects completed during 1999 were the disposal of AECI's shareholding in Polifin and the signing of a long-term ammonia supply agreement with Sasol that enabled the Group to close its nitrogen production facilities. Another key step was the finalisation of a joint venture in Kynoch Fertilizer with Norsk Hydro of Norway.

The AECI Group has significant prime land holdings that offer great potential for commercial, industrial and residential development. To this end, Heartland Properties was established to unlock value through accelerated land sales.

The Corporate Centre will continue to drive the transformation strategy while focusing on the promotion and consolidation of a more nimble, performance-driven culture.

VISION

To deliver performance acceptable to shareholders through the growth of distinct, market-aligned, specialty chemical manufacturing businesses requiring low to medium capital and serving global and regional niche markets.

As the holding company AECI Limited will provide the financial substance, internationally recognised status and the appropriate physical and functional infrastructure to support the businesses in achieving their strategic objectives. In addition, the Corporate Centre will foster a culture of customer intimacy and facilitate the achievement of demanding performance targets.

KEY CORPORATE VALUES

- To focus intensely on the customer
- To operate honestly, with integrity, and care for others
- To operate safely and with care for the environment and for society
- To embrace performance excellence
- To reward employees commensurate with performance
- To encourage innovative, dynamic and nimble behaviour.

Dear Shareholder,

AECI'S FAR REACHING TRANSFORMATION AND RESTRUCTURING PROGRAMME WAS PURSUED WITH VIGOUR AND CONSIDERABLE SUCCESS DURING THE YEAR UNDER REVIEW. I AM PLEASED TO REPORT THAT, SINCE OUTLINING THE DETAILS OF THESE PLANS IN LAST YEAR'S REPORT, AECI HAS EVOLVED CONSIDERABLY. FROM A CONGLOMERATE DOMINATED BY HIGH VOLUME, CONTINUOUS PROCESS COMMODITY CHEMICAL MANUFACTURE, THE GROUP HAS UNDERGONE A RADICAL STRATEGIC REPOSITIONING. IT IS NOW CHARACTERISED BY THREE SPECIALISED CLUSTERS, WITH STRONG POSITIONS IN EITHER REGIONAL OR GLOBAL MARKETS.

This transition was accomplished through the following key initiatives:

- the decision to withdraw from upstream production of ammonia and other nitrogen derivatives, and the simultaneous conclusion of a long-term ammonia supply agreement with Sasol Limited to secure feedstock for African Explosives' operations;
- the disposal of the 40 per cent interest in chlor-alkali and plastics producer Polifin to Sasol for R2.13 billion;
- the disposal of a controlling 50 per cent shareholding in Kynoch Fertilizer to Norsk Hydro of Norway;
- the closure of SANS Fibres' textured polyester yarn factory at Hammarsdale with operations now concentrated at the Bellville plant;
- the downsizing, restructuring or disposal of a significant number of head office and support functions as well as minor operations.

As a consequence, the strength of the new AECI is now focused in mining solutions (explosives); specialty, fine and industrial chemicals; and specialty fibres. All of these performed satisfactorily in 1999 despite a lacklustre domestic economy and subdued global demand for performance chemicals in general.

The pleasing 44 per cent year-on-year increase in headline earnings to 193 cents, albeit off a low base, mostly reflects the tangible benefits of cost reductions delivered by the Transformation Programme. Across the Group, structures were simplified, functional duplications rationalised and non-core activities outsourced. Resultant savings, on an annualised basis, amounted to R250 million by year-end. Regrettably, as part of this necessary yet often painful process, 4 100 jobs will have been lost, excluding disposals of other businesses. The total cash cost of this process will amount to some R500 million, giving a payback of less than two years.

The sale of AECI's stake in Polifin gave rise to a book profit of R1.17 billion in 1999. This funded the Transformation Programme and also enabled the Group to post record attributable earnings, net of exceptional charges, of R974 million for the year.

The sales of Polifin, Kynoch Fertilizer and minor divestments returned cash proceeds of R2.4 billion during the year. These funds were applied, in the first instance, to reducing the Group's debt, which had risen to R1.7 billion by mid-1999. In addition, the non-capital intensive nature of the new AECI's businesses made it possible to return surplus funds to shareholders and in November a R6 special dividend was paid. A final normal dividend of 50 cents per share made the total distribution for the year R6.80 per share. Excluding the special dividend, dividend cover was maintained at 2.4 times.

Although the restructuring has progressed well, a number of important goals remain. Various further disposals, including the Company's stakes in Fedmis and Huntsman Tioxide, as well as the decorative division of Dulux, will be pursued. Although good progress was made regarding the key challenge of evolving the Group's culture into a more customer focused, nimble and action-biased organisation, much still has to be done.

Two other thrusts that will receive increased attention in 2000 will be the realisation of surplus properties and the development of a viable biotechnology and fine chemicals business unit.

Although much of the Group's focus in 1999 was on transformation and the unlocking of shareholder value, the key area of safety, health and environmental management received much attention, and the Classified Injury Incidence Rate was reduced further. Social responsibility programmes, although cut back on prior years, made meaningful contributions towards the upliftment of neighbouring communities.

Regarding prospects for 2000, the external environment has improved considerably, with many indicators pointing to a period of sustained global and domestic economic growth. Combined with the ongoing benefits of being a leaner, more specialised and focused Group, headline earnings should exceed those for 1999, notwithstanding the sale of Polifin and the significant capital distribution to shareholders in November 1999.

I would like to thank Lex van Vught, the Managing Director, for taking on the difficult and challenging task of restructuring AECI, and for making excellent progress in a weak trading and investment environment. Thanks are also due to the rest of the AECI team who have responded positively to the reinvigoration and reform of the Group's operations.

Tony Trahar
Chairman

24 February 2000

Directorate and administration

DIRECTORATE

A J TRAHAR
Chairman
Executive Director Anglo American plc
Executive Chairman Anglo Forest Products and Anglo Industrial Minerals
Chairman Mondi Limited

L C VAN VUGHT
Managing Director

L BOYD
Vice Chairman Anglo American plc
Chairman Anglo American Platinum Corporation Limited
Chairman Highveld Steel and Vanadium Corporation Limited

N C AXELSON
Executive Director

C B BRAYSHAW
Retired Chairman
Deloitte & Touche

E K DIACK
Executive Vice President: Finance
Anglo Industries and Anglo Ferrous Metals

V C LIDDIARD
Executive Director

G R PARDOE
Executive Director Anglo American Corporation of South Africa Limited

A E PEDDER*
Retired Director Technology
ICI plc

B A ST. JOHN
Alternate to G R Pardoe

C M L SAVAGE
Chief Executive Officer
Tongaat Hulett Group Limited

* British

ADMINISTRATION

Secretary and registered office

M J F Potgieter

First floor
AECI Place
24 The Woodlands
Woodlands Drive
Woodmead
Sandton (no mail deliveries to this address)

Postal address:
Private Bag X21
Gallo Manor
2052

Telephone (011)806-8700
Telefax (011)806-8701

London secretary

Anglo American plc
20 Carlton House Terrace
London SW1Y 5AN
England

Transfer secretaries

Computershare Services Limited
41 Fox Street
Johannesburg
and
Computershare Services plc
P O Box 82
The Pavilions
Bridgewater Road
Bristol BS99 7NH
England

Auditors

Deloitte & Touche

KPMG Inc.

Bankers

First National Bank of Southern Africa Limited

Nedcor Bank Limited

The Standard Bank of South Africa Limited

EXECUTIVE DIRECTORS
and their principal responsibilities

LEX VAN VUGHT (56)
B Comm BSc Hons
Group Managing Director

AECI Bioproducts
Chemical Services
Fine Chemicals Group
Industrial Urethanes
Heartland Properties
Group Communications
Group Human Resources
Safety, Health and Environment
Technology and Strategic Resources

Joined AECI in 1968; appointed Managing Director in 1998.

NEALE AXELSON (51)
BSc Hons

Acrylic Products
AECI Coatings
Dulux
SANS Fibres
Accounting and Finance
Legal and Secretarial
Retirement Funds

Joined AECI in 1972; appointed an Executive Director in 1989.

VERNON LIDDIARD (57)
PhD MBL

African Explosives
Fedmis Phalaborwa
Kynoch Feeds
Kynoch Fertilizer
Kynochem
Nitrogen Products

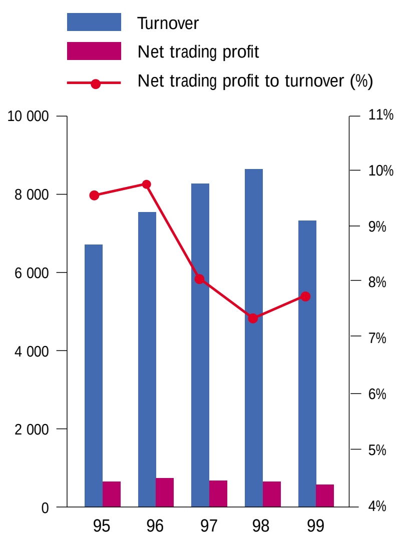
Joined AECI in 1960; appointed an Executive Director in 1998.

Analysis of ordinary shareholders

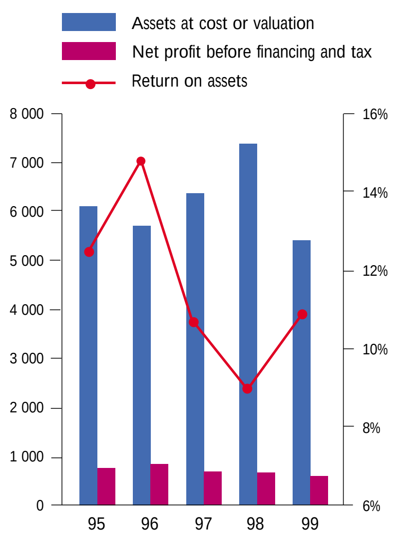
	Shareholding (%)
ABSA Nominees (Pty) Limited	4
Anglo South Africa (Pty) Limited	53
First National Nominees (Pty) Limited	3
Nedcor Bank Nominees Limited	3
Old Mutual Nominees (Pty) Limited	4
Standard Bank Nominees (Tvl) (Pty) Limited	18
Other – of which, according to the register of members, no single shareholder owns more than two per cent	15
	100

Size of shareholding	Number of shares (thousands)	% of total	Number of shareholders	% of total
1 – 1 000	524	–	1 805	78
1 001 – 10 000	1 324	1	382	17
10 001 – 100 000	2 832	2	87	4
Over 100 000	149 987	97	33	1
Total	154 667	100	2 307	100

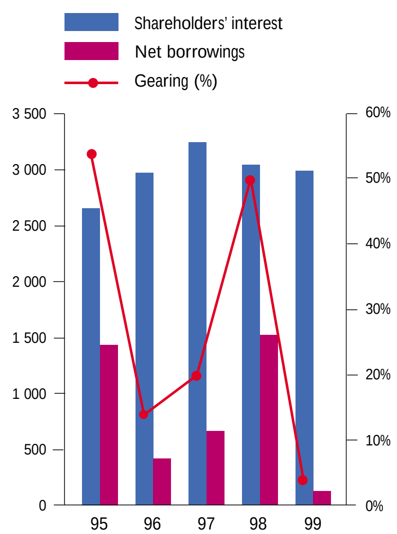
Net trading profit and turnover (Rm)



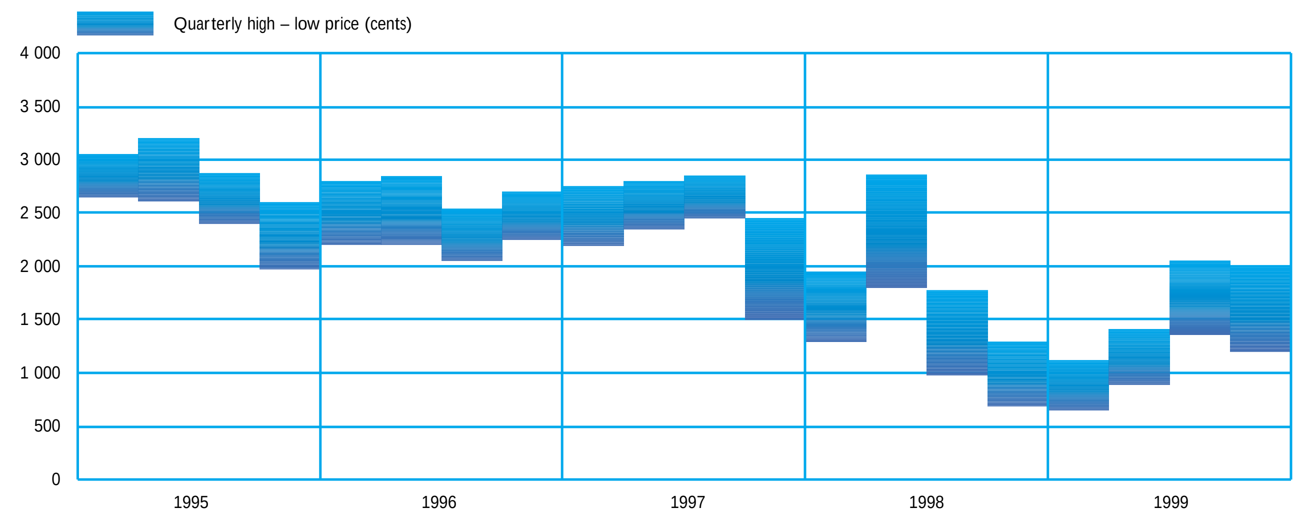
Return on assets (Rm)



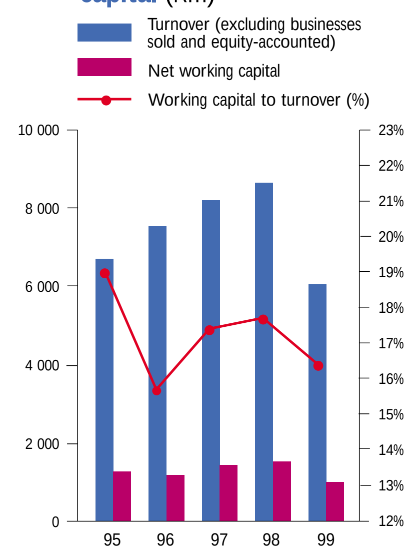
Shareholders' interest and net borrowings (Rm)



Ordinary share price



Turnover and net working capital (Rm)



Financial calendar 2000

Last day to register for 1999 final ordinary dividend No. 132	17 March
1999 final ordinary dividend No. 132 paid	26 April
Preference dividend No. 124 paid	15 June
76th annual general meeting	7 June
2000 interim report released	3 August
Last day to register for 2000 interim ordinary dividend No. 133	18 August
2000 interim ordinary dividend No. 133 paid	27 September
Preference dividend No. 125 paid	15 December
Financial year end	31 December
2000 audited results released	March 2001
2000 annual report posted	March 2001

Foreign currencies

The following conversion guide is provided to facilitate the interpretation of this report. At 31 December one foreign unit was worth approximately:

	1999 R	1998 R		**1999 R**	1998 R
Deutschemark	**3.17**	3.51	Euro	**6.19**	6.76
Pound Sterling	**9.96**	9.73	Swiss Franc	**3.85**	4.27
US Dollar	**6.16**	5.88			

AECI Limited Core clusters and other businesses

AT 24 FEBRUARY 2000

CORE CLUSTERS

Mining solutions

African Explosives Limited

Managing Director:
Graham Edwards (45)
BSc (Eng) B Comm MBA PhD

Provision of mining solutions: commercial explosives, blasting agents, initiating systems and associated equipment, consulting services.

Specialty, fine and industrial chemicals

Chemical Services Limited (63%)

Managing Director:
Schalk Engelbrecht (54)
BSc MBL

Manufacture and supply of specialty chemicals and systems and chemical raw materials.

AECI Aroma and Fine Chemicals (Pty) Limited

General Manager:
Geoff Blewett (45)
BSc (Chem Eng)

Manufacture of antioxidants for the international edible oils market.

AECI Coatings (Pty) Limited (80%)

Managing Director:
Paolo Candotti (47)
BSc (Eng) MBL Pr Eng

Manufacture, distribution and marketing of automotive, refinishing and industrial coatings.

Industrial Urethanes (Pty) Limited

Managing Director:
Andrew Adrian (60)
BSc (Eng)

Manufacture and marketing of polyurethane elastomers and foam systems for a broad range of applications.

Kynochem (Pty) Limited

Managing Director:
Malcolm Dawkins (47)
BSc (Hons)

Manufacture and marketing of a range of industrial, water treatment and specialty chemicals.

Specialty fibres

SANS Fibres (Pty) Limited

Managing Director:
Thys Loubser (46)
B Eng M Project Management
Pr Eng

Manufacture of nylon and polyester specialty performance filament yarns as well as polyester polymer and PET for packaging.

PROPERTY

Heartland Properties (Pty) Limited

Managing Director:
Wayne Holder (37)
Dip Project Management

Realisation of land and property surplus to the Group's operational needs.

OTHER BUSINESSES

Acrylic Products (Pty) Limited

Managing Director:
Dieter Schlosser (59)
PhD

Acrylic sheet, acrylic cements, polycarbonate sheet and LLDPE extruded sheet.

AECI Bioproducts (Pty) Limited (60%)

Managing Director:
Ross Norton (53)
BSc (Chem Eng)

Manufacture of animal nutrition additives.

Dulux (Pty) Limited

Managing Director:
Charles Betts (51)
BSc (Eng) B Comm

Manufacture and marketing of decorative and specialised coatings in southern Africa.

Fedmis Phalaborwa (Pty) Limited (50%)

Chief Executive Officer:
Vic Moore (55)
BSc (Chem Eng)

Phosphoric acid manufacture.

Kynoch Feeds (Pty) Limited

Managing Director:
Hannes Kotzé (56)
B Comm

Manufacture and trading of calcium phosphates and other selected raw materials for the animal feeds industry.

Nitrogen Products (Pty) Limited

General Manager:
Tiff Whitehouse (35)
BSc (Chem Eng) B Comm

Ammonia and urea production and distribution.

MAJOR ASSOCIATED COMPANIES

Huntsman Tioxide Southern Africa (Pty) Limited (40%)

Kynoch Fertilizer (Pty) Limited (50%)

CORPORATE FUNCTIONS

Accounting and Finance	Chris Sinclaire (50) CA (SA)
Group Communications	Michael Blizzard (58)
Group Human Resources	Jacques Pienaar (40) BA
Group Technology, Strategic Resources, and Safety, Health and Environment	Lincoln Partridge (57) BSc (Eng)
Retirement Funds	Louis van der Walt (45) B Iuris LLB

Value added is the difference between revenue received from sales and the cost of raw materials, goods and services purchased outside the Group. It represents the basic surplus of income over expenditure generated by the Group and its employees through manufacturing and selling products and services.

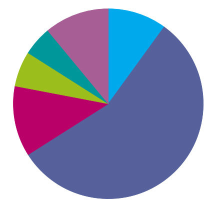
	1999 R millions	%	1998 R millions	%
Turnover	7 311	100	8 646	100
Purchased materials and services	5 143	70	6 107	71
Value added through operations	2 168	30	2 539	29
Other income	184	2	51	1
Total value added	2 352	32	2 590	30
Distributed to:				
Employees	1 314	56	1 558	60
Lenders	284	12	351	14
Shareholders	133	6	96	4
Direct taxes	128	5	114	4
Reinvested in the Group	265	11	158	6
Exceptional items net of taxaton	228	10	313	12
– exceptional items per the income statement		(700)		313
– special dividend paid	928		–	
	2 352	100	2 590	100

Monetary exchanges with the state

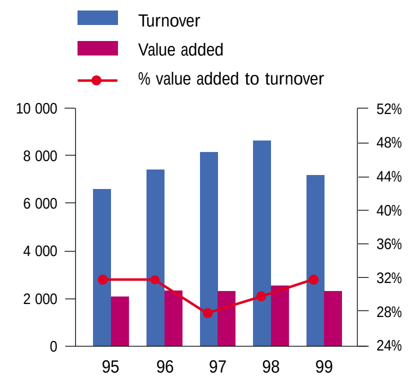
The following monetary exchanges with the state took place during the year:

	1999 R millions	1998 R millions
Direct taxes	128	114
Employees' tax collected on behalf of the state	195	282
Property taxes paid to local authorities	18	20
RSC Levies paid to local authorities	16	16
VAT collected on behalf of the state	91	61
Channelled through the Group	448	493

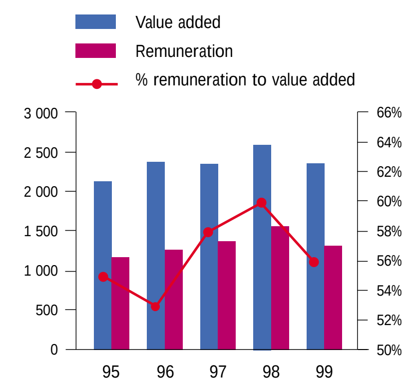
Distribution of value added



Turnover and value added (Rm)

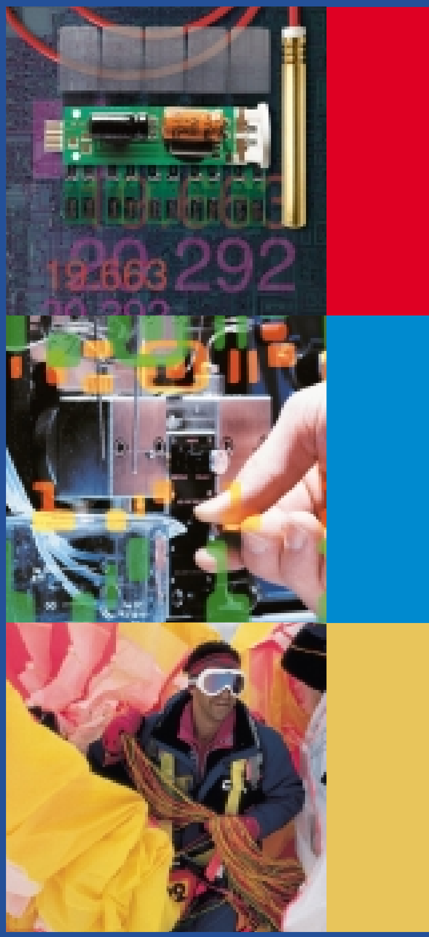


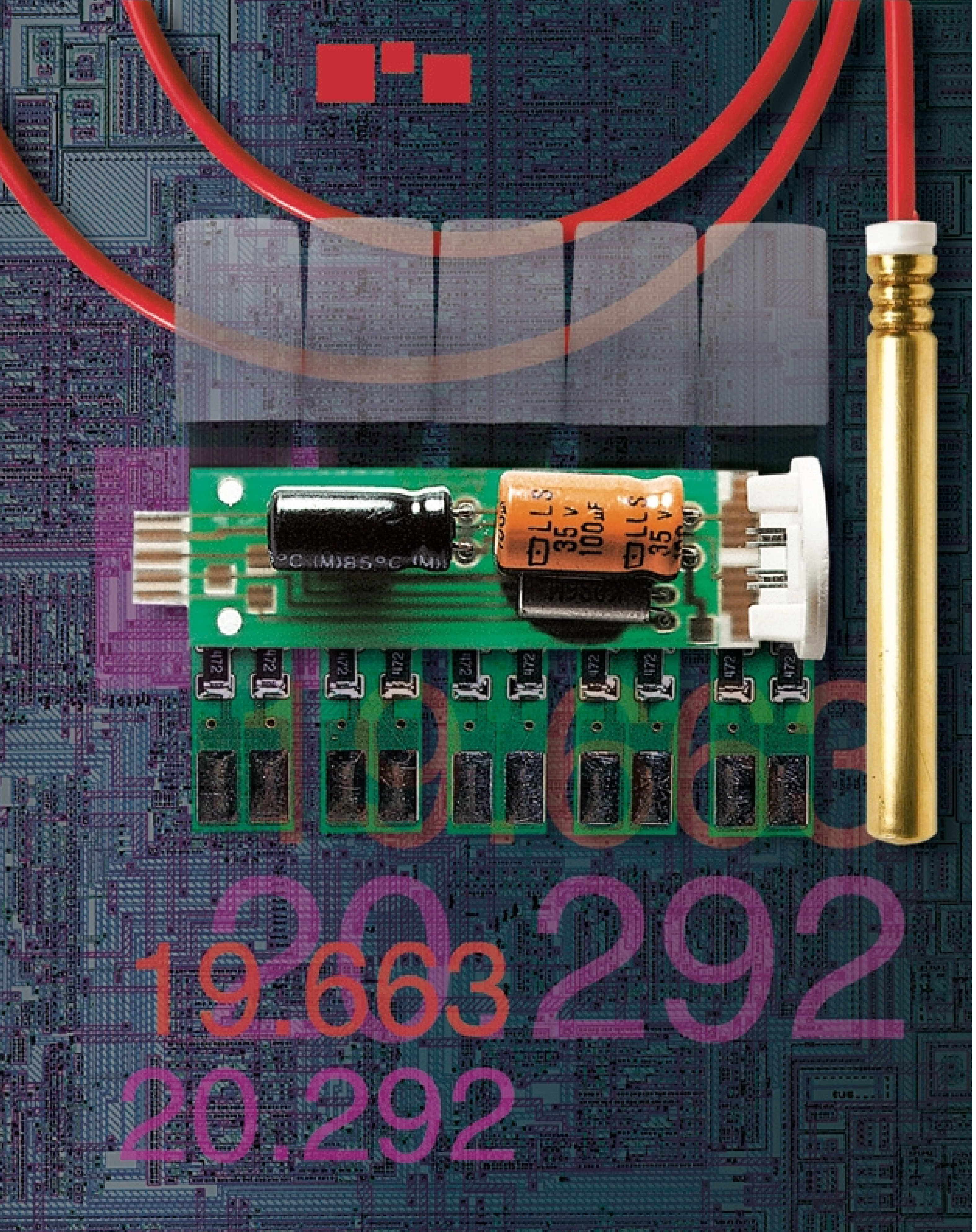
Value added and remuneration (Rm)

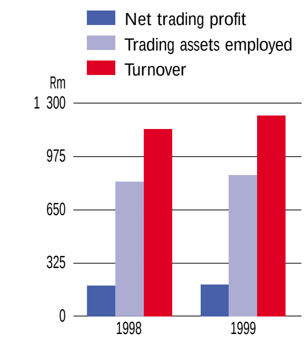


REVIEW OF OPERATIONS

Performance of the three core clusters was very satisfactory, despite a weak domestic economy and subdued global demand for performance chemicals in general. In 2000 particular emphasis will be placed on further developing the growth strategies of the clusters.





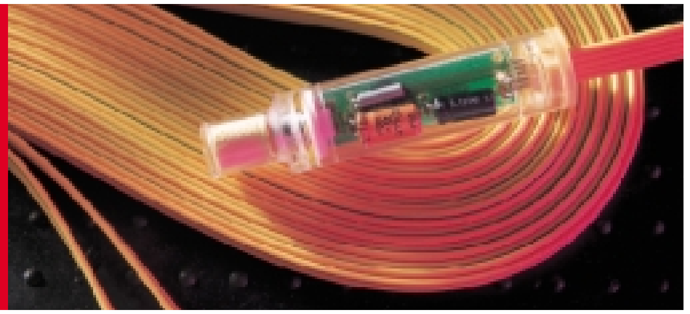


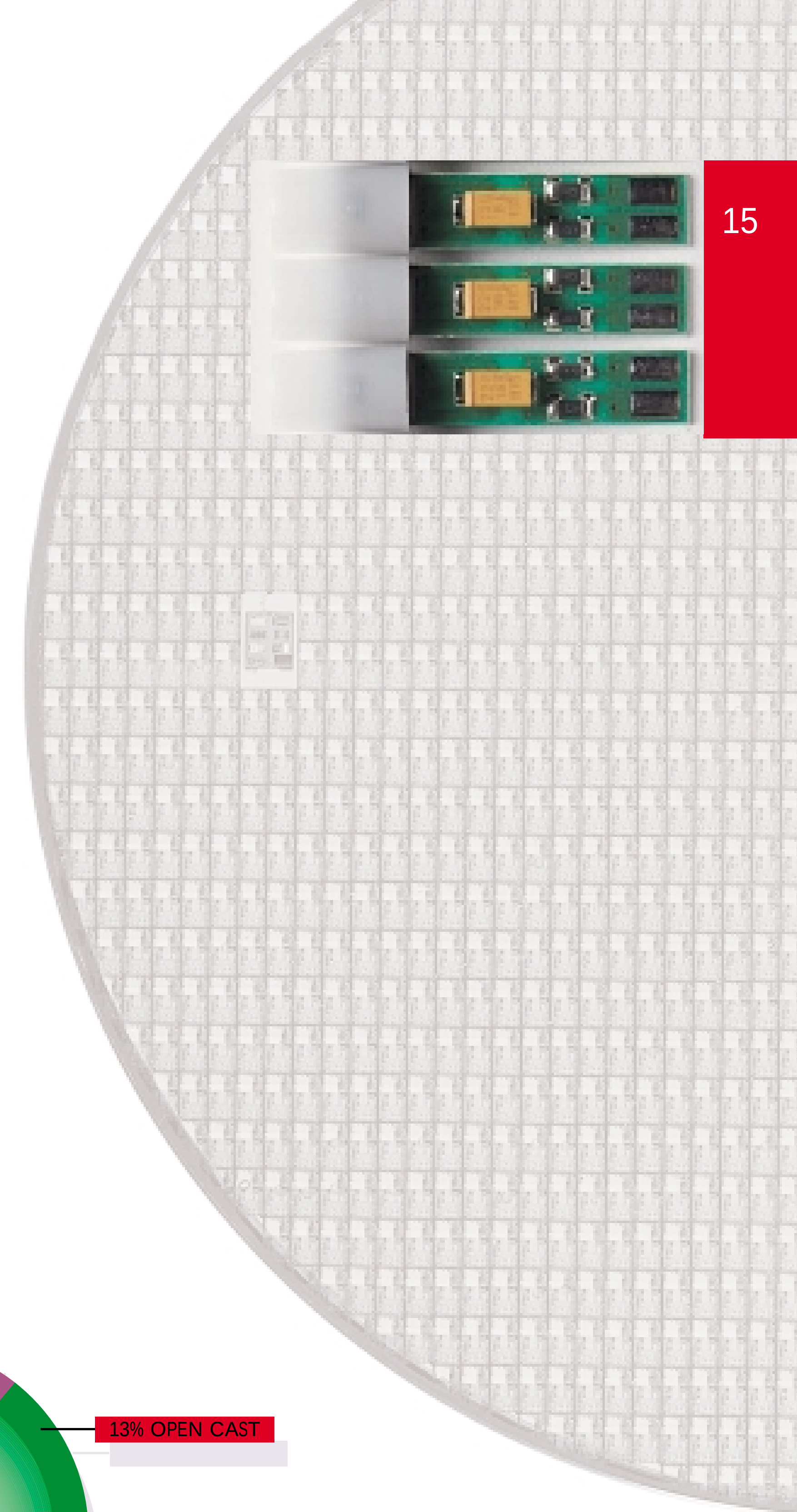
AFRICAN EXPLOSIVES (AEL) IS MOVING STEADILY TOWARDS ITS GOAL OF DOUBLING 1995 PROFITABILITY AND TURNOVER BY 2005. THE COMPANY IS DRIVEN BY ITS DEFINED PURPOSE OF UNLOCKING WEALTH THROUGH PARTNERING WITH ITS CUSTOMERS AND DELIVERING LEADING BLASTING SOLUTIONS. IN PURSUIT OF THIS, AEL IS FOLLOWING A TWO-PRONGED VISION. ON THE ONE HAND, IT AIMS TO MAXIMISE THE CREATION OF OPPORTUNITIES AND VALUE FOR SHAREHOLDERS AND EMPLOYEES THROUGH THE DEVELOPMENT, MANUFACTURE AND SUPPLY OF VALUE-ADDING SERVICES, INITIATING SYSTEMS AND EXPLOSIVES. ON THE OTHER, THE OBJECTIVE IS TO TRANSFORM THE INTERNATIONAL MARKET FOR INITIATING SYSTEMS BY GROWING ITS POSITION AS THE WORLD'S LEADING SUPPLIER OF HIGH-VALUE, LOW-COST ELECTRONIC DETONATORS.

AEL's growth strategy will drive the achievement of these objectives and the company is poised for significant expansion and penetration into Africa, in particular. This involves concentrating on four action plans:

• The longer-term focus, over the next three to five years, is on consolidating the company's position as the leading international manufacturer of high-value, low-cost electronic detonators, with the accent on programmable products. Currently manufacturing 20 per cent of the world's detonators, AEL already produces more than two million electronic detonators annually. The plan is to increase production to 15 million a year by 2003. Substantial investment is also being made in the development of a new all-purpose programmable electronic detonator suited to open-cast, underground, quarry and construction blasting activities. The new product, the installation of automated production for the AEL-Smartdet* (used mainly in surface applications, massive mining and tunneling) and the securing of global rights for the technology of the AEL-Electrodet* (designed specifically for narrow reef mining) are expected to pave the way for greater success in the electronic detonator business in Africa and beyond.

• The short- to medium-term objective revolves around new business in Africa. This means enhancing the trend of analysing, assessing and identifying new markets, either for joint ventures or grass-roots operations. AEL has operating assets in South Africa, Ghana, Tanzania, Zambia, Zimbabwe and Botswana, and trades in Kenya, Namibia, Malawi, Mozambique, Uganda and the Democratic Republic of Congo. It





is also exploring various expansion opportunities in other African territories. In its effort to provide leading blasting solutions in Africa, AEL is making the latest blasting technology available to its African customers particularly in the mining and construction industries. Since foreign investment is another key factor, AEL will continue to invest directly in identified African markets, as it has done in Ghana, Tanzania and Zambia.

• In addition to its African initiative, AEL is exploring options for expanding exports of its products and services elsewhere in the world. The Middle East and South America have been identified as immediate possibilities. Alliances with other international explosives companies are being sought for this purpose. Interaction with other leading players in the industry will enable AEL to become more integrated into the global explosives industry.

• The final strategic leg concentrates on three main aspects of internal efficiency to sharpen AEL's competitive edge:

– Initial focus is on improvements to the existing infrastructure. This involves plant modernisation; upgraded process capability; further reduction in fixed costs, waste generation, working capital and overheads; investment to enhance product quality; and better logistics in Africa.

– Next is innovation and procurement of technically advanced products and services. Here AEL is particularly committed to aspects such as further development of electronic detonator technology and value-added services.

– Thirdly, the company is constantly evaluating industrial rationalisation and manufacturing alliance opportunities to enhance products and services for existing and potential customers.

– Finally, the potential for improvement in internal efficiency will in no small measure be due to unwavering commitment by AEL to its transformation initiative. Introduced by the company as part of its policy to develop employees, the Transformation Forum comprises management and employee representatives who meet regularly to discuss and agree growth strategies, as well as plans for their implementation. Because of the mature relationship that has evolved between the parties, the efforts of the forum played a major role in productivity increases, in certain areas, of up to 60 per cent in 1999. A significant achievement has been the joint acceptance by management and the unions of the company's vision and goal. That the Transformation Forum is actively involved in finding common ground for achievement of this vision and goal, will be a major contributor to the future success of AEL.

1999 performance

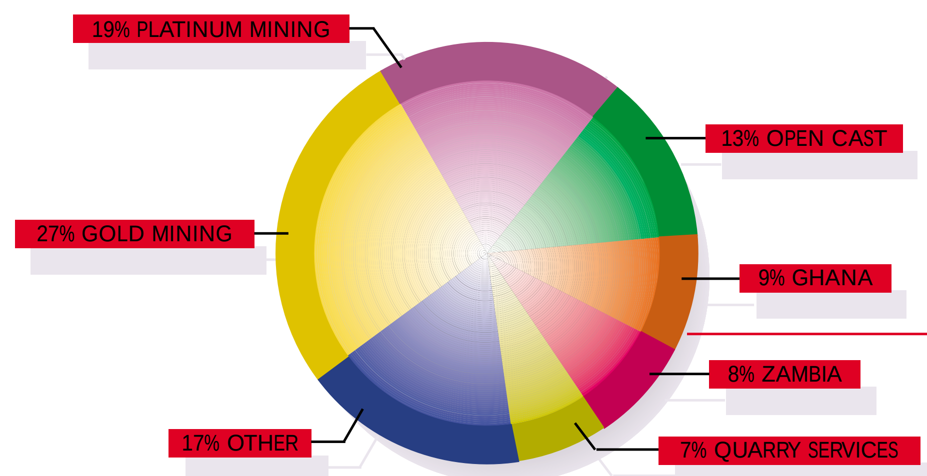
Satisfactory growth was achieved in both sales and profits. Overall sales rose more than 7 per cent, mainly due to increased sales of electronic detonators, as well as some market share gains in South Africa. These increases were partially offset by weakness in Zambia, where delays in privatisation of the copper mines restricted the market. Volumes and revenue in Ghana were both affected by continued market pressures. In Tanzania, a new bulk emulsion plant was completed on time and within budget, and sales commenced in the second half-year.

Trading profits increased by almost 4 per cent to R195 million. Margins were satisfactory but a small underlying growth in fixed costs reduced the overall profitability percentage. These increased costs were due to such factors as the need to retain key staff, higher investment in research and development, the cost of bringing a new electronic detonator product to market, and the reduction of businesses on the Modderfontein site. This increased the cost burden on remaining operations but actions are in hand to ensure that costs are contained in future.

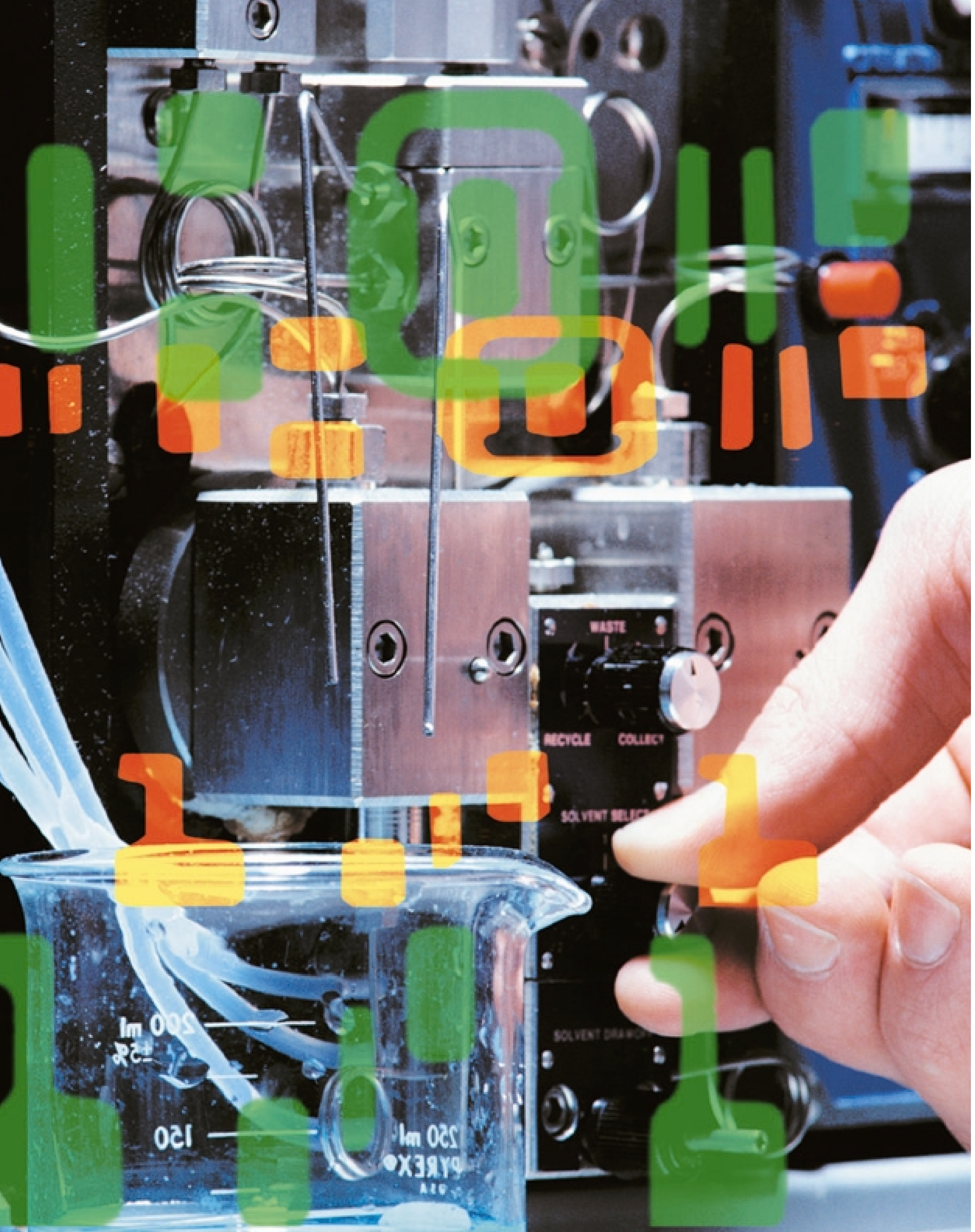
The business continued to invest, with capital expenditure well in excess of the depreciation charge. Investments included the new plant in Tanzania, additional bulk trucks and associated rapid reload systems, and the purchase of electronic detonator technology.

The outlook for 2000 is positive but will continue to depend on gold and platinum production levels, as well as relative political stability throughout the African continent.

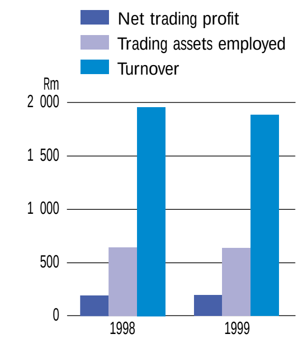
** Trademark*



SALES OF
EXPLOSIVES BY MARKET



Cluster: Specialty, fine and industrial chemicals

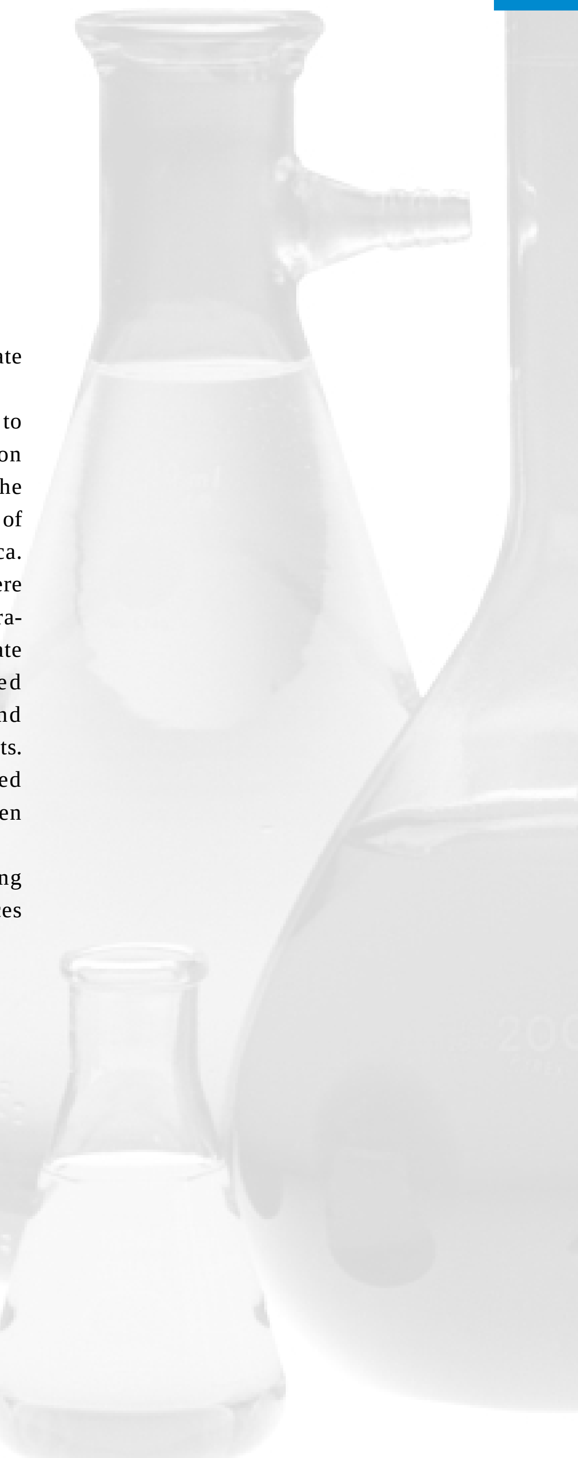


A KEY ELEMENT OF AECI'S TRANSFORMATION PROGRAMME CENTRES ON ITS EXIT FROM CONTINUOUS PROCESS, LOW MARGIN, BULK COMMODITY CHEMICAL MANUFACTURE IN PARALLEL WITH THE VIGOROUS PURSUIT OF SPECIALTY BUSINESSES WITH GOOD GROWTH POTENTIAL. PART OF ACHIEVING THIS NEW PROFILE HAS REQUIRED THE REALIGNMENT OF THE GROUP'S BUSINESS PORTFOLIO. ALTHOUGH THIS TRANSFORMATION IS NOT COMPLETE, THE SPECIALTY, FINE AND INDUSTRIAL CHEMICALS CLUSTER COMPRISES 19 AUTONOMOUS BUSINESSES, INCLUDING FIVE JOINT VENTURES.

Each of these businesses supplies its own, diverse range of chemicals and related services to clearly defined niche markets. This grouping of small to medium size businesses allows for a market-orientated, customer-focused approach, considered to be the ideal structure to service the specialty chemical industry. The Chemserve Group, together with Industrial Urethanes, Kynochem and AECI Aroma and Fine Chemicals comprise this cluster.

These highly focused businesses serve mainly the southern African region and their fortunes are coupled to the state of the economy's manufacturing sector. The recovery of this sector has been slow in the aftermath of the Asian crisis and interest rate volatility. Consequently, weak demand has been experienced across a broad range of industries. This resulted in performances that succeeded in matching those for 1998 although little growth was possible. Automotive, steel, construction, mining and white goods in particular were badly affected by the lacklustre economy. This was balanced by good performances from the oleochemicals, paper chemicals and water treatment businesses. It is pleasing to note that a general increase in demand was experienced during the fourth quarter of 1999. Early indications are that this upturn will be sustained or even accelerated in 2000.

Important elements of the strategic thrusts of the specialty cluster are the growth of the portfolio of businesses through acquisition and establishment of alliances or joint ventures with world class partners. An important step in this area was the establishment of a joint venture with PPG Industries Inc. of Pittsburgh, USA, in the technical coatings business. In terms of the agreement, the technical coatings unit of Dulux became a separate company, AECI Coatings, that will operate in the automotive, original equipment, refinish and general industrial coatings markets. Through the tie-up with PPG, AECI Coatings' customers throughout southern Africa will have access to PPG's latest products and process technology. The Group will also have access to additional PPG technologies, including industrial coatings, adhesives, sealants and metal pre-treatments.



Chemical Services

Chemical Services, the JSE-listed cornerstone of the specialty cluster, also strengthened and diversified its portfolio with the acquisition of Performance Masterbatch and Custom Colour, two businesses that supply colour compounds and pigments to the plastics industry. In a further rationalisation of its portfolio and technology interests, Chemical Services also sold its shareholding in Chemserve Surface Technologies, a.b.e. Construction Chemicals and Saarchem.

As part of the Group's Transformation Programme and in line with the intention of maximising the growth potential and competitive strengths of the core clusters, AECI's 50 per cent shareholdings in both Resinkem and Specialty Minerals South Africa have been acquired by Chemical Services. These transactions took effect on 1 January 2000, and returns for these high-tech service intensive businesses will be maximised in Chemical Services, with its excellent track record of developing and servicing specialty markets. The joint venture partners in Resinkem and Specialty Minerals are Georgia-Pacific Resins Inc. and Specialty Minerals Inc. respectively, both of the USA and world leaders in their fields of endeavour.

Although Chemical Services' turnover for 1999 declined as a consequence of its portfolio changes, as well as from a modest decline in overall volumes, benefits from cost rationalisation programmes yielded improved trading margins. This, coupled with lower finance charges, contributed to record headline earnings for the seventh successive year.

Organic growth and product development are further key components of the growth strategy of this cluster. A few achievements in this regard are worth noting. In the Chemical Services Group, Chemserve Trio completed the installation of a technologically advanced coin plating facility in China, and Industrial Oleochemical Products developed an impressive range of flotation agents for the mining industry. In addition, Pelichem has developed a range of products for recovery of minerals in the extractive metallurgy market sector, particularly platinum group metals.

In view of the high importance that the AECI Group places on safety, health and environmental matters, the accreditation of Nalco-Chemserve as the first company in the Group to comply with ISO 14001 standards was particularly pleasing.

The restructuring and rationalisation of the portfolio, together with recent acquisitions and expected improvement in demand for the products of the specialty cluster, bode well for the new millennium. A significant improvement in earnings from Chemical Services is forecast.

AECI Aroma and Fine Chemicals

In what can only be described as a watershed year, this fine chemicals operation doubled its sales revenue and reversed a R8 million loss in 1998 to a profit of R1.5 million. This turnaround was a consequence of a higher profile and credibility in the specialised international markets for phenolic food grade antioxidant applications. The company now produces about a quarter of the world's requirements for Tertiary Butyl Hydroquinone. Progress made in 1999 provides a good foundation for further growth in 2000.

This achievement was recognised outside the AECI Group when the company received a merit award for Product Development and Technical Innovation at the 1999 President's Awards for Export Achievement.

Industrial Urethanes

This company, which supplies a diverse range of customers with polyurethane elastomers and foam systems, maintained its established trend of delivering an acceptable performance, notwithstanding the particularly difficult economic conditions that impacted negatively on the consumer market in 1999.

Thanks to Industrial Urethanes' established culture of cost containment and innovative approach to new product opportunities, the company is well placed to continue growing and meeting the challenges of globalisation.

Kynochem

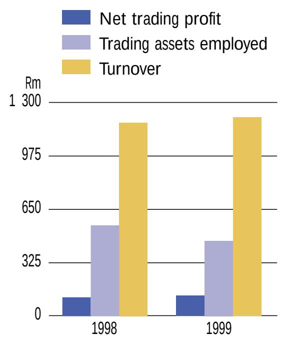
Several landmark events occurred in 1999 for this producer and distributor of industrial chemicals. All these events have enhanced the company's potential for future growth. Kynochem concluded its first empowerment joint venture with the formation of Watercare Africa, a company providing water treatment services and chemicals.

At Umbogintwini, the company's liquid sulphur dioxide plant capacity was doubled to meet growing demand in local and export markets. The formation of Kynochem Botswana and the commissioning of a solid calcium nitrate plant were other developments.

In the local market, demand continued to be depressed with increased competition in many sectors, which was offset by the very significant growth of exports of sulphuric acid into central Africa.

Kynochem's results for the year were hampered by some difficulties in operations at its Springs aluminium sulphate factory. This problem necessitated capital outlays on key equipment and also led to increased maintenance costs. Regrettably, product shortages resulted although the situation has since been normalised.

Growth prospects for 2000 are promising and a number of strategic alliances should be finalised early in the year.



SANS FIBRES CONTINUES TO PROSPER BY CONCENTRATING ON GLOBAL OPPORTUNITIES IN SPECIALTY FIBRES. THIS STRATEGY REQUIRES UNWAVERING FOCUS ON SELECTED NICHE MARKETS WHERE THE COMPANY HAS DEVELOPED A REPUTATION AS A WORLD LEADER. IN 1999, THE COMPANY ACHIEVED FURTHER GROWTH IN ITS SELECTED SPECIALTY INDUSTRIAL YARN SECTORS WITH MAJOR GAINS IN NYLON LOW SHRINK SEWING THREAD YARNS. THESE YARNS ARE USED IN MOULDED SPORTS SHOES AND SANS HAS BECOME THE LARGEST SUPPLIER TO LEADING INTERNATIONAL BRANDS.

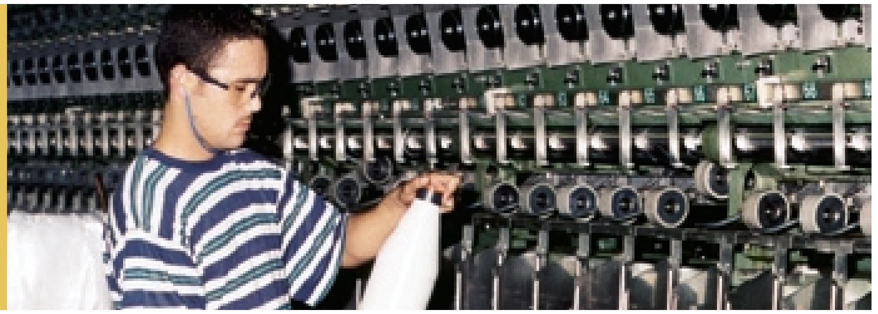
The introduction of high speed sewing machines by these end product manufacturers demands low shrink nylon 66 products and SANS' technology gives it a competitive edge in this regard. Although top producers of sports shoes in the Far East have moved to nylon 66, many producers still rely on older, low speed sewing machines that can accommodate nylon 6 yarns. SANS' growth in this market has occurred as these customers, in modernising their processes, have found that nylon 6 with its lower melting point does not allow maximum exploitation of the full speed potential of new equipment.

Continued emphasis in 2000 and beyond will be placed on growing niche industrial businesses, such as that for low shrink sewing thread yarns, while withdrawing from those commodity yarns that are less profitable.

Among the niche products considered to have great potential is the company's Colorcord* yarn. This is a spun dyed high tenacity polyester yarn used in the manufacture of luggage. The spun dyed manufacturing process is a more economical route to the final product. It is expected that about 1 000 tonnes of Colorcord* will be sold into the USA by the end of 2000. Concurrently the product will also be marketed locally, in Europe and in Asia.

A further opportunity to match the company's technological capacity with its niche market strategy has been identified in high tenacity embroidery yarns. Traditionally, this end-use has been satisfied by rayon, which is becoming increasingly costly. SANS has developed a high tenacity low shrink bright polyester yarn that matches the lustre of rayon at a more favourable price.

SANS' increasingly strong position in speciality industrial yarns has been partly at the expense of commodity apparel yarns. At the end of 1998 the decision was made to discontinue the manufacture of commodity textured polyester and to source the product from Unifi in the USA. This led to the decision to close the Hammarsdale factory which had fallen short of delivering an acceptable performance for a number of years. The closure was completed in 1999



and the assets were sold. The cost of closure was fully covered by the provision made at the end of 1998 and the transition to yarn sourced from Unifi was carried out successfully.

It is pleasing that the local market for PET into the consumer soft drink and packaging markets has continued to grow at around 25 per cent per annum. SANS' PET capacity of some 25 000 tonnes was fully utilised in 1999 and an additional 5 000 tonnes were imported to satisfy local demand.

The company has about 35 000 tonnes of spare base polymer capacity and, in order to capitalise on sales opportunities, approval has been given for the installation of a modern PET tower that will have a capacity of 60 000 tonnes per annum. The R60 million investment, at the company's Bellville site in the Western Cape, will produce high quality PET resin, most notably for 500ml and 2 litre softdrink bottles.

Using the latest technology, sourced from SANS Fibres' international partner Bühler AG of Switzerland, will increase production from 72 tonnes to 180 tonnes per day. The new plant will come on stream at the end of 2000 and sales of 40 000 tonnes into the local market are predicted for 2001. It is anticipated that the new plant will satisfy local requirements until about 2005. SANS will use the existing facility to manufacture certain specialty PET polymers.

SANS Fibres is one of two PET resin producers on the continent and has maintained its global reputation for producing a top quality PET product since 1982. Despite having been active in export markets including New Zealand, Australia, Israel and South America over the years, the company's increased output will be aimed at satisfying the demand of sub-Saharan Africa.

Through the R60 million investment, SANS Fibres is gearing to take advantage of growth in traditional markets, as well as the move to package fruit juice, milk and beer in recyclable PET. Additional production capacity will also support substantial downstream investment made by a number of the company's key customers in the swing from PVC to more environmentally friendly and consumer-appealing PET packaging materials.

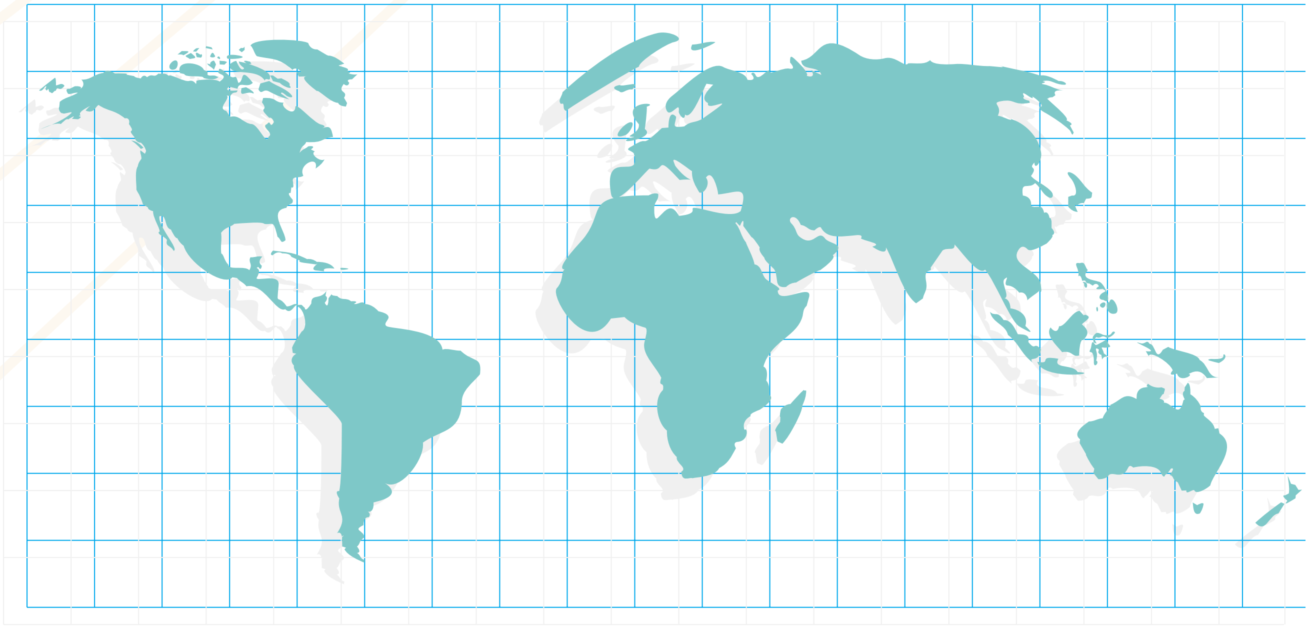
** Trademark*

DEVELOPED NICHE MARKETS

Seat belts - 70% Brazilian market
- 20% European market

Polyester sewing thread - 14% world market

Parachutes - 20% world market



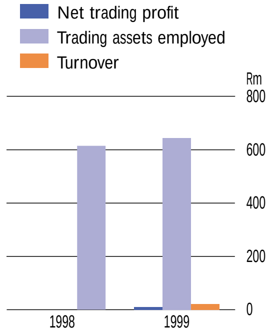
Automotive timing belts - 40% world market

Ball winding - Major supplier to the basket and volley ball winding industries

Nylon sewing thread - 40% world market
- 80% world's sports shoe brands

Broadloom substrates - 9% world market

Property



HEARTLAND PROPERTIES

As part its Transformation, the AECI Group has placed greater emphasis on realising the value represented by its property and land assets. To identify the most appropriate disposal strategy for each land holding, Heartland Properties, the Group's property agency, has initiated a nation-wide property audit. Heartland Properties was formed in January 1999 and its main business purpose is to facilitate the sale of land surplus to operational requirements, and to manage and optimise the value of existing property assets. Although non-core to the AECI Group, this company's activities are expected to make a significant impact on Group performance over the next decade.

The disposal of AECI's non-operational land assets gathered momentum in 1999. Over 4 000 hectares are available for alternative use in three principal locations; namely at Modderfontein, Somerset West and Umbogintwini. Several initiatives to dispose of and develop these assets are in progress. These three excellently located sites are not only the largest but also the oldest in the Group. Each has pockets of contamination that are the legacy of up to 100 years of industrial operation. These areas of contamination have been defined and characterised, and a wide-ranging programme put in place to manage and remediate the affected areas. As a consequence, realisation of land will not be curtailed.

Modderfontein

The first two phases of the 200 hectare Longmeadow Business Estate, adjacent to the N3 national highway, are underway. This follows the successful development of the Thornhill Estate where over 140 residential properties were sold over a 12-month period.

The first two phases of the 2 200 stand Klipfontein View development, on which affordable housing units are being developed, has sold out and the next two phases will be progressed in 2000. Other areas destined for development in 2000 include the 370 hectare Greenstone Hill, Frankenwald Estate (300 hectares) which lies adjacent to Modderfontein's 300 hectare Conservation Park, Highlands Estate near Midrand and the 48 hectare Founders View East industrial node.

Somerset West

At the Somerset West property 900 hectares of land are available for redevelopment in a highly sought-after, decentralised node within the Cape Town metropolitan area.

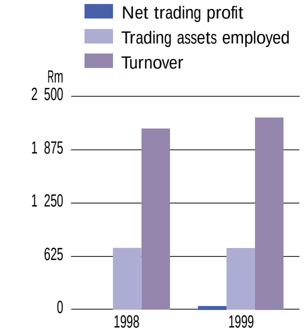
Heartland is currently managing three projects in the area. The first of these is The Triangle, situated adjacent to the Somerset Mall. It has rights for 240 000 square metres of commercial development and is expected to become the retail and business centre of the future for the Helderberg Basin. The Interchange, a 27 hectare light industrial park adjacent to the N2 highway and the R44, has sites ranging from 1 300 square metres to 30 000 square metres which are suitable for warehousing, wholesaling outlets and business parks. The third prospect is the first phase of the 43 hectare Somerset Ridge residential development which was 65 per cent sold out in the first two months with sales totalling over R7 million secured by the end of 1999. The development comprises 760 residential opportunities, with the construction of roads and services expected to commence in March 2000.

Future plans for Somerset West include major resort and leisure developments fronting the unspoiled False Bay coastline and Paardevlei, a 50 hectare freshwater dam on AECI's site, in addition to further phases of commercial, light industrial and residential developments.

Umbogintwini

Phase one of the R55 million Southgate Industrial Park development is taking shape on the 127 hectare site adjacent to the Umbogintwini Industrial Complex. Southgate occupies a desirable location in Durban's Southern Industrial Basin, being close to the airport, the CBD and the harbour. A number of companies, notably Old Mutual and Auto Carriers, have already invested in Southgate.

Other businesses



Acrylic Products

Lower raw material costs and improved efficiencies contributed to a welcome turnaround in results for the year. This improvement was achieved despite a marked decrease in local sales volumes. As a consequence of the restructuring undertaken in 1998, a pleasing reduction in working capital was recorded.

Acrylic Products' business in the year 2000 should continue to improve, with growth expected in the local sanitary ware and signage sectors. However, this positive outlook is tempered by the current upward trend in prices for methyl methacrylate, a key raw material, in line with movement in the oil price.

AECI Bioproducts (60%)

The company's plant operated at above design rates throughout the year. In parallel with this, however, lysine prices fell to historically low levels and this impacted severely on financial performance. The lysine price dropped to Dm1.80/kg, compared with its long-term average of Dm5.0/kg and its peak of Dm9.0/kg in 1997. This price behaviour, largely as a consequence of turmoil in Asian economies in 1998, demonstrates that the manufacture and sale of lysine has become a commodity business, and no longer the semi-specialty it was when AECI Bioproducts was established. Given AECI's strategy to exit commodity businesses, the plant will be converted to produce a range of low tonnage, higher value added amino acids. This change will utilise existing marketing and technology skills and only modest new capital expenditure will be required.

Although operational efficiency and rebated raw material prices reduced production costs, the business still traded significantly cash negative in 1999. World lysine prices are, however, now improving and the business should trade cash positive for the coming year.

New business development

The Group's Transformation Programme includes developing and growing existing fine chemical operations into a separate business cluster of critical size. Since the successful takeover of AECI's research and development facilities by the CSIR, the Group's Business Development Unit (BDU) has managed a programme of projects, undertaken by the CSIR, directed at new fine chemicals business opportunities in the fields of nutrition and health care.

The benefits of this arrangement have been evident in the CSIR's world class research management capability as well as in the BDU's ability to focus on enhancing its business development competence. Two projects, totalling some R100 million of capital, are expected to be submitted for sanction during 2000.

AECI Coatings (80%)

During the year, the Dulux coatings business was restructured to form three distinct operating units, of which AECI Coatings and AECI Packaging Coatings remain core businesses of the Group. As such, they will form part of the specialty, fine and industrial chemicals cluster.

The trading results of AECI Coatings were adversely affected by weak economic conditions that impacted on the automotive industry in particular.

In the fourth quarter, AECI Limited finalised negotiations to form AECI Coatings as an 80:20 joint venture company with PPG Industries Inc. of the USA, one of the world's leading automotive coatings manufacturers. The joint venture company will have access to the latest and most appropriate coatings technologies, thus enhancing growth prospects for this business. The company will offer internationally proven products to the South African market. As a result of the formation of the joint venture, PPG's Deltron* refinish product brand was introduced successfully to the market.

AECI Coatings is pursuing further restructuring in order to match global performance benchmarks, particularly those expected by automotive manufacturers. It is anticipated that PPG will make a significant contribution to the company's performance via the introduction of its operating processes and expertise to the joint venture. Improved results are consequently expected in 2000.

** Trademark*

AECI Packaging Coatings

This company maintained its strong position in the internal can coating market. Arrangements have been finalised whereby manufacturing of products is undertaken by AECI Coatings and sales and marketing are carried out by AECI Packaging Coatings.

Dulux

Results of this, the decorative division, were severely affected by depressed conditions in both the retail and construction sectors. Operating performance continued to improve, however, as a result of ongoing restructuring. Franchising of retail operations was completed and new opportunities for further sales improvements are being implemented. Market share was maintained. Despite volatile economic conditions, Dulux's foreign operations performed well and improved their market positions.

A new advertising strategy, focusing on the value of the Dulux* brand, was launched to general industry acclaim. The brand remains strong and is a major asset that continues to benefit this business's prospects. In the fourth quarter retail sales began to respond to improving economic conditions and the outlook for 2000 is promising.

Volumes in the marine and protective coatings market declined due to the conclusion of major construction projects. Short-term prospects in this sector remain weak.

** Trademark*

Fedmis Phalaborwa (50%)

Major overhauls to the sulphuric acid and phosphoric acid plants resulted in an increase in production capability. This, together with reduced local demand, resulted in an increase in exports. Manning levels at the Phalaborwa site were downsized, leading to substantial cost savings and improved results compared with 1998. The price, local sales and export trends prevailing in 1999 are expected to continue in the coming year.

Kynoch Feeds

A system for storing feed phosphates in bulk and for bagging product at high rates was installed at Kynoch Feeds' production facility at Umbogintwini. This will enhance logistical efficiencies and customer service. Plant output exceeded previous records and export sales volumes grew by 16 per cent. Local sales declined by nine per cent, however, owing to the difficult agricultural conditions that prevailed for most of the year.

With lower global demand for fertilizer grade phosphate, major integrated phosphate producers increased production and exports of feed phosphates. This resulted in depressed export selling prices in global markets and lower margins. Trading results were negatively affected as a result.

In the context of improved efficiencies and anticipated higher sales volumes, the outlook for the next 12 months is more positive although export selling prices and margins are expected to remain depressed for most of the year.

Nitrogen Products

This company, with its ammonia / urea complex at Modderfontein, underwent significant transformation that yielded a reduction of R55 million in the cost base for 1999. World nitrogen prices, having slumped to a 12 year low by end-1998, did not recover and only a slight upturn in ammonia prices was recorded in the last quarter. Several large urea plants were brought on stream internationally. Demand from China and India was again very poor and, with producers in the Former Soviet Union continuing to manufacture fertilizer for the purpose of earning foreign exchange, prices are expected to remain depressed in the short- to medium-term.

Notwithstanding the cost savings achieved, deterioration in world nitrogen markets finally forced a decision to close the ammonia / urea complex in March 2000. In spite of the turmoil caused by this and the transformation as a whole, the business performed well with the second best annual urea production ever and the third best ammonia production being recorded.

Plans to operate the business until closure are running smoothly as is the plan for handing over relevant site services and the ammonia distribution sections.

ASSOCIATED COMPANIES

Huntsman Tioxide Southern Africa (40%)

During the year, ownership of ICI's global pigment business, including ICI's 60 per cent holding in Tioxide Southern Africa, was transferred to the Huntsman Corporation of the USA.

The downward trend in sales into the domestic market continued in the first six months. In the second half-year, however, a slow but steady improvement in demand and sales was recorded. Prices held up well, carried by a growth in demand for titanium dioxide pigment in both Europe and Asia Pacific.

Global demand for pigment is strong and, with growing confidence in the local economy, the priority for the business after safety, health and environmental considerations is to maximise production whilst continuing to improve the quality and consistency of products.

Kynoch Fertilizer (50%)

The fertilizer market continued to be dominated by unfavourable international prices. Low nitrogen prices persisted throughout 1999. In the second six months, owing to new capacity coming on stream in India, phosphate prices began declining to levels last experienced in 1993. The impact of these low prices on the local market was exacerbated by aggressive competition and, consequently, unrealistically high discounts were offered in an effort to retain market share.

Kynoch Fertilizer revised its strategy and enhanced its focus on markets where reasonable profit margins are attainable. Although this strategic shift resulted in a significant reduction in exports and the loss of local market share, discounts were reduced to more manageable levels. Late rains in central areas and drought conditions persisting in the Cape also affected sales.

The company continued to pursue the restructuring programme initiated in 1998 and reduced its workforce by some 30 per cent, mainly at Potchefstroom. African operations were closed and operations at Milnerton were transferred to Nitrogen Products.

With the conclusion of the joint venture with Norsk Hydro, effective 1 July 1999, the new controlling shareholder has become actively involved in managing the company. The company is no longer consolidated in the financial statements of the Group and, accordingly, is reflected as an investment.

Although phosphate prices are expected to remain depressed, some recovery in nitrogen prices is evident. Given this, together with a focused strategy, a new management structure and international expertise from Norsk Hydro, Kynoch Fertilizer is anticipating a better performance in 2000.

CONCLUSION

During the year under review, AECI disposed of a number of operations. Most notable was the sale of the Group's 40 per cent shareholding in Polifin to Sasol for R2.1 billion. Other disposals included Autoplastic and AECI's 50 per cent shareholding in Goldchem. Subsequently, the Company has also sold its 50 per cent shareholding in Alliance Peroxide. Also of note was the streamlining of the Company's Corporate Centre. Not only does the Centre provide specific, professional support services to the Group's businesses but it will also continue to drive the Transformation Programme whilst focusing on the promotion and consolidation of a more nimble, performance-driven culture.

Lex van Vught
Managing Director

ACHIEVEMENTS UNDER LEGISLATION SUCH AS SHE SHOULD NOT BE REWARDED BUT SHOULD BE A PREREQUISITE OF, AND FUNDAMENTAL TO, KEEPING A JOB. (FAILURE TO PERFORM), HOWEVER, SHOULD BE SUBJECT TO PENALTY . . .

LEX VAN VUGHT, MAY 1999.

In 1995, AECI publicly declared its SHE vision and accompanying performance targets to be met by 2002. The vision dealt with specific challenges and progress has been reported accordingly in previous years. Given the radical restructuring of AECI the formulation of a new policy, complete with targets and standards, appropriate for the changed business is a key challenge.

When every operation or service is being re-evaluated, it is crucial that the SHE discipline be seen and measured as an integral element in the Group's business. For this reason, a start will be made in 2000 to determine the true costs of SHE incidents and non-compliance. Greater attention will be given to identifying and quantifying areas of real and potential risk to people, the environment and business returns. It is increasingly acknowledged that the prevention of illness, accidents and incidents is not only sound practice but also financially advantageous.

Management of SHE performance

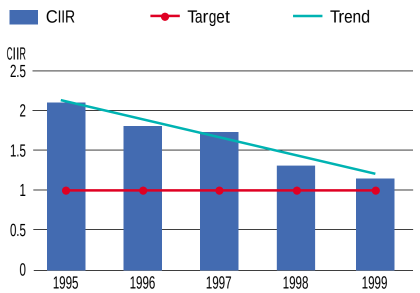
An examination of existing reporting criteria has indicated that a review is needed. Not only is a more accurate understanding of SHE compliance required, but there is also a need to follow international trends in this regard. As an example, occupational illnesses arising from manufacturing operations represent an area of concern. Some Group companies and joint ventures have employees who have suffered occupationally-related hearing impairment. Concerns also exist regarding the future health effects of dust exposure. The costs involved in the treatment and compensation of affected employees could exceed those incurred as a result of causal, safety-related incidents. Drawing on international experience, an attempt will be made to quantify these costs during 2000.

Compliance with SHE legislation

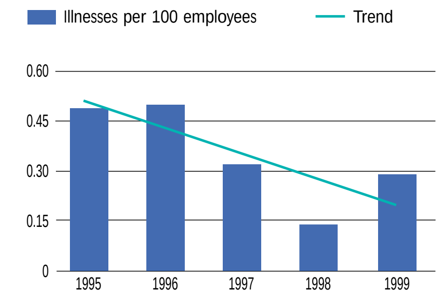
Legislation again moved at a rapid rate. As part of the Group's strategy to integrate SHE issues into general business management, a greater emphasis has been placed on ensuring the active participation of affected businesses in legislative developments. A survey of compliance with the provisions of the Occupational Health and Safety Act on a large sample of the Group has provided confidence that systems are in place to address the key requirements. The Major Hazard Installation Regulations were promulgated, requiring quantified assessment of the risks associated with manufacturing sites. The AECI Group welcomes this legislation and will insist on continued full compliance by all its companies.

Safety, health and environment (SHE)

Classified injury incidence rate



Occupational illness rate



PROGRESS TOWARDS 2002 TARGETS

Safety

Our goal is to ensure that our activities do not harm anyone – our employees, contractors, neighbours, customers and the general public.

No work related fatalities of AECI personnel or contractors

There were two work-related fatalities of AECI personnel during the year. One employee was killed in a train accident at Modderfontein. A sales representative died in a road accident whilst on company business.

Disabling Injury Incidence Rate (DIIR) of no more than 0.25 / Classified Injury Incidence Rate (CIIR) of no more than 1.0

The current DIIR is at 0.5 and is not being reduced at the desired rate. Increased attention will be given to this issue in 2000. Steady progress is being made in reducing the CIIR. Whilst the rate of overall injuries is declining, the proportion of injuries classified as serious is remaining constant.

Occupational health

We aim to eliminate all work-related allergies and illnesses.

Monitor and report on progress in reducing occupational illnesses

In 1999, considerable effort was made to ensure the integrity of the statistics on occupational ill health. It is now confirmed that the reporting is reliable and consistent. Twenty-nine occupational illnesses in the Group were reported for the year (excluding joint venture companies). The overall incidence of occupational illness increased on 1998 figures but the trend continues its general downward movement from the 1995 baseline.

The biggest cause of occupational illness was noise-induced hearing impairment, with eight cases reported. Hearing impairment is an important area of potential long-term liability with just over 20 per cent of employees having to wear hearing protection for some portion of their working day.

Voluntary basic annual medical examinations for all employees

This programme, in place at all Group sites, was implemented to promote the benefits of a healthy lifestyle and to assist in the detection of common health problems at an early stage. This service is free, confidential and in addition to any tests or examinations required by law.

Environmental

Water and energy usage/waste minimisation programmes at all companies by 1997

Owing to the radical change in the nature of AECI's operations, historical targets are no longer relevant. New baselines will be defined as a yardstick for measuring performance.

Land remediation

In the last few years, work focused on the Group's older sites at Modderfontein, Somerset West and Umbogintwini but, from 2000, smaller sites will be included in the programme. Remediation work is progressing from a characterisation to a remediation phase. For example, the offsite migration of contaminated groundwater at Umbogintwini is being managed through a number of combined actions. Residents in the largely informal residential area of KwaMakutha have been provided with an alternate water supply (see photograph) to eliminate any potential risk of health damage. Surfacing groundwater that residents relied on was no longer ideal for domestic purposes.

AECI has reviewed its environmental liability annually since 1996. In 1998 a provision of R133 million was made for land remediation for the period 1998 to 2006. This has now been increased to R170 million for the period 2000 to 2009. A total of R34 million has been spent on land remediation from 1996 to end-1999. The budget for 2000 is R20 million.

Product stewardship

Progress against this target has, in general, been slow. With the Group's move from bulk commodity chemicals manufacture to a focus on downstream value-added products, the achievement of this target is becoming of greater importance.

Responsible Care

The principles of the Responsible Care programme remain very relevant to the businesses that typify the new AECI. Group companies have continued to supply appropriate information to the Chemical and Allied Industries' Association. Regrettably, the potential benefits arising from a fully implemented Responsible Care programme have yet to be realised industry-wide and AECI will continue to lend support to progress in this regard.

Lincoln Partridge
Group Manager, Technology

In 1999, the Human Resources function focused on managing the effects of Transformation. Group-wide, the people of AECI needed support in dealing with the disruption and uncertainty that inevitably accompanied many of the Group's restructuring initiatives. Extensive programmes were established to assist those affected, including counselling, financial assistance with re-skilling opportunities, a small business development unit and a Group-wide, computer-based "Job Shop" facility to maximise re-deployment opportunities.

Forums, representative of all employees, were established to address the issues faced by those in businesses being closed, sold or fundamentally changed. These forums are playing an important role in ensuring that the objectives and processes needed to "re-invent" AECI are properly understood and actioned. The results achieved to date, as well as the spirit and dedication that have prevailed during this painful process, are a tribute to the quality and integrity of AECI's people.

The Group views the superior performance of its employees as a major opportunity to enhance competitive advantage. The quest for progress demands a culture of excellence, quality, innovation and customer service across the board. A number of Group companies have implemented performance management initiatives to consolidate such a culture and, accordingly, remuneration practices have been reviewed to strengthen the direct link between performance and reward. Human Resources strategies, policies and programmes continue to focus individuals on meeting business objectives whilst simultaneously gaining personal growth and development opportunities.

Industrial relations

Whereas 1998 was characterised by widespread industry-based industrial action, the chemical industry was much more stable in 1999. This is particularly pleasing in the context of a significant increase in industrial action in South Africa during the period. Wage negotiations progressed expeditiously. This demonstrates that employers and trade unions are becoming increasingly adept at dealing with issues at a national level and this augurs well for future stability in industry.

AECI Group companies have continued to build on the good relationships established with trade unions over the years. Such relationships have proved to be particularly valuable for businesses involved in major transformation. It is notable that, as a result of excellent co-operation, desired changes have not needed to deviate from set timetables.

In 1999, further important labour legislation was implemented, namely the Employment Equity Act (1998) and the Skills Development Act (1998). Both will have a major impact on Group companies. With regard to the Skills Development Act, much work remains to be done within AECI and at national level. Some progress is evident, however, and it is anticipated that the Group and its employees will benefit from the resulting changes in the workplace.

Employment equity

AECI is committed to a planned and constructive programme to enable those previously disadvantaged to gain full and equal access to opportunities appropriate to their competency and potential. Consequently, Group companies are required to implement employment equity plans that are consistent with the Group's stated values, broad business needs, legislation and the interests of all employees.

Specifically, each company must implement measures to overcome the effects of historical barriers to equal employment opportunities and accelerate the development of people. Regular reports on progress will be made to the Group Executive Committee. This will enable performance to be measured and monitored.

No problems in complying with new legislative requirements are foreseen since plans to accelerate the development of employees have been in place for some years.

Benefits

The AECI retirement funds continued to respond to changes necessitated by the restructuring of the Group. Several transfers between retirement funds were approved and processed.

The AECI Employees Pension Fund and the AECI Employees Provident Fund gained a substantial allocation of shares from the demutualisation of Old Mutual. In the Provident Fund every effort was made to ensure an equitable distribution of the benefits among qualifying members.

The Company and its retirement funds continued to assist employees wishing to buy homes. The Group again provided collateral, subsidies and small loans for mortgage bonds obtained from financial institutions. All AECI retirement funds offered a collateral facility for micro-loans from financial institutions for housing purposes.

Social responsibility

The focus of the Quality of Life Programme has changed significantly since its inception. Emphasis is now placed on skills training for those employees being retrenched. Therefore, support is given to NGOs that can assist in this regard and in the promotion of small business development projects.

In 1999, R600 000 was invested in job creation programmes and in initiatives benefiting communities close to Group manufacturing sites. Most projects in the tertiary education area have been concluded, sponsorship of prizes at universities has been withdrawn and the scholarship programme is being phased out.

Jacques Pienaar

Jacques Pienaar
Group Human Resources Manager

Preparation of annual financial statements

The directors are required by the Companies Act to prepare annual financial statements which fairly present the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period, in conformity with generally accepted accounting practice.

The Company's external auditors are responsible for examining and reporting to shareholders their opinion on the annual financial statements of the Company and its subsidiaries and for performing an audit in accordance with generally accepted auditing standards in order to determine whether the financial statements are in accordance with generally accepted accounting practice.

Following discussions with the external auditors, the directors consider that in preparing the financial statements, the Company has consistently used appropriate accounting policies supported by reasonable and prudent judgement and estimates. All applicable accounting standards have been followed. The directors have no reason to believe that the Company will not be a going concern in the year ahead.

Internal control

The directors are also responsible for maintaining adequate accounting records and they have general responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

To enable the directors to meet these responsibilities, management sets standards and implements systems of internal control aimed at reducing the risk of error or loss in a cost-effective manner.

The Company's internal audit function independently appraises the Company's internal controls. The directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the internal controls are adequate so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors believe that assets are protected and used as intended with appropriate authorisation.

The auditors concur with the above statements by the directors.

Audit committee

An audit committee, whose Chairman and the majority of whose members are non-Executive Directors, has been established by the Board of Directors. This committee meets at least three times each year to discuss accounting, auditing, internal control and financial matters. It provides a forum through which the external and internal auditors report to the Board of Directors.

Current members of the committee are:

Mr C B Brayshaw (Chairman)
Mr N C Axelson
Mr E K Diack
Mr G R Pardoe

Remuneration committee

A remuneration committee whose Chairman and the majority of whose members are non-Executive Directors has been established by the Board of Directors. This committee approves the remuneration of directors and is responsible for the policy and operation of the Company's Senior Executive Incentive Scheme.

Current members of the committee are:

Mr A J Trahar (Chairman)
Mr E K Diack
Mr L C van Vught

Compliance with the Code of Corporate Practices and Conduct

The Board of Directors adopted the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance of November 1994. The Code contains recommendations as to best practice for the control and reporting functions of the Board of Directors.

The Board considers that the Company complies with all provisions of the Code.

R millions	**1999**	1998	1997	1996	1995	1994
Income statements						
Turnover	**7 311**	8 646	8 275	7 536	6 705	5 547
Net trading profit	**568**	644	671	741	645	430
Financing costs	**120**	318	145	242	203	126
Taxation	**117**	(3)	120	33	146	100
Net profit/(loss) attributable to ordinary shareholders	**974**	(127)	381	427	395	287
Balance sheets						
Total shareholders' interest	**2 988**	3 045	3 246	2 972	2 656	2 379
Deferred taxation	**(215)**	(67)	66	98	74	98
Net interest-bearing debt	**1 000**	1 723	865	851	1 563	1 281
Capital employed	**3 773**	4 701	4 177	3 921	4 293	3 758
Represented by:						
Property, plant, equipment, goodwill and investments	**2 657**	3 599	3 002	2 768	3 205	2 671
Current assets less interest-free liabilities	**1 116**	1 102	1 175	1 153	1 088	1 087
Employment of capital	**3 773**	4 701	4 177	3 921	4 293	3 758
Cash flow statements						
Cash generated from operations (1)	**610**	444	680	627	647	408
Investment in working capital	**207**	14	366	(73)	210	103
Expenditure relating to exceptional items and long-term provisions	**242**	131	28	55	28	–
Net investments to maintain operations (2)	**51**	106	23	88	12	78
Other investment activities	**–**	–	–	864	97	–
	110	193	263	1 421	300	227
Normal dividends paid	**99**	149	153	135	118	98
	11	44	110	1 286	182	129
Investment in expansion of assets (2)	**148**	897	333	268	584	409
Proceeds from disposal of investments and businesses	**2 432**	14	–	–	–	–
Special dividend paid	**928**	–	–	–	–	–
Net cash generated /(utilised)	**1 367**	(839)	(223)	1 018	(402)	(280)
Depreciation charges added back	**286**	337	265	235	221	192
Commitments						
Capital expenditure authorised	**181**	175	426	258	247	507
Future rentals on property, plant and equipment leased	**173**	230	160	164	100	139
	354	405	586	422	347	646

(1) Net trading profit plus depreciation of property, plant and equipment and other non cash flow items and after investment income, financing costs and taxes paid.
(2) Excludes property, plant and equipment of companies acquired.

Historical review – ratios and employee details – stock exchange and share performance

	1999	1998	1997	1996	1995	1994
Profitability and asset management						
Net trading profit to turnover (%)	**7.8**	7.4	8.1	9.8	9.6	7.8
Trading cash flow to turnover (%)	**11.7**	11.3	11.3	13.0	12.9	11.2
Return on assets (%) (1)	**10.9**	9.0	10.7	14.8	12.5	10.1
Return on ordinary shareholders' interest (%)	**10.5**	7.1	11.8	14.9	15.4	12.4
Working capital to turnover (%) (5)	**16.4**	17.7	17.4	15.7	19.0	19.3
Stock cover (days)	**52**	72	69	67	80	74
Average credit extended to customers (days)	**53**	59	57	64	59	67
Liquidity						
Interest cover (2)	**4.8**	2.1	4.8	3.3	3.4	3.8
Interest-bearing debt to net cash flow	**0.3**	4.9	1.3	0.9	3.1	3.2
Gearing (%) (3)	**4**	50	20	14	54	43
Current assets to current liabilities	**1.2**	1.2	1.3	1.3	1.1	1.2
Employees						
Number of employees at year-end (4)	**9 850**	15 700	15 900	15 700	17 000	18 000
Employee remuneration (R millions)	**1 314**	1 558	1 372	1 262	1 167	1 050
Value added per rand of employee remuneration (Rand)	**1.79**	1.66	1.73	1.88	1.87	1.72

(1) Net trading profit plus investment income – related to property, plant, equipment and goodwill (undepreciated), investments, foreign subsidiaries, stocks and accounts receivable less accounts payable.
(2) Ratio of net trading profit plus dividends received to net interest paid.
(3) Interest-bearing debt less liquid funds as a percentage of total shareholders' interest.
(4) Includes proportional share of joint venture employees.
(5) Excluding businesses sold and equity-accounted.

	1999	1998	1997	1996	1995	1994
Stock exchange performance						
Market price (cents per share)						
High	**2 050**	2 860	2 850	2 845	3 200	3 500
Low	**650**	690	1 500	2 050	1 975	1 750
31 December	**1 255**	750	1 520	2 600	2 200	2 925
Earnings yield (%)	**15.4**	17.9	15.6	10.6	11.6	6.4
Dividend yield (%)	**6.3**	7.3	5.9	3.5	3.8	2.3
Dividend cover	**2.4**	2.4	2.6	3.0	3.0	2.8
In issue (millions)	**154.7**	154.7	154.7	154.7	154.7	154.7
Value traded (R millions)	**1 043.7**	965.5	579.8	372.8	378.3	901.2
Volume traded (millions)	**77.4**	59.4	24.7	15.4	14.6	33.4
Volume traded (%)	**50.0**	38.4	16.0	10.0	9.4	21.6
Market capitalisation (R millions)	**1 941.1**	1 160.0	2 350.9	4 021.3	3 402.7	4 524.0
Ordinary share performance (cents per share)						
Headline earnings	**193**	134	237	276	255	186
Dividends	**80**	55	90	90	83	68
Special dividend	**600**	–	–	–	–	–
Net asset value	**1 838**	1 886	2 009	1 856	1 659	1 492

FINANCIAL STATEMENTS

To the members of AECI Limited

We have audited the financial statements and Group annual financial statements of AECI Limited, set out on pages 39 to 67, for the year ended 31 December 1999. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and of the Group at 31 December 1999, and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act.

Certain subsidiaries excluded from the Group annual financial statements

We concur with the decision of the directors not to deal with certain subsidiaries in the Group annual financial statements, for the reasons given in the accounting policies.

Deloitte & Touche
Registered Accountants and Auditors

KPMG Inc

KPMG Inc.
Registered Accountants and Auditors
Sandton, 24 February 2000

Annual financial statements

The following reports and statements have been approved by the Board of Directors:

Directors' responsibility statement
Directors' report
Accounting policies and definitions
Inflation accounting
Income statements
Balance sheets
Cash flow statements
Statement of changes in shareholders' equity
Notes to the financial statements

For and on behalf of the Board.

A J Trahar
Chairman

L C van Vught
Managing Director
Sandton, 24 February 2000

Declaration by company secretary

The secretary certifies that the Company has lodged with the Registrar of Companies all such returns as are required of a public company, in terms of the Companies Act, No. 61 of 1973, as amended, and that all such returns are true, correct and up to date.

M J F Potgieter
Secretary
Sandton, 24 February 2000

The activities and results of the Group have been reviewed on pages 11 to 33.

STATUTORY INFORMATION

Share capital

The issued ordinary share capital of the Company remains unchanged at R154 666 813.

Dividends

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 1999 financial year are set out in note 7 to the financial statements.

Directorate

Details of the secretary and directorate of the Company are shown on page 5.

No changes in the directorate have taken place since the date of the last report.

The following directors retire in terms of the Company's articles of association at the annual general meeting on 7 June 2000:

In terms of article 25(c)(i):

Mr L Boyd
Mr E K Diack
Mr A J Trahar

All these gentlemen, being eligible, have offered themselves for re-election.

At 31 December 1999 the directors had beneficial interests in 450 ordinary shares of the Company and senior management had no beneficial interests in ordinary shares of the Company (1998: directors - 450; senior management - 2 400). The Company is not aware of the extent, if any, of the directors' family interests.

Holding company

The Company's holding company is Anglo South Africa (Proprietary) Limited. The ultimate holding company is Anglo American plc.

Subsidiaries and joint ventures

Details of each trading subsidiary and joint venture are set out in the appendices on pages 66 and 67.

The aggregate net profits and losses after taxation of subsidiaries and joint ventures attributable to the Company for the year 1999 were as follows :

Profits:
R235 million (1998 - R353 million)
Losses:
R52 million (1998 - R46 million).

The principal accounting policies of the Group which, except as indicated, are consistent with those followed in the previous year are set out below.

Changes in accounting policies

During the year, the Group adopted AC112, The Effects of Changes in Foreign Exchange Rates, and AC125, Financial Instruments: Disclosure and Presentation.

All foreign currency denominated transactions are accounted for at the exchange rates prevailing at the dates of the transactions. The translation of all monetary assets and liabilities denominated in foreign currencies are accounted for at exchange rates ruling at the balance sheet date. In addition, all hedging instruments are recorded as assets and liabilities in the balance sheet at fair value.

Foreign exchange contracts and similar instruments, designated as cash flow hedges for anticipated foreign currency denominated transactions, are measured to fair value with the resultant gains or losses being recognised in equity. Foreign exchange contracts and similar instruments, designated as fair value hedges for recognised foreign currency denominated transactions, are measured to fair value, with the resultant gains or losses being credited or charged to income.

AC112 and AC125 do not require the restatement of comparative figures.

There is no effect on the opening retained income of the Company and the Group and no material effect on the current year's profit.

Basis of accounting

The financial statements are prepared in accordance with Statements of Generally Accepted Accounting Practice in South Africa and conform to international accounting standards. They are drawn up on the historical cost basis of accounting, modified to include the revaluation of certain property, plant and equipment.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries other than certain foreign subsidiaries where, in the opinion of the directors, it is impractical or would be of no real value to the members of the Company, in view of the insignificant amounts involved, or would entail expense or delay out of proportion to the value to members of the Company. These foreign subsidiaries are reflected at cost, less amounts written off where applicable, and earnings are accounted for only to the extent of dividends received.

The results of subsidiaries acquired or disposed of during the year are included from the dates effective control was acquired and up to the dates effective control ceased.

Goodwill

The excess of cost of consolidated subsidiaries, joint ventures and associated companies over their fair net asset value at acquisition is capitalised as goodwill and amortised over a maximum period of 20 years.

Joint ventures and partnerships

Joint ventures are those entities in respect of which there is a contractual agreement whereby the Group and one or more other venturers undertake an economic activity, which is subject to joint control.

The Company's participation in joint ventures and partnerships is accounted for using the proportionate consolidation method by including its share of the underlying assets and liabilities and income statement items under appropriate headings from the effective date of acquisition.

Associated companies

Associated companies are those companies, which are not subsidiaries or joint ventures, in which the Group holds an equity interest and over which it has the ability to exercise significant influence.

Associated companies are accounted for on the equity method from the effective dates of acquisition except in the case of certain foreign associates where, in the opinion of the directors, there is doubt as to their ability to distribute earnings or remit dividends. The interest in these foreign associates is reflected at cost, less amounts written off where applicable, and earnings are only accounted for to the extent of dividends received.

Equity-accounted income which is included in the respective carrying values of the investments represents the Group's proportionate share of the associated companies' retained income after accounting for dividends paid by those associates.

The equity-accounted retained earnings of associates are transferred to non-distributable reserves. Surpluses arising from the revaluation of property, plant and equipment of associates are not brought to account in the Group's financial statements, unless material.

Deferred taxation

Deferred taxation is calculated using the balance sheet liability method and represents the potential future liability for taxation in respect of items which are recognised for income tax purposes in periods different from those during which they are brought to account in the financial statements except differences relating to goodwill and revaluation of property. In determining the liability, account is taken of tax losses. Deferred taxation released as a result of transfers of property, plant and equipment to and from subsidiaries at income tax values is re-established by the transferee company.

Property, plant and equipment

Property, plant and equipment are reflected at their cost or valuation to the Group company which first acquired them, less accumulated depreciation. Pre-production interest on large projects is capitalised. Property, plant and equipment transferred to or from subsidiaries at income tax values are written up or down to their original cost to the Group. Depreciation is provided on property, plant and equipment, other than land and investment properties, on the straight line basis at rates which will write off the assets over their estimated residual productive lives as revised from time to time. Investment properties, mainly comprising property surplus to the Group's requirements, are valued from time to time by sworn appraisers. The basis of valuation is their open market value and any surplus arising on valuation is transferred to non-distributable reserves.

Investments

Investments are stated at cost less amounts written off and provision for diminution in value where, in the opinion of the directors, a permanent diminution in value has occurred.

Inventory

Inventories of raw and packing materials, products and intermediates and merchandise are valued at average cost or actual cost using the first-in-first-out (FIFO) method.

The cost of products and intermediates comprises raw and packing materials, manufacturing costs and depreciation.

Specific plant spares are valued at average cost and are written off over the estimated residual productive lives of the plants to which they relate. Other spares and stores are valued at average cost less appropriate provisions for obsolescence.

In all cases inventories are valued at the lower of average or actual cost and realisable value.

Turnover

Turnover comprises net invoiced sales to customers excluding value added tax and excluding the Group's proportionate share of a joint venture company's sales of gold products manufactured by the joint venture partner which sales are effectively made on an agency basis. The Group eliminates inter-company and inter-divisional sales.

Foreign currency translations

Foreign currency transactions and balances

Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at balance sheet date.

Income, expenditure and cash flow items are translated at the weighted average rates of exchange during the accounting period. Gains or losses arising on translation are credited to or charged against income.

Differences arising from exchange rate fluctuations are taken to income when they occur. Costs associated with forward cover contracts linked to borrowings are included in financing costs.

Foreign entities

Financial statements of foreign subsidiaries classified as entities are translated into South African Rand as follows:

- assets and liabilities at rates of exchange ruling at the financial year end;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period;
- differences arising on translation are reflected in non-distributable reserves.

Foreign operations

Financial statements of foreign subsidiaries classified as operations are translated into South African rand as follows:

- monetary assets and liabilities at rates of exchange ruling at the financial year end;
- non-monetary items at historical rates;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period;
- differences arising on translation are taken to income for the period.

Foreign currency hedges

Foreign currency hedges are dealt with in the financial instruments policy.

Financial instruments

The Group uses derivative financial instruments, forward rate agreements and forward exchange contracts, to manage its exposure to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

The fair value of forward rate agreements is the estimated amount that the Group would receive or pay to terminate the forward rate agreement at the balance sheet date, taking into account current interest rates and current credit worthiness of the forward rate agreement counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Financial assets

Financial assets are recognised when the Group has rights or other access to economic benefits. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms.

Financial liabilities

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms.

Where these criteria no longer apply, a financial asset or liability is no longer recognised.

Offset

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

Hedge of recognised assets and liabilities

Where a derivative financial instrument hedges a recognised receivable or payable, any resultant gain or loss on the derivative financial instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Trade and other receivables

Trade and other receivables are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Dividend income

Dividends from consolidated subsidiaries, equity accounted associates and incorporated joint ventures are brought to account in the year to which they relate. All other dividends are brought to account in the year in which they are received.

Research and development

Research costs are written off in the year in which they are incurred. Development costs are reviewed annually and are expensed if they do not qualify for capitalisation. If a project is abandoned during the development stage, the total accumulated expenditure is then written off.

Environmental expenditure

Environmental expenditure not of a capital nature is charged to income in the year in which it is incurred. Provision is made for certain identified environmental liabilities. The adequacy of the provision is reviewed from time to time against changed circumstances, legislation and technology.

Post-employment medical aid benefits

Provision is made for post-employment medical aid benefits on the employers' subscription liability basis.

Comparative figures

Whenever accounting policies are changed, comparative figures are normally restated in accordance with the new policies. However, where changes are the result of adopting AC112 and AC125, comparative figures were not restated.

OTHER INFORMATION

Inflation accounting

To be of value to investors, a method of accounting for the effects of inflation should be generally accepted, widely implemented in practice and yield meaningful results which allow valid comparison of performance between companies.

For some years, the Group has prepared inflation-adjusted accounts for management purposes in order to reflect the real performance of the business by recognising the effects of changes in the value of money. The principle applied in the preparation of these accounts is that all items should be stated in the money of the year to which the accounts relate.

Until this principle is more widely accepted, the Group will continue to publish its financial statements on a historic cost basis only.

Income statements

FOR THE YEAR ENDED 31 DECEMBER 1999

		Group		Company	
		1999	1998	**1999**	1998
	Notes	**R millions**	R millions	**R millions**	R millions
Turnover		**7 311**	8 646	**4 981**	4 966
Net trading profit	1	**568**	644	**254**	103
Financing costs	2	**(120)**	(318)	**(92)**	(271)
Investment income	3	**20**	18	**340**	111
Net profit/(loss) before exceptional items		**468**	344	**502**	(57)
Exceptional items	4	**683**	(425)	**1 351**	(394)
Amortisation of goodwill		**(25)**	(21)	**(21)**	(21)
Net profit/(loss) before taxation		**1 126**	(102)	**1 832**	(472)
Taxation	5	**(117)**	3	**(14)**	151
Normal activities		**(134)**	(102)	**(30)**	67
Exceptional items		**17**	105	**16**	84
Net profit/(loss)		**1 009**	(99)	**1 818**	(321)
Attributable to preference and outside shareholders		**(35)**	(28)	**(2)**	(1)
Net profit/(loss) attributable to ordinary shareholders		**974**	(127)	**1 816**	(322)
Earnings/(loss) per ordinary share (cents)	6				
Attributable		**630**	(82)		
Headline		**193**	134		
Dividends per ordinary share (cents)	7				
Normal		**80**	55		
Special		**600**	–		

Balance sheets

AT 31 DECEMBER 1999

		Group		Company	
		1999	1998	**1999**	1998
	Notes	**R millions**	R millions	**R millions**	R millions
Assets					
Non current assets		**2 657**	3 599	**2 340**	2 498
Property, plant and equipment	8	**1 933**	3 078	**1 039**	1 337
Goodwill	9	**386**	406	**377**	398
Investments	10	**324**	104	**238**	326
Subsidiaries	11	**14**	11	**686**	437
Current assets		**3 079**	3 311	**2 250**	2 305
Inventory	12	**939**	1 504	**614**	880
Accounts receivable	13	**1 251**	1 606	**883**	1 354
Cash and cash equivalents		**889**	201	**753**	71
Total assets		**5 736**	6 910	**4 590**	4 803
Equity and liabilities					
Ordinary capital and reserves		**2 843**	2 917	**2 334**	1 569
Capital	14	**228**	228	**228**	228
Reserves – non-distributable	15	**596**	593	**456**	456
– distributable	15	**2 019**	2 096	**1 650**	885
Preference capital	14	**6**	6	**6**	6
Outside shareholders' interest in subsidiaries		**139**	122		
Total shareholders' interest		**2 988**	3 045	**2 340**	1 575
Non current liabilities		**233**	1 106	**166**	955
Deferred taxation	16	**(215)**	(67)	**(225)**	(147)
Long-term borrowings	17	**95**	875	**72**	844
Long-term provisions	18	**353**	298	**319**	258
Current liabilities		**2 515**	2 759	**2 084**	2 273
Accounts payable		**1 193**	1 581	**881**	1 423
Provision for restructuring		**282**	264	**282**	237
Short-term borrowings	19	**918**	848	**816**	583
Taxation		**45**	23	**28**	(13)
Dividend declared	7	**77**	43	**77**	43
Total equity and liabilities		**5 736**	6 910	**4 590**	4 803

Cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 1999

		Group		Company	
		1999	1998	**1999**	1998
	Notes	**R millions**	R millions	**R millions**	R millions
Cash generated by operations	i	**897**	986	**474**	302
Investment income		**11**	10	**340**	111
Financing costs		**(120)**	(318)	**(92)**	(271)
Taxes paid	ii	**(178)**	(234)	**(76)**	(3)
Changes in working capital	iii	**(207)**	(14)	**(265)**	75
Expenditure relating to long-term provisions		**(36)**	(25)	**(35)**	(22)
Expenditure relating to restructuring		**(206)**	(106)	**(198)**	(104)
Cash available from operating activities		**161**	299	**148**	88
Normal dividends paid	iv	**(99)**	(149)	**(91)**	(140)
Cash retained from/(absorbed by) operating activities		**62**	150	**57**	(52)
Net investments to maintain operations		**(51)**	(106)	**(61)**	(76)
Replacement of property, plant and equipment		**(127)**	(211)	**(74)**	(142)
Proceeds from disposal of property, plant and equipment		**76**	94	**13**	66
Translation gain		**–**	11	**–**	–
Investments to expand operations		**(148)**	(897)	**(293)**	(631)
Acquisition of – property, plant and equipment		**(104)**	(268)	**(49)**	(95)
– investments		**(17)**	(7)	**–**	11
– subsidiaries		**(27)**	(622)	**(244)**	(547)
Proceeds from disposal of investments and businesses		**2 432**	14	**2 446**	2
Proceeds from disposal of – Polifin Limited		**2 064**	12	**2 126**	–
– subsidiaries		**27**	2	**1**	2
– businesses		**333**	–	**319**	–
– listed investments		**8**	–	**–**	–
Cash generated/(utilised) in investing activities		**2 233**	(989)	**2 092**	(705)
Special dividend paid	iv	**(928)**	–	**(928)**	–
Net cash generated/(utilised)		**1 367**	(839)	**1 221**	(757)
Long-term borrowings – raised		**102**	769	**84**	755
– repaid		**(607)**	(90)	**(575)**	(61)
Movement on short-term borrowings		**(174)**	158	**(48)**	47
Cash effects of financing activities		**(679)**	837	**(539)**	741
Increase/(decrease) in cash and cash equivalents		**688**	(2)	**682**	(16)
Cash and cash equivalents at the beginning of the year		**201**	203	**71**	87
Cash and cash equivalents at the end of the year		**889**	201	**753**	71

Notes to the cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 1999

	Group		Company	
	1999	1998	**1999**	1998
	R millions	R millions	**R millions**	R millions
i. Cash generated by operations				
Net trading profit	**568**	644	**254**	103
Depreciation of property, plant and equipment	**286**	337	**188**	206
Provisions – investments	**–**	(2)	**(22)**	5
– long-term provisions	**49**	4	**48**	2
Loss/(surplus) on disposal of property, plant and equipment	**3**	5	**7**	(13)
Surplus on disposal of investments	**(8)**	(2)	**–**	(1)
Surplus on disposal of business	**(1)**	–	**(1)**	–
	897	986	**474**	302
ii. Taxes paid				
Owing at the beginning of the year	**23**	132	**(13)**	(15)
Current charge for the year – normal activities	**101**	123	**1**	1
– exceptional	**116**	(4)	**116**	–
Changes in the Group	**(17)**	6	**–**	4
Owing at the end of the year	**45**	23	**28**	(13)
	178	234	**76**	3
iii. Changes in working capital				
Inventory	**565**	(108)	**266**	(11)
Accounts receivable	**355**	(71)	**471**	(87)
Accounts payable	**(388)**	89	**(542)**	120
	532	(90)	**195**	22
Non trade payables	**(8)**	(13)	**(10)**	(43)
Translation differences	**–**	4	**–**	–
Changes in the Group	**(731)**	85	**(450)**	96
	(207)	(14)	**(265)**	75
iv. Dividends paid				
Owing at the beginning of the year	**43**	96	**43**	96
Declared for the year	**125**	87	**125**	87
Paid to outside shareholders	**8**	9		
Owing at the end of the year	**(77)**	(43)	**(77)**	(43)
Normal dividends paid	**99**	149	**91**	140
Special dividend paid	**928**	–	**928**	–
	1 027	149	**1 019**	140
v. Changes in the Group				
Property, plant and equipment	**(886)**	150	**(86)**	95
Investments	**195**	(3)	**(87)**	(43)
Subsidiaries	**–**	–	**(18)**	21
Working capital	**(731)**	85	**(450)**	96
Restructuring provision	**47**	–	**36**	–
Long-term provisions	**8**	(55)	**–**	(50)
Deferred taxation and taxation	**90**	13	**–**	(2)
Borrowings	**31**	(18)	**–**	–
Outside shareholders' interest in subsidiaries	**8**	30	**–**	–
Non-distributable reserves	**3**	–	**–**	–
Net surplus on disposal of investments and businesses	**(1 170)**	–	**(1 841)**	–
Goodwill	**5**	427	**–**	419
Net (proceeds)/purchase price	**(2 400)**	629	**(2 446)**	536
Cash and cash equivalents (disposed)/acquired	**(62)**	52	**–**	34
	(2 462)	681	**(2 446)**	570

Statement of changes in shareholders' equity

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	Group 1999 R millions	Group 1998 R millions
Headline earnings for the year	6	299	207
Exceptional items net of taxation	4	700	(313)
Amortisation of goodwill	9	(25)	(21)
Dividends	7	(1 051)	(86)
Changes in the Group		(1)	–
Post-acquisition reserves of companies now consolidated		–	2
Foreign currency translation differences		4	21
Net decrease in equity for the year		(74)	(190)
Equity at the beginning of the year		2 917	3 107
Equity at the end of the year		2 843	2 917
Made up as follows:			
Share capital and share premium	14	228	228
Non-distributable reserves	15	596	593
Surplus arising on revaluation of property, plant and equipment		526	533
Foreign currency translation reserve		31	28
Retained earnings of associated companies		37	29
Captive insurance contingency reserve		2	3
Retained income	15	2 019	2 096
		2 843	2 917

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 1999

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
1. Net trading profit				
Net trading profit has been arrived at after taking into account:				
Cost of sales	4 642	5 317	3 112	2 793
Selling and distribution expenses	1 629	1 762	1 329	1 355
Administrative expenses	472	923	286	715
	6 743	8 002	4 727	4 863
The above costs have been arrived at after taking into account:				
Auditors' remuneration	10	9	6	5
– Audit fees	9	8	5	5
– Other services	1	1	1	–
Depreciation of property, plant and equipment	286	337	188	206
Buildings	19	20	13	14
Plant, equipment and vehicles	267	317	175	192
Emoluments of company directors	3	9	3	9
Non-executive				
– Fees	*	*	*	*
Executive				
– Salary, benefits and other remuneration	3	4	3	4
– Accumulated leave pay	–	1	–	1
– Additional contribution to retirement funds	–	1	–	1
– Benefits related to retirement	–	2	–	2
– Long-term benefits	–	1	–	1
Foreign exchange gains	11	12	6	21
Increase/(decrease) in provisions	18	30	(5)	35
– Investments	–	(2)	(22)	5
– Long-term provisions	49	4	48	2
– Maintenance	(31)	28	(31)	28
Research	62	142	47	115
(Loss)/surplus on disposal of property, plant and equipment	(3)	(5)	(7)	13
Surplus land holdings	5	1	–	–
Land and buildings	11	17	12	8
Plant, equipment and vehicles	(19)	(23)	(19)	5
Surplus on disposal of investments	8	2	–	1
Surplus on disposal of businesses	1	–	1	–
Technical fees	14	42	–	7

* Nominal amount

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
2. Financing costs				
Interest paid	(284)	(351)	(246)	(293)
Long-term borrowings	(37)	(62)	(35)	(55)
Short-term borrowings	(247)	(289)	(211)	(238)
Interest received	164	33	154	22
	(120)	(318)	(92)	(271)
3. Investment income				
Income of associated companies	13	11	2	3
Dividends from associated companies	4	3	2	3
Share of associated companies' income	9	8		
Dividends from listed and unlisted investments	6	5	6	4
Dividends from joint ventures			59	73
Dividends from subsidiaries	1	2	273	31
South African			236	24
Foreign	1	2	37	7
	20	18	340	111
Aggregate income from subsidiaries and joint ventures				
Dividends	1	2	332	104
Interest			1	7
Secretarial and administrative fees			9	14
	1	2	342	125
4. Exceptional items				
Long-term provisions				
– Post-employment medical aid benefits	(29)	(24)	(29)	–
– Environmental remediation	(54)	–	(54)	–
Costs related to restructuring	(402)	(401)	(406)	(394)
– Write-down of property, plant and equipment	(104)	(24)	(102)	(22)
– Retrenchment costs	(174)	(228)	(172)	(222)
– Other closure costs	(124)	(149)	(132)	(150)
Net gain on disposal of investments	1 169	–	1 840	–
Attributable to associated companies – retrenchment costs	(1)	–	–	–
Exceptional items before taxation	683	(425)	1 351	(394)
Tax effect	17	105	16	84
– Normal	–	4	–	–
– Deferred	133	136	132	127
Secondary tax on special dividend paid	(116)	–	(116)	–
Adjustment for change in tax rate	–	(35)	–	(43)
Exceptional items after taxation	700	(320)	1 367	(310)
Attributable to outside shareholders	–	7		
	700	(313)	1 367	(310)

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
5. Taxation				
South African and foreign taxes				
Normal, secondary and foreign	(206)	(129)	(117)	(1)
Normal activities	(90)	(133)	(1)	(1)
Secondary tax on special dividend paid	(116)	–	(116)	–
Exceptional items	–	4	–	–
Deferred	95	120	105	153
Normal activities	(38)	19	(27)	69
Exceptional items	133	136	132	127
Adjustment for change in tax rate	–	(35)	–	(43)
	(111)	(9)	(12)	152
Adjustment for prior years	(6)	12	(2)	(1)
Normal, secondary and foreign	(11)	10	–	–
Deferred	5	2	(2)	(1)
	(117)	3	(14)	151
Computed tax losses	1 029	848	920	741
Unutilised computed tax losses carried forward	85	80	–	–
Reconciliation of tax rate computed in relation to net profit/(loss) before exceptional items	%	%	%	%
Effective rate	29.9	31.3	18.5	39.9
Capital and non-taxable receipts	8.0	10.9	13.1	(5.6)
Expenses not allowable	(3.0)	(10.8)	0.4	9.3
Secondary and foreign taxes	(2.6)	(3.5)	(0.8)	0.4
Relating to business acquired	–	1.8	–	(10.2)
Other	(2.3)	5.3	(1.2)	1.2
South African standard rate	30.0	35.0	30.0	35.0

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
6. Earnings per ordinary share				
Number of ordinary shares in issue 154 666 813 (1998 –154 666 813)				
Headline earnings per ordinary share are derived from:				
Net profit / (loss) attributable to ordinary shareholders	**974**	(127)		
Exceptional items net of taxation (see note 4)	**(700)**	313		
Amortisation of goodwill	**25**	21		
	299	207		
7. Dividends				
Ordinary	**1 051**	86	**1 051**	86
Interim: No. 130 of 30.0 cents (1998 – 27.5 cents) paid 23 September 1999	**46**	43	**46**	43
Special dividend: No. 131 of 600.0 cents paid 29 November 1999	**928**	–	**928**	–
Final: No. 132 of 50.0 cents (1998 – 27.5 cents) declared 24 February 2000, payable 26 April 2000	**77**	43	**77**	43
Preference Nos. 122 and 123 paid 15 June 1999 and 15 December 1999 respectively	**2**	1	**2**	1
	1 053	87	**1 053**	87

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
8. Property, plant and equipment				
Land and buildings				
Cost or valuation	**1 011**	1 130	**260**	307
At the beginning of the year	**1 130**	1 061	**307**	281
Additions	**42**	47	**4**	20
Disposals and transfers	**(33)**	(56)	**(4)**	(23)
Changes in the Group	**(121)**	75	**(47)**	29
Provision for closure	**(11)**	–	**–**	–
Translation differences	**4**	3	**–**	–
Less: depreciation	**140**	206	**125**	141
At the beginning of the year	**206**	179	**141**	120
Disposals and transfers	**(21)**	(15)	**–**	(3)
Changes in the Group	**(57)**	22	**(29)**	10
Provision for closure	**(7)**	–	**–**	–
Provided during the year	**19**	20	**13**	14
Net book value	**871**	924	**135**	166
Plant, equipment and vehicles				
Cost or valuation	**2 623**	4 185	**2 276**	2 516
At the beginning of the year	**4 185**	3 766	**2 516**	2 310
Additions	**189**	432	**119**	217
Disposals and transfers	**(128)**	(156)	**(63)**	(112)
Changes in the Group	**(1 505)**	145	**(175)**	111
Provision for closure	**(121)**	(10)	**(121)**	(10)
Translation differences	**3**	8	**–**	–
Less: depreciation	**1 561**	2 031	**1 372**	1 345
At the beginning of the year	**2 031**	1 762	**1 345**	1 197
Disposals and transfers	**(61)**	(98)	**(47)**	(79)
Changes in the Group	**(683)**	48	**(107)**	35
Provision for closure	**6**	–	**6**	–
Translation differences	**1**	2	**–**	–
Provided during the year	**267**	317	**175**	192
Net book value	**1 062**	2 154	**904**	1 171
Total net book value	**1 933**	3 078	**1 039**	1 337
Cost of assets which are fully depreciated	**559**	735	**557**	719
Cost or valuation of land included in land and buildings	**604**	622	**15**	17
Insured value of property, plant and equipment	**6 488**	15 342	**5 778**	11 141

Registers containing details of the properties of the Company and its subsidiaries and joint ventures are available for inspection at the registered offices of the companies.

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
9. Goodwill				
Cost	432	427	419	419
At the beginning of the year	427	–	419	–
Additions	5	427	–	419
Less: amortisation	46	21	42	21
At the beginning of the year	21	–	21	–
Provided during the year	25	21	21	21
Net book value	386	406	377	398
10. Investments				
Associated companies	244	33	206	4
Unlisted shares at cost				
– Fedmis Phalaborwa (Pty) Limited	4	4	4	4
– Huntsman Tioxide Southern Africa (Pty) Limited	3	3	3	3
– Kynoch Fertilizer (Pty) Limited	75	–	75	–
Net indebtedness by associated companies				
– Kynoch Fertilizer (Pty) Limited	125	–	125	–
– Other	–	(3)	–	(3)
Provision for losses in associated companies			(1)	–
Post-acquisition retained income	37	29		
Joint ventures (see appendix 2)			(13)	290
Shares at cost				
– Polifin Limited			–	285
– Other			5	6
Net indebtedness				
– Indebtedness by joint ventures			–	11
– Other	–	4	(18)	(12)
Listed investments at cost	30	23	–	–
– Market value – R37 million (1998 – R28 million)				
Unlisted investments	50	44	45	32
Shares at cost less amounts written off				
– Botswana Ash (Pty) Limited	26	26	26	26
– Business Partners Limited	3	3	3	3
– Other	2	9	2	1
Indebtedness of unlisted investments	19	6	14	2
	324	104	238	326
Directors' valuation	344	122	283	1 182

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
11. Subsidiaries				
Consolidated (see appendix 3)				
Shares at cost less amounts written off			98	103
Listed			25	25
Unlisted			73	78
Net indebtedness			582	330
Indebtedness of subsidiaries less amounts written off			661	618
Indebtedness to subsidiaries			(79)	(288)
Non-consolidated	14	11	6	4
Shares at cost or valuation less amounts written off	8	7	–	–
Indebtedness of subsidiaries	6	4	6	4
	14	11	686	437
12. Inventory				
Raw and packing materials	370	508	232	302
Products and intermediates	475	825	304	463
Merchandise	10	25	6	16
Specific plant spares	49	96	45	65
Other spares and stores	35	50	27	34
	939	1 504	614	880
13. Accounts receivable				
Trade	1 059	1 403	749	1 223
Other	192	203	134	131
	1 251	1 606	883	1 354

Other includes housing loans to Company directors which bear interest at the rate of not less than five per cent per annum and are payable in full on resignation, retirement or death (figures in Rands).

	Group 1999	Group 1998	Company 1999	Company 1998
N C Axelson	148 000	148 000	148 000	148 000
V C Liddiard	530 000	530 000	530 000	530 000
	678 000	678 000	678 000	678 000

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
14. Capital				
Ordinary shares				
Authorised				
180 000 000 shares of R1 each	180	180	180	180
Unissued shares under the control of the directors until the next annual general meeting:				
25 333 187 (1998 – 25 333 187)	25	25	25	25
Issued				
154 666 813 (1998 – 154 666 813) shares of R1 each	155	155	155	155
Share premium less share issue expenses	73	73	73	73
	228	228	228	228
Preference shares				
Authorised and issued				
3 000 000 5.5 per cent cumulative shares of R2 each	6	6	6	6

In terms of the Company's articles of association all payments of dividends on the preference shares and all payments to be made in respect of the preference shares in the event of liquidation shall be made in Pounds Sterling and calculated as though the shares were one Pound Sterling. The capital repayment to preference shareholders, in the event of liquidation is limited to 3 150 000 Pounds Sterling (1.05 Pounds Sterling per share).

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
15. Reserves				
Non-distributable				
At the beginning of the year	593	567	456	465
Foreign currency translation differences	3	21	–	–
– Current year	4	21	–	–
– Changes in the Group	(1)	–	–	–
Net transfer from/(to) distributable reserves	–	5	–	(9)
	596	593	456	456
Made up as follows:				
Surplus arising on revaluation of property	526	533	456	456
Foreign currency translation reserve	31	28		
Retained earnings of associated companies	37	29		
Captive insurance contingency reserve	2	3		
	596	593	456	456

	Group 1999 R millions	Group 1998 R millions	Company 1999 R millions	Company 1998 R millions
15. Reserves (continued)				
Distributable				
At the beginning of the year	2 096	2 312	885	1 284
Net retained profit/(loss) for the year	974	(127)	1 816	(322)
Normal dividends (see note 7)	(123)	(86)	(123)	(86)
Special dividend paid (see note 7)	(928)	–	(928)	–
Post-acquisition reserves of companies now consolidated	–	2	–	–
Net transfer from non-distributable reserves	–	(5)	–	9
Release of surplus arising on revaluation of property				
– Current year	1	3	–	9
– Changes in the Group	6	–	–	–
Share of net retained earnings of associated companies	(8)	–		
Captive insurance contingency reserve	1	(8)		
	2 019	2 096	1 650	885
Made up as follows:				
Retained income				
Company	1 650	885	1 650	885
Subsidiaries and joint ventures	369	1 211		
	2 019	2 096	1 650	885
16. Deferred taxation				
At the beginning of the year	(67)	66	(147)	12
Transfer from net profit – applicable to normal activities	33	(21)	29	(68)
– applicable to exceptional items	(133)	(136)	(132)	(127)
– adjustment for change in tax rate	–	35	–	43
Transferred to long-term provisions	25	(1)	25	(7)
Changes in the Group	(73)	(10)	–	–
	(215)	(67)	(225)	(147)
Analysis by major temporary differences:				
Property, plant and equipment	178	250	156	168
Provisions	(284)	(259)	(262)	(231)
Consumable stores	7	17	7	13
LIFO reserve	3	7	3	5
Computed tax losses	(283)	(235)	(276)	(226)
Other	12	26	11	13
	(367)	(194)	(361)	(258)
Applicable to long-term provisions (see note 18)	152	127	136	111
	(215)	(67)	(225)	(147)

	Group		Company	
	1999	1998	**1999**	1998
	R millions	R millions	**R millions**	R millions
17. Long-term borrowings (see appendix 1)				
Unsecured	**413**	925	**400**	891
Secured	**14**	12	**–**	–
	427	937	**400**	891
Current portion (see note 19)	**332**	62	**328**	47
	95	875	**72**	844
18. Long-term provisions				
At the beginning of the year	**298**	239	**258**	221
Expensed during the year	**(36)**	(25)	**(35)**	(22)
Provided during the year – normal activities	**49**	4	**48**	2
– exceptional items	**83**	24	**83**	–
Changes in the Group	**(8)**	55	**–**	50
Transferred to accounts payable	**(8)**	–	**(10)**	–
Deferred tax relating to current year's provisions	**(25)**	(21)	**(25)**	(11)
Deferred tax adjustment relating to change in tax rate	**–**	22	**–**	18
	353	298	**319**	258
Made up as follows:				
Environmental remediation	**174**	141	**170**	128
Post-employment medical aid benefits	**316**	306	**270**	261
Share incentive scheme – benefit units	**45**	–	**45**	–
Current portion included in accounts payable	**(30)**	(22)	**(30)**	(20)
	505	425	**455**	369
Deferred taxation thereon (see note 16)	**(152)**	(127)	**(136)**	(111)
	353	298	**319**	258
19. Short-term borrowings				
Current portion of long-term borrowings (see note 17)	**332**	62	**328**	47
Other	**586**	786	**488**	536
	918	848	**816**	583

	Group		Company	
	1999	1998	**1999**	1998
	R millions	R millions	**R millions**	R millions
20. Borrowings and contingent liabilities				
Borrowings	**1 013**	1 723	**888**	1 427
Long-term	**95**	875	**72**	844
Short-term	**918**	848	**816**	583
Contingent liabilities in respect of trade debtors	**30**	–	**30**	–
Guarantees	**139**	22	**137**	16
	1 182	1 745	**1 055**	1 443
Permitted in terms of articles of association	**2 974**	3 034	**2 974**	3 034
21. Commitments				
Capital expenditure authorised	**181**	175	**167**	99
Contracted for	**57**	107	**54**	68
Not contracted for	**124**	68	**113**	31
The expenditure will be financed from funds on hand and internally generated, supplemented by borrowings against facilities available to the Group				
Future rentals on property, plant and equipment leased	**173**	230	**110**	140
Payable within one year	**45**	45	**28**	30
Payable thereafter	**128**	185	**82**	110
	354	405	**277**	239

22. Financial instruments

The Group finances its operations by a mixture of retained profits, short-term borrowings, long-term borrowings and financial instruments such as trade bills denominated in both Rand and foreign currencies. The Group also enters into derivative transactions, in order to manage the currency and interest rate risk arising from its operations.

The Group raises long- and short-term borrowings centrally and on-lends to its operating units at market-related interest rates. The Group borrows in both the local and international debt markets in Rand and foreign currencies, mainly at floating rates of interest. It uses derivatives where appropriate to generate the desired effective currency and interest rate profile. The derivatives used for this purpose are principally forward foreign currency contracts and forward rate agreements.

The Group does not write interest rate or currency options and only purchases currency options where these are considered to offer a cost effective alternative to forward foreign exchange contracts. It is Group policy that no financial instruments are purchased or sold unless they relate to underlying commercial transactions.

The main risks arising in the normal course of business from the Group's financial instruments are currency, interest rate, liquidity and credit risk.

a) Currency risks

The Group's non-South African operations are relatively small in relation to its total operations. Where possible, foreign entities match their assets and liabilities in the same currency to avoid unnecessary currency exposures. However, forward currency markets do not exist in some of the territories in which the Group operates. It is not the Group's policy to hedge foreign currency translation exposures.

Currency risk arises as a result of transactions in a currency other than Rand. The currencies giving rise to currency risk are US Dollar, Japanese Yen, Euro, German Mark, French Franc, Pound Sterling, Swiss Franc, Belgian Franc, Dutch Guilder, Swedish Krona and Italian Lira. Currency exposures are managed using appropriate exposure management techniques. At least 90 per cent of borrowings in foreign currencies are hedged at all times.

The Board of Directors of each operating unit is tasked with managing the foreign currency exposures arising within its own unit in consultation with the central treasury function. All material purchases and sales in foreign currencies are transacted through the central treasury.

Transactions in foreign currencies

		Group 1999	
	Foreign currency	Foreign amount millions	Rand amount millions
Forward exchange contracts at 31 December 1999, relating to specific balance sheet items			
– Accounts receivable			177
	US Dollars	16	98
	Euros	11	70
	British Pounds	1	9
– Accounts payable			287
	US Dollars	41	257
	Deutschemarks	2	6
	Euros	1	5
	British Pounds	2	17
	French Francs	1	1
	Italian Lire	6	–
	Dutch Guilders	–	1
	Japanese Yen	5	–
– Long-term borrowings			351
	US Dollars	12	74
	Japanese Yen	4 616	277
– Cash and cash equivalents	US Dollars	3	20
Forward exchange contracts at 31 December 1999, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due.	**Imports**		
	US Dollars	6	36
	Deutschemarks	1	4
	Euros	2	14
	British Pounds	–	4
	Italian Lire	63	–
	Japanese Yen	199	12
	Swiss Francs	5	22
	Exports		
	US Dollars	5	28
Other			
Commodity price risk	US Dollars	2	15

b) Interest rate risk

The Group borrows extensively in both local and offshore markets to minimise its borrowing costs in Rand terms.

Exposure to interest rate risk on borrowings and receivables is managed on a proactive basis. Depending on market conditions, the Group makes appropriate use of forward rate agreements to generate the desired interest profile and to manage exposure to interest rate fluctuations. No target levels of exposure are maintained.

The interest rate risk profile of financial liabilities of the Group by currency, as at 31 December 1999, was:

Currency	Total R millions	Floating rate financial liabilities R millions	Fixed rate financial liabilities R millions	Financial liabilities on which no interest is paid R millions
Rand				
Short-term	586	109	464	13
Long-term	76	76	–	–
US Dollar	71	71	–	–
Other	280	280	–	–
Total	1 013	536	464	13

Currency	Fixed rate financial liabilities		Interest-free financial liabilities
	Weighted average interest rate %	Weighted average period for which rate is fixed Months	Weighted average period until maturity Months
Rand	12.26	3.75	1

c) Maturity of financial instruments

Maturity profile of financial instruments at 31 December 1999 was as follows:

	Within 1 year	1 to 3 years	3 to 5 years	Total
Financial assets	R millions	R millions	R millions	R millions
Cash and cash equivalents	889	–	–	889
Trade and other receivables	1 251	–	–	1 251
Listed and unlisted investments	40	14	26	80
Total	2 180	14	26	2 220
Percentage profile	98%	1%	1%	100%
Financial liabilities				
Interest-bearing liabilities	905	47	48	1 000
Trade and other payables	1 627	82	80	1 789
Total	2 532	129	128	2 789
Percentage profile	90%	5%	5%	100%

d) Credit risks

Credit risks arise on cash and cash equivalents, investments and trade receivables. The risk on cash and cash equivalents is managed by only investing with financially sound institutions and by setting prudent exposure limits for each institution. The risk arising on trade receivables is managed through normal credit policy using credit limits, continual review and exception reporting. The exposure to credit risk relating to trade receivables is decentralised with each operating unit managing its own credit control procedures because of the Group's diversified customer base. Adequate provision is made for doubtful debts.

e) Liquidity risks

The Group manages liquidity risk through the management of working capital and cash flows. A balance between continuity of funding and flexibility is maintained through the use of borrowings from a range of institutions with varying debt maturities. The Group's policy is that not more than 50 per cent of borrowings should mature in any 12-month period. However, with the changes that have occurred in the Group over the last 12 months, it is appropriate that a shorter maturity profile should be adopted and this was evident in the position at 31 December 1999.

f) Borrowing facilities

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are in place. The Group maintains a policy of ensuring that expected peak cash flows over the next 12 months are comfortably exceeded by existing facilities in order to preserve operational flexibility.

	Group	
	1999 **R millions**	1998 R millions
Borrowing capacity in terms of the articles of association	**2 974**	3 034
Total borrowings	**(1 013)**	(1 723)
Unutilised borrowing capacity	**1 961**	1 311

23. Related party information

The holding company of AECI Limited is Anglo South Africa (Pty) Limited, which holds 52.6 per cent of the company's ordinary shares. The ultimate holding company is Anglo American plc.

AECI Limited paid fees to those directors representing Anglo American plc's interest on its Board amounting to R212 000.

The subsidiaries of the Group are identified in appendix 3, joint ventures and partnerships in appendix 2 and associated companies in note 10.

Within the Anglo American plc group, AECI Limited sold product to fellow subsidiaries and associated companies on an arm's length competitive basis amounting to R487 million during the year of which R77 million was owing at year-end.

Income received from associated companies amounted to R13 million and loans to associated companies amounted to R125 million.

24. Retirement funds

The Group provides retirement benefits for all its permanent employees by means of a number of defined benefit pension schemes and defined contribution provident funds all of which are subject to the Pension Fund Act 24 of 1956.
All of the schemes are funded by both members and by Group contributions which are charged to the income statement as they are incurred.

The total Group contribution to the above schemes was R95 million (1998 – R104 million).
The defined benefit schemes are actuarially valued every three years using a projected unit credit method and any deficits are funded either by lump sum payments or by increased future contributions.
Mortality rates for active members are based on the actual experience of the funds over many years, as are withdrawal rates. The discount rate applied to future cash flows is assumed to exceed escalation in salaries and wages by five percentage points.
At the time of the most recent valuations the present value of retirement benefit entitlements was R3 141 million and the actuarial fair value of the assets was R3 345 million. The independent consulting actuaries were of the opinion that the schemes were in a sound financial position.
The next actuarial valuations will take place in February 2000.

25. Industry segment analysis	Turnover		Net trading profit		Assets	
	1999	1998	**1999**	1998	**1999**	1998
	R millions	R millions	**R millions**	R millions	**R millions**	R millions
Class of business						
Mining solutions	**1 225**	1 142	**195**	188	**861**	822
Specialty, fine and industrial chemicals	**1 885**	1 957	**196**	194	**637**	645
Specialty fibres	**1 210**	1 177	**125**	115	**458**	553
Property	**21**	–	**4**	(6)	**644**	615
Other businesses	**2 252**	2 119	**42**	21	**720**	724
Group services, development and intergroup	**(529)**	(301)	**(64)**	(114)	**(4)**	102
	6 064	6 094	**498**	398	**3 316**	3 461
Businesses sold / equity-accounted	**1 247**	2 552	**70**	246	**–**	1 552
	7 311	8 646	**568**	644	**3 316**	5 013

Assets consist of property, plant, equipment, goodwill, inventory, accounts receivable and accounts payable.

	Weighted closing interest rate	Group		Company	
	%	**1999 R millions**	1998 R millions	**1999 R millions**	1998 R millions
Unsecured					
Local					
Debentures					
Repaid		**–**	4	**–**	4
Loans					
1993 / 2005	11.50	**13**	28	**–**	–
2000 / 2006	15.20	**36**	36	**36**	36
1998 / 2012	9.00	**3**	3	**3**	3
Other		**13**	6	**13**	–
Repaid		**–**	8	**–**	8
Foreign (1)					
Loans					
US Dollars					
1990 / 2000	7.26	**8**	23	**8**	23
1993 / 2001	7.17	**54**	80	**54**	80
1995 / 2004	6.03	**9**	10	**9**	10
Repaid		**–**	355	**–**	355
Deutschemarks					
Repaid		**–**	114	**–**	114
Japanese Yen					
1998 / 2000	0.58	**277**	258	**277**	258
Secured					
Local					
Loans – other (2)	11.50	**11**	1	**–**	–
Foreign					
Loans – other		**3**	11	**–**	–
		427	937	**400**	891

(1) At 31 December 1999 (and in 1998) all the foreign currency denominated loans were fully covered by forward exchange contracts.
(2) Secured in terms of finance lease agreements over plant and equipment having a net book value of R10 million.

Summary of repayments

R millions	Year	Local	Foreign	Total
	2000	15	317	332
	2001	7	29	36
	2002	9	2	11
	2003	9	2	11
	2004	9	1	10
	After 2004	27	–	27
		76	351	427

Appendix 2

SIGNIFICANT JOINT VENTURES AND PARTNERSHIPS

	Percentage held by AECI Limited 1999	1998
AECI Bioproducts Partnership	60	60
Alliance Peroxide Partnership	50	50
Fedmis Phalaborwa Partnership	50	50
Goldchem Partnership (sold 30 September 1999)	–	50
Polifin Limited (sold 30 June 1999)	–	40
Resinkem (Pty) Limited	50	50
Richards Bay Fertilizer (Pty) Limited	50	50
Specialty Minerals South Africa	50	50
Watercare Africa	50	–

	1999 R millions	1998 R millions
The aggregate of proportionately consolidated amounts included in the consolidated results is as follows:		
Balance sheets		
Property, plant, equipment and investments	254	802
Current assets	213	608
Long-term borrowings	62	65
Current liabilities	180	354
Income statements		
Turnover	1 430	1 925
Net trading profit	180	298
Net profit	55	84
Exceptional items	–	3
Cash flow statements		
Cash generated by operations	217	379
Financing costs	18	23
Taxes paid	54	191
Changes in working capital	3	9
	142	156
Dividends paid	64	79
Cash retained from operating activities	78	77
Cash utilised in investing activities	46	182
Increase/(decrease) in funding requirements	32	(105)
Commitments		
Capital expenditure authorised	9	69
Future rentals on property, plant and equipment leased	5	24
	14	93

Appendix 3

PRINCIPAL CONSOLIDATED SUBSIDIARIES

	Issued share capital 1999 R	Shareholding 1999 %	Shareholding 1998 %	Interest of AECI Limited# Shares 1999 R millions	Shares 1998 R millions	Net indebtedness 1999 R millions	Net indebtedness 1998 R millions
Listed							
Chemical Services Limited	6 990 000	61	61	25	25	*	*
Unlisted							
Biotechnology							
AECI Bioproducts (Pty) Limited	1 000	60	60	*	*	*	*
Explosives							
African Explosives Limited	100	100	100	*	*	–	–
Fertilizers, animal feeds, agricultural and industrial chemicals							
Kynoch Limited+	200	100	100	*	*	–	–
Aluminium Chemicals (Pty) Limited	2 666 666	100	100	17	17	–	(11)
Fibres							
SANS Fibres (Pty) Limited+	17 979 433	100	100	8	8	(10)	(7)
SANS Fibres Incorporated (5)	365	100	100	–	–	40	46
Fine, specialty and mining chemicals							
AECI Aroma and Fine Chemicals (Pty) Limited+	100	100	100	*	*	*	*
Industrial Urethanes (Pty) Limited+	100	100	100	*	*	–	–
Holding companies							
AECI Explosives Holdings (Pty) Limited	43 312	100	100	*	*	–	–
Capex (Pty) Limited	10 000	100	100	15	15	–	–
Polymer Converter Holdings Limited	200	100	100	10	10	–	–
Athena Paint Investments S.A. (1)	230 000	100	100	*	*	*	*
Quanford Limited (2)	3 646	100	100	1	1	1	1
Aquarelle S.A. (1)	351 000	100	100	*	*	–	–
Quartermain Limited (6)	234 000	100	100	3	3	–	–
Insurance							
AECI Captive Insurance Company Limited	810 000	100	100	11	11	(2)	(1)
Paints and allied products							
Dulux Limited (Malawi) (3)	500	100	100	*	*	1	2
Dulux Botswana (Pty) Limited (4)	1 150	100	100	*	*	1	*
Dulux (Pty) Limited+	4	100	100	*	*	–	–
Plastics converters							
Acrylic Products (Pty) Limited+	2	100	100	*	*	*	*
Autoplastic (Pty) Limited+	100	100	100	*	*	*	*
Property							
Heartland Properties (Pty) Limited	1	100	–	*	*	28	*
Other			–	5	5	485	467
Site services							
AECI Operations Services (Pty) Limited+	1 930	100	100	*	*	*	*
Modderfontein Realty Management (Pty) Limited+	10	100	–	*	*	*	*
Other			–	3	8	38	(167)
				98	103	582	330

Cost less amounts written off
+ Trading as an agent on behalf of AECI Limited
* Nominal amount

All companies are incorporated in the Republic of South Africa except for the following:
(1) Grand Duchy of Luxembourg (2) Republic of Liberia (3) Malawi (4) Botswana
(5) United States of America (6) British Virgin Isles

Notice to shareholders

Notice is hereby given that the 76th annual general meeting of shareholders of AECI Limited will be held on the Ground Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton, on 7 June 2000 at 14:15 for the following purposes:

1. to receive and consider the balance sheets, income statements and reports of the directors and independent auditors for the year ended 31 December 1999;
2. to elect directors in place of those retiring;
3. to consider, and resolve if approved, a special resolution No. 00/1 details of which accompany this annual report;
4. to transact any other business which may be transacted at an annual general meeting.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and speak and vote in his stead. A proxy need not be a member of the Company.

By order of the Board

M J F Potgieter
Secretary
Sandton, 24 February 2000

Major land holdings

	Extent in hectares
Bellville	25
Modderfontein	4 171
Potchefstroom	68
Richards Bay	50
Somerset West	971
Umbogintwini	718
Welkom District	335

In addition, the Group owns smaller industrial sites as well as residences situated near manufacturing sites.

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