Dear Shareholder

It is most gratifying, in my new role as Chairman, to report on a year of great progress in the reinvention of AECI as a focused specialty chemical company. Uncertainty regarding ownership and direction of the Company has been addressed, the portfolio of businesses further trimmed and each of the core business clusters has in place a robust strategy for growth and delivery of world-class performance. While much remains to be done, AECI is now well positioned to build shareholder value from a strong base.

The AECI Group Management Committee (from left):

Vernon Liddiard
(Executive Director)

Schalk Engelbrecht
(Managing Director, Chemical Services)

Alan Pedder
(Chairman)

Lincoln Partridge
(Group Manager, Technology)

Lex van Vught
(Chief Executive)

Jacques Pienaar
(Group Human Resources Manager)

Neale Axelson
(Executive Director)

Graham Edwards
(Managing Director, African Explosives)

Thys Loubser
(Chief Executive, SANS Fibres)

After 76 years, Anglo American relinquished a controlling interest in the Company through the elegant mechanism of a specific repurchase by AECI of 61.9 million of its shares from Anglo. This transaction – a post-balance sheet event – received overwhelming support from shareholders and became effective on 15 January 2001. While Anglo played a major role in the development of AECI over many decades, designation of the Company as non-core created intense uncertainty among employees and investors alike. Resolution of this issue has enabled the people of AECI to focus on performance and strategic delivery with a heightened sense of purpose and accountability.

The buy-back increased the "free float" of AECI shares to 80 per cent. Anglo's residual interest of just below 20 per cent is subject to an orderly marketing agreement for 18 months. Purchase of all or part of this residual interest by a strategically complementary empowerment group would be welcomed. On a pro forma basis, the buy-back would have enhanced headline earnings in 2000 by 34 per cent while increasing the gearing ratio at year-end to 36 per cent. From all perspectives, the buy-back represents a pivotal "win-win" event in the rapid evolution of a new AECI.

As regards the year 2000, headline earnings per ordinary share at 183 cents were marginally lower than in 1999. The special dividend of R6.00 per share paid to shareholders in November 1999 reduced the capital base of the Company by R1 billion with material effects on year 2000 results. Had this distribution been retained in the Company, headline earnings in 2000 would have shown an increase of some 20 per cent.

Turnover of continuing operations increased by some 5 per cent, reflecting muted volume growth in the subdued manufacturing and mining sectors of the domestic economy. An unchanged operating margin of 7.8 per cent is considered a reasonable result in a year of steep increases in oil and energy-based raw material costs.

Of the three core clusters, the results of Chemical Services and SANS Fibres were commendable. Further successful acquisitions and strong cash flow enabled Chemserve to record a 25 per cent increase in earnings per share. SANS Fibres achieved improved results in a dismal year for the global fibres industry. African Explosives was unable to pass a surge in ammonia costs on to its final product markets, resulting in a 40 per cent decline in its operating profit. A highlight of the year was the R26 million increase in profit contributed by the Group's property operations.

Pleasing progress in the strategic expansion of SANS Fibres' operations was marked by the implementation of a joint venture with a leading world-class fibres producer for the manufacture of specialty nylon industrial yarns in the United States. This investment represents a significant first step by AECI in establishing a strategic presence internationally. SANS Fibres also completed the highly successful commissioning of the R60 million PET bottle polymer extension in record time with the full output of prime quality product sold out from the day of startup.

Further steps towards achieving clear focus on the core business clusters included the disposal of the Group's interest in the Fedmis phosphates partnership with effect from July 2000, and the sale to Chemical Services Limited of the 80.1 per cent interest in AECI Coatings and the business operations of Kynochem and Industrial Urethanes with effect from January 2001. As a result of the latter transaction, the Group's holding in Chemical Services has increased to 71 per cent from 68 per cent at year-end.

While further Transformation cash costs amounting to R190 million were incurred during the year, proceeds from disposals and sound asset management enabled the Group to record a net debt to equity ratio at year-end of only 2 per cent.

Looking ahead, it is envisioned that AECI will comprise a portfolio of market-aligned, differentiated specialty chemistry and related businesses, requiring low to medium capital, serving global and regional niche markets. Size and critical mass are recognised as important, and opportunities for value-adding growth will be pursued through active portfolio management including acquisitions and expansion of existing operations. A nimble, action-orientated performance culture with further compression of management layers is seen as vital to success in these endeavours.

One imperative in a changing AECI will be a sustained commitment to achieving world-class performance in the areas of safety, health and environmental practice. Elimination of illness, accidents and incidents attributable to the Group's operations is the only acceptable goal. While the Group has continued to make progress towards this end, a disciplined focus on attaining a step change in performance will be required to match international best practice.

In support of value-adding growth, the Group's dividend policy will be to increase dividend cover to at least three times over the next few years while reducing the debt to equity ratio from its current level. An unchanged annual dividend of 80 cents per share has been declared for the 2000 year, resulting in a dividend cover of 2.3 times.

Although global economies show signs of slowing, a modest recovery is anticipated in the domestic manufacturing sector, with the possibility of short-term interest rates declining during the year. Decreasing energy-based raw material prices are also supportive of an improved trading outlook which, coupled with the benefits of Transformation and market focus in the operating businesses, is encouraging for the Group's earnings prospects, particularly from the second half of 2001.

Leslie Boyd and Tony Trahar, both previous Chairmen of the Company, resigned from the Board in January 2001 after eight and five years of service respectively. Rupert Pardoe also resigned from the Board in January after almost six years' service. Their wise counsel and guidance through some turbulent years has been much appreciated.

I should like to take this opportunity to thank all of our employees for their commitment and contribution during this time of great change in the Company. The scale and pace of change matches the most ambitious of world restructuring programmes and I would also like to recognise the skill and dedication of Lex van Vught and his team in delivering such a successful outcome.

Alan Pedder

Alan Pedder
Chairman

Sandton, 26 February 2001

AECI will comprise a portfolio of market-aligned specialty chemistry-based companies with an action-orientated performance culture