

AECI LIMITED

Incorporated in the Republic of South Africa
(Registration No. 1924/002590/06)
Share code: AFE ISIN No. ZAE000000220
("AECI" or "the Company" or "the Group")

DETAILED CAUTIONARY ANNOUNCEMENT

RELATING TO THE PROPOSED NEW BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("B-BBEE") TRANSACTION TO BE UNDERTAKEN BY AECI INVOLVING EMPLOYEES AND A COMMUNITY TRUST ("NEW B-BBEE TRANSACTION")

TRANSACTION SUMMARY

- The New B-BBEE Transaction is valued at approximately R1,2 billion
- Participants in the New B-BBEE Transaction will comprise AECI's permanent employees in South Africa, of which approximately 72% are black and 12% are black females, and a community trust that will fund educational and developmental initiatives for the benefit of black people
- The New B-BBEE Transaction will have a maximum term of 10 years
- The New B-BBEE Transaction will not require any funding from AECI or any external parties
- Notional vendor finance will be at 85% of the South African prime lending rate
- Participants in the New B-BBEE Transaction will receive a dividend from the first year
- Participants will be entitled to acquire AECI ordinary shares at the end of the transaction term
- The economic cost to AECI shareholders is approximately R348 million or 3,7% of AECI's net market capitalisation post the Kagiso Tiso Holdings Transaction also announced today, in line with market norms
- The New B-BBEE Transaction will contribute to AECI achieving an effective 27,4% B-BBEE equity ownership in terms of the Codes of Good Practice on Black Economic Empowerment ("Codes")

1. INTRODUCTION

In February 2011, AECI announced its intention to facilitate meaningful and sustainable B-BBEE participation in AECI through the establishment of employee and community trust share schemes. Further to the simultaneous announcement today on the Securities Exchange News Service ("SENS") of the JSE Limited ("JSE") regarding the proposed issue of 4,18%, post issuance, of the net issued ordinary share capital of AECI to a consortium led by Kagiso Tiso Holdings (Proprietary) Limited ("KTH") ("KTH Consortium"), in exchange for the acquisition by AECI of the KTH Consortium's 25,1% interest in AEL Holdings Limited ("KTH Transaction"), AECI is pleased to announce the key terms of its New B-BBEE Transaction, which will achieve additional B-BBEE participation in the Company.

In terms of the New B-BBEE Transaction, AECI intends to facilitate the subscription by an AECI employee share trust and an AECI community share trust (as detailed below) of an effective 11,5% of AECI's net issued share capital post this transaction and the KTH Transaction. The New B-BBEE Transaction requires no external bank funding and will be facilitated by notional funding from AECI.

Post the implementation of the KTH Transaction and the New B-BBEE Transaction, it is expected that AECI will have an effective 27,4% B-BBEE equity ownership, after applying the principles relating to mandated investments and foreign operations, as defined in the Codes.

The ultimate size of the New B-BBEE Transaction may change, depending on, inter alia, financial and market conditions at the time of implementation, and the finalisation of beneficiary participation. The terms of the New B-BBEE Transaction are expected to be finalised during the third quarter of 2011 and, subject to the fulfillment of the conditions precedent set out in section 6 below, the New B-BBEE Transaction is expected to be implemented before 31 December 2011.

2. RATIONALE FOR THE B-BBEE TRANSACTION

AECI supports the South African government's B-BBEE initiatives and recognises the importance of these in achieving a sustainable economic and political environment in South Africa through meaningful participation by black people in the mainstream economy. AECI is committed to the implementation and success of broad-based empowerment throughout the Group and has already implemented a number of initiatives relating to employment equity, skills development, preferential procurement, enterprise development and corporate social investment including the initial empowerment of AEL Mining Services Limited.

The New B-BBEE Transaction will advance AECI's empowerment objective of increasing black participation in the Group by providing long-term economic benefits of its success to a broad spread of black South Africans.

Furthermore, the New B-BBEE Transaction will complement the KTH Transaction and will ensure that AECI maximises its equity ownership scorecard in terms of the Codes and the Amended Broad-Based Socio-Economic Empowerment Charter for the South African Mining and Minerals Industry, to the benefit of AECI's businesses.

3. PARTICIPANTS

The following groups will participate in the New B-BBEE Transaction:

- All permanent employees of AECI employed in the Group's South African operations, who do not already participate in any existing Group long-term incentive schemes, and additional participation by black managers employed in the Group's South African operations

("AECI Qualifying Employees"). Participation will be through an employee share trust (the "EST"), which will hold a direct interest of 8,0% of AECI's enlarged issued share capital; and

- The AECI Community Development and Education Trust (the "CST"), which will hold a direct interest of 3,5% of AECI's enlarged issued share capital.

The inclusion of AECI employees as shareholders in the Company will advance broad-based black ownership in AECI and will distribute a significant portion of the benefits of the B-BBEE Transaction to them. The Group's sustainability and growth prospects will be enhanced by its ability to attract and retain employees. Employee interests will thus be aligned more closely with those of the Company's shareholders and employees who enabled the business to succeed will be rewarded.

The CST will enhance broad-based initiatives by enabling the Group to augment its initiatives aimed at improving science and mathematics education and uplifting further the black communities in geographical locations where AECI operates.

4. B-BBEE TRANSACTION STRUCTURE

4.1. Structure

The New B-BBEE Transaction will be implemented through a specific issue of:

- 4 426 604 new AECI ordinary shares to the CST, equivalent to 3,5% of AECI's issued share capital post this transaction and the KTH Transaction ("CST Shares"); and
- 10 117 951 newly created redeemable convertible B Ordinary Shares in AECI to the EST (the "B Ordinary Shares"), equivalent to 8,0% of AECI's issued share capital post this transaction and the KTH Transaction.

Whilst the B Ordinary Shares issued to the EST will represent a separate class of shares in AECI, they will rank *pari passu* in respect of voting rights with AECI ordinary shares. Together, the EST and the CST will hold approximately 11,5% of AECI's issued share capital over a maximum transaction period of 10 years (the "New B-BBEE Transaction Term"). This equates to an effective 21,2% B-BBEE equity ownership at an AECI level, if mandated investments and foreign operations, as defined in the Codes, are excluded from AECI's enlarged share capital.

Participants in the New B-BBEE Transaction will, from inception, via the two trusts, exercise full voting and economic rights that will arise from their respective shareholding in AECI.

Assuming the value of the CST Shares and the B Ordinary Shares are R84,77, equivalent to the volume weighted average price per AECI ordinary share on the JSE for the 30 days up to and including 22 July 2011, on implementation, the New B-BBEE Transaction will have a value of approximately R1,2 billion.

4.2. Funding

The New B-BBEE Transaction will not require any funding, whether from AECI or from an external source. The EST and the CST will not be required to make any cash contribution for their participation. Prior to the commencement of the New B-BBEE Transaction, AECI will make a minor capital contribution to the EST and the CST to enable them to subscribe for the relevant shares in AECI.

4.3. Benefits delivered to participants

4.3.1. Dividends

During the New B-BBEE Transaction Term, the CST Shares will receive dividends on a pari passu basis with AECI ordinary shares. The Directors of the Company may declare dividends on the B Ordinary Shares up to a maximum of 100% of the dividends declared per financial year on AECI ordinary shares, with 10% expected to be paid on the B Ordinary Shares. The CST will distribute the dividends it receives in accordance with the CST Trust Deed. Dividends will be distributed to AECI Qualifying Employees in accordance with the EST Trust Deed.

4.3.2. Conversion of the B Ordinary Shares and cancellation of the CST Shares

At the end of the New B-BBEE Transaction Term, AECI will convert that number of B Ordinary Shares to which AECI Qualifying Employees are entitled into AECI ordinary shares ("Entitlement Shares"). The Entitlement Shares will be based on the difference between:

- the value of the B Ordinary shares at the end of the New B-BBEE Transaction Term determined in accordance with the then market price of AECI ordinary shares; and

- the initial value of the B Ordinary Shares issued, escalated by 85% of the South African prime interest rate over the New B-BBEE Transaction Term, less the difference between the dividends which would have been paid on AECI ordinary shares over the New B-BBEE Transaction Term and the actual dividends paid to the EST on the B Ordinary Shares.

The balance of the B Ordinary Shares then remaining will be redeemed by the Company for no further consideration.

At the end of the New B-BBEE Transaction Term, the CST will retain such number of CST Shares based on the difference between the value of the AECI ordinary shares at such date and the initial value of the CST Shares issued, escalated by 85% of the South African prime interest rate over the New B-BBEE Transaction Term.

The CST Shares not retained by the CST will be repurchased and cancelled by the Company for no further consideration.

5. ECONOMIC COST

The underlying economic cost of the New B-BBEE Transaction to AECI ordinary shareholders will be calculated in accordance with the statement on share-based payments in terms of International Financial Reporting Standards ("IFRS 2"). The cost of the New B-BBEE Transaction will be determined once the transaction terms have been finalised and implemented. Based on the current proposed structure and current market conditions, the cost is estimated at R348 million, equivalent to 28,2% of the transaction value and 3,7% of AECI's net market capitalisation post the KTH Transaction. The economic cost will be charged to AECI's income statement, with the cost relating the CST being charged as a once-off upfront cost and the cost relating to the EST being amortised over the employee service period. The New B-BBEE Transaction is expected to become effective before the end of 2011 and, as such, will impact the AECI's earnings for the current financial year.

Full details of the financial effects on AECI will be disclosed when the detailed terms announcement is made.

6. CONDITIONS PRECEDENT

The implementation of the New B-BBEE Transaction is subject to a number of conditions precedent, including but not limited to:

- finalisation of the KTH Transaction;
- the execution of definitive New B-BBEE Transaction agreements;
- the approval of the EST and CST terms by the Board of Directors of AECI;
- approval by AECI shareholders in general meeting of the necessary resolutions to create the B Ordinary Shares;
- approval by AECI shareholders in general meeting of the necessary special and ordinary resolutions; and
- the approval of the New B-BBEE Transaction by the JSE.

7. CIRCULAR TO SHAREHOLDERS

A circular providing details of the New B-BBEE Transaction and a notice convening a general meeting of AECI ordinary shareholders to approve the resolutions necessary to give effect to the New B-BBEE Transaction will be posted to AECI ordinary shareholders in due course.

8. CAUTIONARY ANNOUNCEMENT

It is expected that the full terms, salient dates and pro forma financial effects of the New B-BBEE Transaction will be finalised during the third quarter of 2011, whereafter a further announcement setting out the full details of the New B-BBEE Transaction will be released on SENS and published in the press. Accordingly, shareholders are advised to exercise caution when dealing in AECI shares until a further announcement is made.

Woodmead, Sandton

25 July 2011

Investment bank and transaction sponsor to AECI



Legal advisors to AECI



Corporate sponsor to AECI



Programme implementation managers

