

AECI LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1924/002590/06)

JSE ordinary share code: AFE

JSE preference share code: AFEP

JSE ordinary share ISIN: ZAE000000220

JSE preference share ISIN: ZAE000000238

("AECI" or "the Group" or "the Company")

**ANNOUNCEMENT RELATING TO THE ACQUISITION BY AECI OF THE KTH
CONSORTIUM'S 25,1% INTEREST IN AECI'S EXPLOSIVES BUSINESS IN EXCHANGE
FOR ORDINARY SHARES IN AECI AND WITHDRAWAL OF CAUTIONARY
ANNOUNCEMENT**

1. Introduction

AECI shareholders ("Shareholders") are referred to the cautionary announcement dated Tuesday, 26 July 2011 ("First Cautionary Announcement") and the further cautionary announcements dated Tuesday, 6 September 2011, Thursday, 13 October 2011 and Thursday, 24 November 2011, respectively.

As indicated in the First Cautionary Announcement, in 2004 AECI concluded the sale of an effective 25,1% interest in AEL Mining Services Limited ("AEL MS"), then known as African Explosives Limited ("the AEL Empowerment Transaction"), to an empowerment consortium led by the Tiso Group Proprietary Limited ("Tiso", subsequently the "KTH Consortium").

AEL MS is a wholly-owned subsidiary of AEL Holdco ("AELH"). Pursuant to the merger of Tiso and Kagiso Trust Investments Proprietary Limited to form Kagiso Tiso Holdings Proprietary Limited (RF) ("KTH") with effect from 1 July 2011, KTH acquired Tiso's interests in AELH. The KTH Consortium holds its 25,1% interest in AELH through a special purpose vehicle, Business Venture Investments No. 851 Proprietary Limited ("BVI 851") of which 75% is owned by Business Venture Investments No. 884 Proprietary Limited ("BVI 884"), a wholly owned subsidiary of KTH and 25% is owned by the Tiso AEL Development Trust ("the AEL Trust").

Shareholders are advised that AECI entered into an agreement with KTH, AELH, the trustees for the time being of the AEL Trust, BVI 851 and BVI 884 on Thursday, 15 December 2011 in terms of which AECI will acquire 75% of the issued share capital of BVI 851 from KTH in exchange for 3 509 000 ordinary shares in AECI ("the KTH Consideration") and 25% of the issued share capital of BVI 851 from the AEL Trust in exchange for 1 169 667 ordinary shares in AECI ("the AEL Trust Consideration") (collectively "the KTH Transaction").

The KTH Transaction is valued at R370 million, based on the volume weighted average share price of R79,07 per AECI ordinary share on the JSE Limited ("JSE") for the 30 days up to and including Wednesday, 14 December 2011.

Post the completion of the KTH Transaction and preceding the implementation of the new Broad-based Black Economic Empowerment transaction ("New B-BBEE Transaction") of which details were announced on Thursday, 13 October 2011 and Monday, 19 December 2011, the KTH Consortium will own 4,18% of the enlarged issued ordinary share capital of AECI excluding treasury shares and AELH will become a wholly-owned subsidiary of AECI.

AELH's Memorandum of Incorporation will be amended to conform to Schedule 10 of the Listings Requirements of the JSE ("the Listings Requirements").

2. Rationale

AECI is committed to the implementation and success of broad-based empowerment throughout the Group in a comprehensive and sustainable manner. It recognises the social and commercial imperative of achieving economic transformation in South Africa. As such, AECI has already implemented a number of initiatives relating to employment equity, skills development, preferential procurement, enterprise development and corporate social investment including the initial AEL Empowerment Transaction which created significant benefits for all stakeholders. AECI's commitment

to broad-based empowerment has been enhanced further with the announcement of its proposed New B-BBEE Transaction.

The KTH Transaction will give AECI full control of AELH, giving the Company greater flexibility in managing the operations of AEL MS. The latter is a leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for mining and infrastructure markets in Africa and selected international markets.

Whereas the AEL Empowerment Transaction only benefited AEL MS, the KTH Transaction will allow the Group as a whole to extract the full benefit of having KTH as a long-term strategic investor. Post the completion of the KTH Transaction and the New B-BBEE Transaction, it is expected that AECI will have effective Black equity ownership of 27,4% in terms of the Department of Trade and Industry's Broad-Based Black Economic Empowerment Codes of Good Practice and the principles relating to mandated investments and foreign operations defined therein.

3. Related party transaction

In terms of the Listings Requirements, the KTH Transaction is a small related party transaction. AECI appointed Ernst & Young Advisory Services Limited ("E&Y") as Independent Expert to provide the Board of Directors of AECI with an opinion on the fairness of the KTH Transaction.

E&Y has concluded that the KTH Transaction is fair to Shareholders. E&Y's opinion is available for inspection at AECI's registered office being First Floor, AECI Place, The Woodlands, Woodlands Drive, Woodmead, Sandton for a period of 28 days from the date of this announcement.

Shareholders are therefore advised that paragraph 10.7 of the Listings Requirements, relating to the requirements for small related party transactions, has been complied with.

4. **Suspensive conditions**

The implementation of the KTH Transaction is subject to the fulfillment or waiver of the following suspensive conditions:

- issuance of a compliance or exemption certificate by the Take-over and Regulations Panel; and
- to the extent necessary, all other regulatory consents and approvals.

5. **Unaudited pro forma financial effects**

The pro forma financial effects of the KTH Transaction on AECI's earnings per share and headline earnings per share for the six months ended 30 June 2011, and net asset value per share and tangible net asset value per share at 30 June 2011, are not significant in terms of the Listings Requirements.

6. **Withdrawal of cautionary announcement**

Shareholders are advised that as a result of the full terms of the KTH Transaction having now been released, Shareholders no longer need to exercise caution, in this regard, when dealing in their AECI securities.

Woodmead

19 December 2011

Investment bank and transaction sponsor The Standard Bank of South Africa Limited	Attorneys and tax advisers Webber Wentzel	Reporting accountants and auditors KPMG Inc.
Independent expert Ernst & Young Advisory Services Limited		Corporate sponsor Rand Merchant Bank (a division of FirstRand Bank Limited)