



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")

**ANNOUNCEMENT RELATING TO THE TERMS OF THE PROPOSED B-BBEE TRANSACTION
AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

1. Introduction

AECI shareholders ("Shareholders") are referred to the detailed cautionary announcement released on the Securities Exchange News Service ("SENS") on Tuesday, 26 July 2011, and published in the press on Wednesday, 27 July 2011, which referred to the proposed Broad-based Black Economic Empowerment ("B-BBEE") Transaction ("the proposed B-BBEE Transaction") and the further cautionary announcement released on SENS on Tuesday, 6 September 2011, and published in the press on Wednesday, 7 September 2011.

AECI concluded the relevant trust deeds on Thursday, 6 October 2011 and subscription agreements on Wednesday, 12 October 2011 (collectively, "the Transaction Agreements") between AECI and respectively the trustees for the time being of the AECI Employees Share Trust ("the EST") and the trustees for the time being of the AECI Community Education and Development Trust ("the CST").

Post the implementation of the proposed B-BBEE Transaction and the small related party transaction between AECI and an empowerment consortium led by Kagiso Tiso Holdings Proprietary Limited, of which details were released on SENS on Tuesday, 26 July 2011 and published in the press on Wednesday, 27 July 2011 ("the proposed KTH Transaction"), 11,5% of

AECI's issued share capital (including the AECI B Ordinary Shares but excluding treasury shares) ("Net Enlarged Issued Share Capital") will be held by a broad base of black people ("Black"), as defined in the Department of Trade and Industry's Broad-Based Black Economic Empowerment Codes of Good Practice ("Codes").

The total value of the proposed B-BBEE Transaction is R1,1 billion, based on R75,82 per AECI ordinary share ("the Notional Issue Price"), being the volume weighted average price per AECI ordinary share on the JSE Limited ("JSE") for the 60 days up to and including Friday, 7 October 2011.

Post the implementation of the proposed B-BBEE Transaction and the proposed KTH Transaction, it is expected that AECI will have an effective 27,4% B-BBEE equity ownership when applying the principles as defined in the Codes.

2. Strategic rationale

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 which introduced a Black strategic equity partner in 2004.

AECI's customers in the mining sector are increasingly making it a condition of their procurement from the Group that it has at least a 26% effective B-BBEE equity ownership. The proposed B-BBEE Transaction will complement the proposed KTH Transaction and it will ensure that AECI exceeds the B-BBEE ownership target being set for it by the customers who generate most of its business revenues.

The proposed B-BBEE Transaction will also advance AECI's empowerment objective of increasing Black participation in the Group by transferring long-term economic benefits of its success to a broad spread of Black South Africans, more specifically the Group's eligible

employees, as set out in paragraph 3.1 below, and, through the CST, to Black communities in areas in South Africa surrounding the operations of the Group or areas in which the Group has an interest ("Affected Areas").

The proposed B-BBEE Transaction and the proposed KTH Transaction 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, for the benefit of the Group.

The inclusion of employees is intended to spread a significant portion of the benefits of the proposed B-BBEE Transaction among AECI's permanent employees. The sustainability and growth prospects of AECI will be enhanced by:

- improving AECI's ability to attract, incentivise and retain Black employees and managers;
- aligning the interests of employees and Shareholders; and
- recognising and rewarding employees who have enabled the success of the Group.

The inclusion of Black communities in Affected Areas in the proposed B-BBEE Transaction is aimed at uplifting and developing skills pertinent to AECI's businesses, and to South Africa as a whole, in those communities. Mathematics and science education will be a particular focus.

3. Mechanics of the proposed B-BBEE Transaction

The proposed B-BBEE Transaction will be implemented through:

- the creation and the specific issue of 10 117 951 unlisted redeemable convertible B ordinary shares ("AECI B Ordinary Shares") to the EST, constituting 8% of the Net Enlarged Issued Share Capital; and
- the specific issue of 4 426 604 AECI ordinary shares to the CST ("CST Ordinary Shares"), constituting 3,5% of the Net Enlarged Issued Share Capital.

3.1 The EST

The beneficiaries of the EST (“Eligible Employees”) will be:

- current and future permanent, Black employees and Black managers employed by AECI’s South African operations; and
- current and future permanent, non-Black employees employed by AECI’s South African operations who do not participate, nor will be ineligible to participate, in any of the Group’s existing long-term share incentive schemes.

The Group currently has about 3 900 Eligible Employees of whom approximately 72% are Black and 12% of these are Black women.

Once the proposed B-BBEE Transaction has been approved by AECI ordinary shareholders and becomes unconditional, the EST beneficiaries will be entitled to elect four trustees while the board of directors of AECI (“the Board”) will be entitled to appoint one trustee to the EST.

The EST will subscribe for 10 117 951 AECI B Ordinary Shares for no cash consideration. The AECI B Ordinary Shares issued to the EST will have a market value of approximately R767 million (“EST Equity Value”), using the Notional Issue Price. The EST Equity Value will be funded by a notional loan from AECI (“EST Notional Loan”), to be settled at the end of seven years (“the EST Transaction Term”).

The EST Transaction Term may be extended by up to one year should market volatility result in there being no value to the EST and its beneficiaries at the end of the initial seven year term. The EST Transaction Term may also be anticipated in order to facilitate an offer which, if accepted, would result in an affected transaction as defined in the Companies Act, No. 71 of 2008 (“Companies Act”).

The EST Notional Loan in respect of each Beneficiary will carry a notional interest rate equivalent to 85% of the prime lending rate (compounded monthly in arrears) and will be reduced by the difference between the aggregate value of the distributions that

would have been paid to that Beneficiary had he held AECI ordinary shares instead of AECI B Ordinary Shares and the aggregate value of the distributions paid on the AECI B Ordinary Shares held by him over the EST Transaction Term. At the end of the EST Transaction Term, the outstanding notional funding and any administrative costs of the EST paid by AECI will be settled through the redemption of AECI B Ordinary Shares for no consideration according to a redemption formula.

The AECI B Ordinary Shares remaining after the redemption to settle the notional loan and administrative costs will convert into new AECI ordinary shares and will be distributed to the Eligible Employees.

3.1.1 Allocation and forfeiture

Allocation of the AECI B Ordinary Shares to eligible Black and non-Black employees will be based on their years of service and allocations to Black managers will be linked to their annual basic salary.

Approximately 10% of the total number of AECI B Ordinary Shares issued to the EST will be reserved for allocation to future Eligible Employees during the EST Transaction Term.

AECI B Ordinary Shares allocated to Eligible Employees will be subject to a forfeiture profile depending on the reason for Eligible Employees leaving the employ of the Group during the EST Transaction Term.

3.1.2 Salient terms of the AECI B Ordinary Shares

Subject to the provisions of the EST:

- the AECI B Ordinary Shares will be unlisted redeemable convertible B ordinary shares of no par value in the share capital of AECI and will carry the same voting rights as AECI ordinary shares;

- the AECI B Ordinary shares will be taken into consideration when determining a quorum at any general meeting of AECI Shareholders and the Trustees (in accordance with the instructions of the Eligible Employees in respect of the AECI B Ordinary Shares vested in the Eligible Employees) will be entitled to vote on any or all resolutions proposed at any general meeting, for so long as the AECI B Ordinary Shares are registered in the name of the EST;
- the EST and its beneficiaries will, if declared by the Board, be entitled to receive distributions on the AECI B Ordinary Shares provided that such distributions will not in any financial year exceed 100% of the distributions paid per AECI ordinary share. It is expected that the AECI B Ordinary Shares will attract 10% of the distributions declared on the AECI ordinary shares; and
- the AECI B Ordinary Shares remaining after redemption will convert into AECI ordinary shares on a one-for-one basis.

3.2 The CST

The CST will among other things focus on improving education in Black communities where AECI operates or has an interest. The CST will complement AECI's existing initiatives to uplift and develop skills pertinent to AECI's businesses, and to South Africa as a whole. The trust deed of the CST stipulates that at least 85% of the economic benefit accruing to the CST will benefit Black people and at least 30% will benefit Black women.

The CST will have five trustees ("CST Trustees") who will be entitled to exercise all voting rights attached to the CST Ordinary Shares. For as long as the majority of Trustees are not independent, the Trust will not be entitled to vote the CST Ordinary Shares. Of the five CST Trustees, at least three will be Black, at least two will be Black women and at least three will be independent trustees. At least one of the independent trustees will be required to have a financial background. AECI will have the right to appoint and remove two of the CST Trustees.

The CST will participate in the proposed B-BBEE Transaction by subscribing for 4 426 604 AECI ordinary shares at a par value of R1,00 per share for a total consideration of R4 426 604, funded by a once-off grant from AECI ("the CST Grant"). The AECI ordinary shares issued to the CST will have a market value of approximately R336 million, based on the Notional Issue Price.

The difference between the market value of R335 625 115 and the subscription consideration of R4 426 604, being R331 198 511, will be funded as a notional loan ("CST Notional Loan"), to be settled at the end of 10 years ("CST Transaction Term") through a future repurchase, for no consideration, and subsequent cancellation of AECI ordinary shares, determined in accordance with a share cancellation formula. The CST Ordinary Shares remaining after the repurchase and cancellation will be retained by the CST.

The CST Transaction Term may be anticipated in order to facilitate an offer which, if accepted, would result in an affected transaction as defined in the Companies Act.

The CST will be entitled to receive all dividends in specie but only 60% of cash dividends declared on the AECI ordinary shares during the CST Transaction Term. After the CST Transaction Term, the CST will receive 100% of dividends on AECI ordinary shares retained by the CST.

The CST Notional Loan will carry an interest rate of 85% of the prime lending rate (compounded monthly in arrears) and will be reduced by the difference between the aggregate value of the dividends declared and paid on 4 426 604 AECI ordinary shares and the aggregate value of the dividends actually received by the CST on the CST Ordinary Shares over the CST Transaction Term.

4. Economic cost

AECI has estimated the economic cost of implementing the proposed B-BBEE Transaction to be approximately R257 million. This figure has been calculated in accordance with International

Financial Reporting Standards (“IFRS”), specifically IFRS 2 - Share-Based Payments, and includes both transaction costs and the CST Grant.

5. Conditions precedent

The proposed B-BBEE Transaction is subject, *inter alia*, to the fulfilment of the following conditions precedent:

- the passing of all requisite special and ordinary resolutions by the requisite majority of votes at a general meeting of AECI ordinary shareholders;
- the filing and registration of any special resolution with the Companies and Intellectual Property Commission, to the extent required; and
- the Master of the High Court of South Africa having issued letters of authority to the initial trustees of the EST and the CST to act as such.

6. Fairness opinion

The JSE does not ordinarily allow unlisted securities to be taken into account in determining either a quorum or for the approval of any resolution considered at shareholder meetings. However, in the interests of B-BBEE legislation, and subject to a fairness opinion on the terms of the AECI B Ordinary Shares, the JSE has agreed that the AECI B Ordinary Shares can be taken into account in determining a quorum and for the approval of any resolution considered at any Shareholder meeting.

Ernst & Young Advisory Services Limited (“E&Y”), the independent professional expert appointed by the Board in terms of the Listings Requirements of the JSE, has considered the terms and conditions of the AECI B Ordinary Shares and is of the preliminary opinion that such terms and conditions are fair to Shareholders (“the preliminary E&Y Opinion”).

7. Opinion and recommendation of the Board

The Board has considered the terms and conditions of the proposed B-BBEE Transaction and the preliminary E&Y Opinion and is of the opinion that the proposed B-BBEE

Transaction is in the best interests of AECI and Shareholders and recommends that Shareholders vote in favour of the resolutions to be proposed at the General Meeting.

8. Unaudited pro forma financial effects

The unaudited pro forma financial effects set out below have been prepared to assist Shareholders to assess the impact of the proposed B-BBEE Transaction on the earnings per share ("EPS"), headline earnings per share ("HEPS"), net asset value per share ("NAV") and tangible net asset value per share ("TNAV").

The unaudited pro forma financial effects are presented for illustrative purposes only and because of their nature may not fairly present AECI's financial position, changes in equity, results of operations or cash flows after the proposed B-BBEE Transaction.

It has been assumed for purposes of the pro forma financial effects that the proposed B-BBEE Transaction took place with effect from 1 January 2011 for statement of comprehensive income purposes and at 30 June 2011 for statement of financial position purposes.

The Board is responsible for the preparation of the unaudited pro forma financial effects.

	Before	Effects of the B-BBEE Transaction	After the B-BBEE Transaction	Percentage change (%)
EPS (cents)	275	(127)	148	(46)
HEPS (cents)	265	(128)	137	(48)
NAV (cents)	4 186	0	4 186	0
TNAV per share (cents)	3 184	0	3 184	0

Notes:

1. The "Before" column has been extracted without adjustment from the condensed consolidated unaudited interim financial results for the half-year ended 30 June 2011.
2. The "After the B-BBEE Transaction" EPS and HEPS have been adjusted to include the IFRS2 charge of the EST (R14,7 million) and the CST (R120,2 million), as well as implementation expenses of R2,0 million. The charge relating to the EST is spread over the vesting period and varies from year to year whilst the charge relating to the CST is recognised immediately. The weighted average number of shares in issue has been

adjusted to exclude the 10,1 million shares issued to the EST as these shares are treasury shares and have not been issued to external parties. The weighted average number of shares in issue has been adjusted further to exclude the 4,4 million shares relating to the CST as these shares are contingently returnable and are treated as not outstanding until the date they are no longer subject to cancellation.

3. The "After the B-BBEE Transaction" NAV and TNAV have been adjusted to include the IFRS2 charge of the CST, though this has no effect on the NAV or TNAV. The weighted average number of shares in issue has been adjusted to exclude the 10,1 million shares issued to the EST as these shares are treasury shares and have not been issued to external parties. The weighted average number of shares in issue has been adjusted further to exclude the 4,4 million shares relating to the CST as these shares are contingently returnable and are treated as not outstanding until the date they are no longer subject to cancellation.

9. Circular and salient dates and times

A circular setting out the full terms of the proposed B-BBEE Transaction ("the Circular"), and including the E&Y Opinion, will be posted to Shareholders on or about Wednesday, 26 October 2011.

A general meeting ("the General Meeting") of AECI ordinary shareholders will be convened in terms of the notice of General Meeting attached to and forming part of the Circular, on Thursday, 24 November 2011 at 13h00 at AECI Place, Ground Floor, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton whereat AECI ordinary shareholders will be requested to consider and, if deemed fit, pass with or without modification the resolutions required to implement the proposed B-BBEE Transaction.

Salient dates and times:

	2011
Record date, as determined by the Board, in accordance with Section 59 of the Companies Act, for AECI ordinary shareholders to be eligible to receive the Circular and notice of General Meeting	Friday, 21 October
Last day to trade AECI ordinary shares on the JSE in order to be recorded in the share register on the record date to be eligible to vote at the General Meeting	Friday, 11 November
Record date to be eligible to vote at the General Meeting	Friday, 18 November
Last day to lodge forms of proxy for the General Meeting by 13h00 on	Tuesday, 22 November
General Meeting of AECI ordinary shareholders to be held at 13h00 on	Thursday, 24 November
Results of General Meeting released on SENS	Thursday, 24 November
Results of General Meeting published in the South African press	Friday, 25 November
Expected listing of the new AECI ordinary shares on the JSE on or about	Friday, 2 December

Notes:

- All times shown are South African local times.
- These salient dates and times are subject to change. Any material changes will be released on SENS and published in the South African press.

10. Withdrawal of cautionary announcement

Shareholders are advised that as a result of the full terms of the proposed B-BBEE Transaction having now been released, Shareholders no longer need to exercise caution when dealing in their AECI shares in relation to the proposed B-BBEE Transaction.

Woodmead

13 October 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.
Accounting advisers Deloitte	Programme and implementation managers Barnstone Corporate Services Proprietary Limited	Independent professional expert Ernst & Young Advisory Services Limited
	Corporate sponsor Rand Merchant Bank (a division of FirstRand Bank Limited)	