

**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")

# CAUTIONARY ANNOUNCEMENT

## RELATING TO THE PROPOSED ACQUISITION BY AECI OF THE KTH CONSORTIUM'S 25,1% INTEREST IN AECI'S EXPLOSIVES BUSINESS IN EXCHANGE FOR ORDINARY SHARES IN AECI

### 1. INTRODUCTION

In 2004, AECI concluded the sale of an effective 25,1% interest in AEL Mining Services, then known as African Explosives Limited, ("AEL") (the "AEL Empowerment Transaction"), to an empowerment consortium led by the Tiso Group Limited ("Tiso") ("KTH Consortium"). AEL is a wholly-owned subsidiary of AEL Holdings Limited ("AELH"). Pursuant to the merger of Tiso and Kagiso Trust Investments (Proprietary) Limited ("KT"), to form Kagiso Tiso Holdings (Proprietary) Limited ("KTH"), which became effective on 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, which is 75% owned by KTH and 25% owned by the AEL Community Development Trust ("CDT").

AECI has reached an in-principle agreement with KTH to acquire the KTH Consortium's 25,1% interest in AELH, in exchange for the issue of 4 678 667 ordinary shares in AECI, subject to the fulfillment of the conditions precedent set out in section 5 below ("KTH Transaction"). In terms of the KTH Transaction, the KTH Consortium has agreed that the earliest date it will be entitled to sell its shares in AECI will be 31 December 2015. The liquidity of the KTH Consortium's investment will thereby be improved from that date.

The KTH Transaction is valued at R397 million, based on the volume weighted average share price of R84,77 per AECI ordinary share on the JSE Limited ("JSE") for the 30 days up to and including Friday, 22 July 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") announced today, the KTH Consortium will own 4,18% of the issued ordinary share capital of AECI and AELH will become a wholly-owned subsidiary of AECI.

### 2. TRANSACTION 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 concerned. AECI's commitment to broad-based empowerment has been enhanced further with the announcement of its proposed New B-BBEE Transaction, the beneficiaries of which will be the AECI employees and the AECI Community Education and Development Trust.

The AEL Empowerment transaction has been a successful B-BBEE transaction and has created substantial benefits for the business of AEL and the communities benefiting from the CDT and KTH. The participation of the KTH Consortium in the business of AEL enhanced AECI's empowerment initiatives and helped maintain AEL's position as a leading mining services company in the South African, African and selected international mining sectors and associated service industries.

The KTH Transaction will allow AECI to control 100% of AELH and will provide AECI with greater flexibility in managing the operations of AEL, 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, the KTH Transaction will allow the AECI Group as a whole to extract the full benefit from having KTH as a long-term strategic investor. Post the completion of the KTH Transaction and the New B-BBEE Transaction, it is anticipated that AECI will have effective black ownership in excess of 27% in terms of the Department of Trade and Industry's Codes of Good Practice on Black Economic Empowerment and the principles relating to mandated investments and foreign operations defined therein.

KTH is a diversified investment holding company recently created through the merger of two leading black owned and managed companies, KTI and Tiso. KTI and Tiso were founded in 1993 and 2001 respectively, with the goal of achieving true economic empowerment through active operational involvement in strategic investments, to enable meaningful and lasting contributions towards the socio-economic development of South Africa. KTH's vision is to be a leading African diversified investment holding company, with interests across a range of sectors including media, mining, financial services, power, construction, industrial and property.

### 3. RELATED PARTY TRANSACTION

In terms of the JSE Listings Requirements, the KTH Transaction is classified as a small related party transaction. AECI is in the process of appointing an independent expert ("Independent Expert") to provide the Company with a fairness opinion in respect of the KTH Transaction.

### 4. FINANCIAL EFFECTS OF THE KTH TRANSACTION

The pro forma financial effects of the KTH Transaction on AECI's headline earnings per share and 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 expected to be significant in terms of the JSE's Listings Requirements.

### 5. CONDITIONS PRECEDENT

The implementation of the KTH Transaction is subject to a number of conditions precedent, including but not limited to:

- the execution of definitive transaction agreements;
- the approval by the Board of Directors of AECI and KTH;
- the approval by the Board of Trustees of the CDT;
- the approval by the JSE of the relevant documentation;
- the receipt of a positive fairness opinion from the Independent Expert; and
- to the extent necessary, all other regulatory consents and approvals.

### 6. CAUTIONARY ANNOUNCEMENT

A further announcement will be published on the Securities Exchange News Service of the JSE and in the press post the fulfillment of the conditions precedent relating to the KTH Transaction, which is expected to take effect by the end of November 2011. Accordingly, shareholders are advised to exercise caution when dealing in AECI shares.

Woodmead, Sandton

25 July 2011