

## ANNOUNCEMENT REGARDING THE PROPOSED BLACK ECONOMIC EMPOWERMENT TRANSACTIONS

### 1. INTRODUCTION

Further to the announcement dated 31 October 2007 and the renewal of cautionary announcement dated 27 May 2008, Ceramic Industries is pleased to announce that it has reached agreement with all the parties involved in its Black Economic Empowerment ("BEE") transactions ("BEE transactions").

The BEE transactions comprise two major initiatives, the empowerment of the Group's clay quarries ("the quarry transaction") and the issue of 2 029 283 Ceramic Industries ordinary shares to selected BEE partners ("the BEE partners transaction").

### 2. BACKGROUND

Ceramic Industries operates in a highly competitive global industry. The industry ranges from up-market, fashionable producers (primarily in Italy and Spain) through to low-cost, commodity producers, of whom China is the most prominent. In order to compete effectively, Ceramic Industries has to be a low-cost producer.

The Group has a long record of continuous improvement in quality, productivity and cost reduction, achieved through a focus on developing the skills of employees and by an ongoing investment in the latest technologies. Evidence of this is seen in both Pegasus and Betta, which are world-class factories employing leading technology.

Ceramic Industries is furthermore committed to the ongoing transformation of South Africa and supports the principles embodied in the BEE Code and the Mining Charter ("the Charter"). The Group has achieved substantial success in its employment equity plans, and a black executive runs the Group's award-winning factory, Vitro. In addition, staff are encouraged to think as owners of their respective divisions or factories by a profit-sharing scheme through which approximately 7% of divisional or factory pre-tax profit is distributed to factory employees, the majority of whom are historically disadvantaged South Africans ("HDSA").

The Board of Directors of Ceramic Industries ("the Board") is committed to improve the Group's performance across the Department of Trade and Industry's generic scorecard for Broad Based Black Economic Empowerment (the "BEE scorecard") and has therefore engaged with BEE groups who are able to assist the Group to meet this commitment.

### 3. RATIONALE FOR THE BEE TRANSACTIONS

#### 3.1 The quarry transaction

Clay is a low-price product and, excluding transport costs, is not a major input cost for the factories. The provision of clay is an integral part of the Ceramic Industries business and without the security of clay supplies, the Group would not have invested over R1 billion in its production facilities in South Africa.

Ceramic Industries has set up a new company to acquire all of the Group's quarries at fair value. All employees of the Group who do not participate in any share incentive schemes will be entitled to acquire units in a trust which will acquire 60% of the shares in the new company with the balance being held by Ceramic Industries.

Because the quarries are a wasting asset and are strategic to the Group, the employees will be allowed to exchange their interest in the new company owning all the quarries for shares in Ceramic Industries in 2018. The Group will purchase the requisite number of Ceramic Industries shares in the market in order to hedge its exposure to the employees. The latter will be entitled to all the growth in the value of and the dividends from the Ceramic Industries shares.

The quarry transaction will:

- acknowledge the individual contribution made by employees towards the success of Ceramic Industries;
- allow Ceramic Industries to comply with the principles embodied in the Mining Charter;
- provide employees with a risk-free investment in the quarry, which is convertible into a JSE Limited ("JSE") listed share; and
- allow Ceramic Industries to continue to prosper as a low cost producer.

#### 3.2 The BEE partners transaction

The Board has agreed to issue 2 029 283 Ceramic Industries shares to BEE partners.

The Group has reached agreement with Peotona Group Holdings (Proprietary) Limited ("Peotona") and Aka Capital (Proprietary) Limited ("Aka"), based on their ability to assist the Group to meet its commitment across the BEE scorecard with an initial emphasis on transformation, skills development, preferential procurement and enterprise development.

Ceramic Industries recognises the need to create a broad-based vehicle that will act for the benefit of HDSA communities surrounding the Group's factories (and in particular, the women of these communities). A public benefit organisation ("PBO Trust") is being established to administer the projects that will be undertaken for the benefit of the HDSA participants with whom the Group interacts. Peotona will, in conjunction with the trustees, take the lead in managing the PBO Trust.

Given the importance of employees to the ongoing success of the Group, employees will participate in the BEE transaction in addition to their ongoing share in divisional profits and ownership of the quarries. The employees' participation in the BEE transaction will be through an Employee Share Trust, the sole purpose of which will be for the holding of the shares on behalf of the employees.

The interest of the selected BEE partners in the new issue of shares will be as follows:

- PBO Trust 4% (811 712 shares)
  - Employees 2% (405 857 shares)
  - Peotona 2% (405 857 shares)
  - Aka 2% (405 857 shares),
- (collectively "the BEE partners").

### 4. CONSIDERATION

The 2 029 283 new shares as discussed in 3.2 above will be issued to the BEE partners for the nominal amount of R0,01 per share and the BEE partners will be entitled to all the risks in and benefits of the shares.

A notional capital account will be established, based on the volume weighted average ruling price for the 30 days prior to the exercise date. Notional interest on this loan account will be calculated at 90% of the prime rate.

The BEE partners will be entitled to sell their shares after the seventh anniversary of the transaction implementation and will be required to sell sufficient shares (valued at the volume weighted average price for the 30 days prior to the exercise date) back to Ceramic Industries at the same nominal price at which they were issued, in order to settle the amount on the notional capital account.

In the event that the BEE partners do not settle the notional capital account on the eighth anniversary, Ceramic Industries will be entitled to purchase sufficient shares from them, on the same basis as above, to settle the account.

The BEE partners will retain any shares not repurchased by Ceramic Industries.

### 5. SUSPENSIVE CONDITIONS

The BEE transactions will be subject to the fulfilment of the following suspensive conditions:

- the passing of all necessary resolutions by the requisite majority of shareholders at general meetings of Ceramic Industries, Peotona and Aka;
- the approval of the JSE to the extent required; and
- the approval of the Department of Minerals and Energy and other regulators to the extent required.

### 6. WARRANTIES

The transactions are subject to the usual warranties and indemnities associated with transactions of this nature.

### 7. EFFECTIVE DATE

The effective date of the transactions will be the date on which the agreements are signed and are subject to the successful fulfilment and/or waiver of the suspensive conditions. Shareholders will be advised when the agreements are signed.

### 8. UNAUDITED PRO FORMA FINANCIAL EFFECTS OF THE BEE TRANSACTIONS

The table below sets out the unaudited pro forma financial effects of both the quarry transaction and the BEE partners transaction.

The unaudited pro forma financial effects are presented for illustrative purposes only and because of their nature may not give a fair reflection of Ceramic Industries' results, financial position and changes in equity after both transactions.

It has been assumed for purposes of the pro forma financial effects that the transactions took place with effect from 1 August 2007 for income statement purposes and 31 January 2008 for balance sheet purposes.

The directors of Ceramic Industries are responsible for the preparation of the unaudited pro forma financial effects.

	Before <sup>1</sup>	After the BEE partners transaction	After the quarry transaction	After the BEE partners transaction and the quarry transaction	Change %
	Published	Pro forma	Pro forma	Pro forma	
Earnings per share (cents)	459,2	163,5 <sup>2</sup>	414,2 <sup>4</sup>	118,5 <sup>6</sup>	(74)
Headline earnings per share (cents)	460,2	164,4 <sup>2</sup>	415,2 <sup>4</sup>	119,4 <sup>6</sup>	(74)
Diluted earnings per share (cents)	459,2	163,5 <sup>2</sup>	414,2 <sup>4</sup>	118,5 <sup>6</sup>	(74)
Diluted headline earnings per share (cents)	460,2	164,4 <sup>2</sup>	415,2 <sup>4</sup>	119,4 <sup>6</sup>	(74)
Net asset value per share (cents)	6 186,0	6 186,0	6 186,0	6 186,0	—
Net tangible asset value per share (cents)	6 159,7	6 159,7	6 159,7	6 159,7	—
Number of shares in issue (millions)	17 203	17 203 <sup>3</sup>	17 203 <sup>5</sup>	17 203	—
Weighted average number of shares in issue (millions)	17 210	17 210 <sup>3</sup>	17 210 <sup>5</sup>	17 210	—

#### Notes

1. The "Before" financial information is based on Ceramic Industries' published unaudited results for the six months ended 31 January 2008.
2. The "After the BEE transaction" earnings, headline earnings, diluted earnings and diluted headline earnings per share have been adjusted for IFRS 2 – Share-based payments charge of R50,90 million in respect of the issue of Ceramic Industries shares to the BEE partners.
3. In terms of IAS 33 – Earnings per share Paragraph 52, the issue of shares to the BEE partners results in no adjustment to the number of shares in issue nor the weighted average number of shares in issue.
4. The "After the quarry transaction" earnings, headline earnings, diluted earnings and diluted headline earnings per share have been adjusted for IFRS 2 – Share-based payments charge of R7,75 million in respect of the quarry transaction.
5. In terms of IFRS 3 – Business combinations, the shares issued in terms of the quarry transaction with employees are treated as treasury shares and therefore have no effect on the number of shares in issue or the weighted average number of shares in issue.
6. The "After the BEE partners transaction and the quarry transaction" earnings, headline earnings, diluted earnings and diluted headline earnings per share have been adjusted for both the abovementioned transactions.
7. The financial effects have been calculated using a R80 share price. The impact of an increase of R5 in the share price of Ceramic Industries would be an increase of R3,18 million in the total IFRS 2 charge. A decrease of R5 in the share price of Ceramic Industries share price would result in an equal downward movement in the IFRS 2 charge.

### 9. CAUTIONARY ANNOUNCEMENT

Shareholders are advised that the cautionary announcement is hereby withdrawn.

### 10. CIRCULAR TO SHAREHOLDERS

Shareholders are advised that a circular, containing full details of the BEE transactions, will be posted to shareholders during July 2008 and will incorporate a notice of the general meeting to be held for purposes of obtaining the approval by shareholders.

Vereeniging  
10 June 2008

Sponsor

Financial adviser

Mining law adviser

Legal adviser

