



ANNOUNCEMENT REGARDING BLACK ECONOMIC EMPOWERMENT TRANSACTIONS AND CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Further to the announcement made on 11 September 2007, Ceramic Industries is pleased to announce that it is in the process of finalising a number of transactions relating to Black Economic Empowerment ("BEE").

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.

The purpose of this announcement is to inform shareholders of initiatives regarding the empowerment of the Group's clay quarries through employees ("the Quarry Transaction"), as well as updating shareholders on progress in empowerment at ownership level ("the BEE Partners Transaction") (collectively, the "Transactions").

2. CERAMIC INDUSTRIES' CLAY QUARRIES

2.1 Background

Clay is a low-price product and, excluding transport costs to the factories, is not a material cost input for the factories. In addition, given the Group's focus on minimising costs, the clay quarries do not operate as profit centres. However, 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. The Group's clay quarries, which are "wasting assets", have a value of less than 1% of the market capitalisation of Ceramic Industries.

Quarries are defined as mines in the Charter and, as a result, are required to have 26% HDSA ownership by 2014.

2.2 Empowerment of Ceramic Industries' quarries

Ceramic Industries proposes to establish a new company ("QuarryCo") to acquire all of the Group's quarries at fair value, funded by Ceramic Industries by way of an interest-free loan account. All employees of the Group who do not participate in any share incentive schemes ("Employees") will be entitled to acquire units in a trust which will acquire 60% of the shares in QuarryCo the balance being held by Ceramic Industries. HDSA employees will then effectively own a majority interest in QuarryCo. Based on current employee numbers, Employees through the trust will own 60% of QuarryCo, of which 55% will be HDSA employees.

Because QuarryCo is a wasting asset and is strategic to the Group, this transaction will allow Employees to exchange their interest in QuarryCo for shares in Ceramic Industries in 2017. This proposal will also entail Ceramic Industries retaining the financial responsibility for the ongoing rehabilitation obligations at all quarries as required by the Department of Minerals and Energy.

It is proposed that the Group will purchase the requisite number of Ceramic Industries shares in the market in order to hedge its exposure to Employees. Ceramic Industries' Employees will therefore collectively be entitled to all the growth in the value of and the dividends from the Ceramic Industries shares over the period of the Quarry Transaction, while the Group will retain a contractual right to access and mine the necessary raw materials from the quarries to supply its operating divisions.

Based on the current estimated value of QuarryCo of R20 million, and a market price of a Ceramic Industries share of R180, the Group's Employees will have a collective interest in approximately 67 000 Ceramic Industries shares with a value of approximately R12 million.

This transaction will:

- acknowledge the individual contributions made by Employees towards the success of Ceramic Industries;
- allow Ceramic Industries to comply with the Charter shareholding requirements in respect of the quarries;
- provide Employees with a risk-free investment in the quarries, which is convertible into a JSE Limited ("JSE") listed share; and
- allow Ceramic Industries to continue to prosper as a low cost producer.

3. SELECTION OF BEE PARTNERS TO ASSIST THE GROUP TO MEET ITS COMMITMENT ACROSS THE BEE SCORECARD

The Group has entered into negotiations with Peotona Group Holdings (Proprietary) Limited ("Peotona") and Aka Capital (Proprietary) Limited ("Aka") (collectively the "Corporate BEE Partners"), 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. In addition, the Corporate BEE Partners will make a substantial contribution to developing relationships with municipalities and communities with whom the Group interacts.

Peotona, which was established in 2005 by Cheryl Carolus, Wendy Lucas-Bull, Dolly Mokgatle and Thandi Orleyn, is committed to the development of solutions for sustainable community-based enterprises in disadvantaged communities through 'smart partnerships' to provide strategic advantage to businesses.

Aka is a private equity and investment holding company that was founded in 2001 by Reuel Khoza, Sam Nematswerani and Gary Morolo. Aka identifies and invests in growth-industry opportunities to create shareholder value. Aka's mission statement is "To create a model for sustainable Black Economic Empowerment in order to contribute towards the economic transformation of South Africa". Aka applies innovative and appropriate strategies to widen the participation of black people in its ventures and provides transformation and empowerment expertise to its investee companies.

Detailed discussions with the Corporate BEE Partners have identified ways in which the elements of the scorecard can be covered, for example:

- Rural areas are under-served with the distribution and sales of tiles, given limited access to finance, the small scale and logistical difficulties. The Corporate BEE Partners will use their networks to identify women entrepreneurs who can fill this need. Italtile Limited has also offered to assist with this project, which will also encompass the training of artisans to install tiles and sanitaryware; and
- Peotona has identified a project that could capture the CO₂ produced by burning natural gas in the Group's kilns, and the spirulina, by growing spirulina. This project could create job opportunities and the chance to raise skills in communities adjoining the Group's factories, and the spirulina could be used as a food supplement to improve health and boost the immune response for the benefit of disadvantaged communities;

Ceramic Industries recognizes 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). This vehicle will most likely be a public benefit organisation ("PBO Trust") and will administer the projects outlined above for the benefit of HDSA participants, as well as additional projects identified by the trustees of the PBO Trust or HDSA communities with whom the Group interacts. Peotona will, 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 Group's empowerment transaction will be through a special purpose vehicle created for the sole purpose of holding the shares on behalf of Employees.

The Corporate BEE Partners, the PBO Trust and Employees are collectively defined as "BEE Partners".

4. BROAD TERMS OF THE PROPOSED BEE PARTNERS TRANSACTION

The Board has agreed to issue 2 029 283 Ceramic Industries shares ("the specific issue") to the BEE Partners, such that their interests in the capital of the Ceramic Industries after the specific issue will be as follows:

PBO Trust	4%
Employees	2%
Peotona	2%
Aka	2%

Subject to the approval of Ceramic Industries shareholders and requisite regulatory approvals, the shares will be issued to the BEE Partners at a nominal value, 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 market value of the shares at inception.

Notional interest on this loan account will be calculated as follows:

- In the case of the PBO Trust and Employees – 90% of the prime rate;
- In the case of the Corporate BEE Partners, either 75% or 120% of the prime rate – the preferential rate will apply if the relevant Corporate BEE Partner meets its undertakings to assist the Group in achieving its targets in terms of the BEE Scorecard.

The BEE Partners will be entitled to sell their shares after the seventh anniversary of the transaction's implementation and will be required to sell sufficient shares (valued at the then market price) 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 have not settled 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, for their own account.

5. APPOINTMENTS TO THE BOARD

Subject to the Transactions being implemented, the Board will be strengthened by the appointment of Thandi Orleyn and Sam Nematswerani as non-executive directors.

6. CONDITIONS PRECEDENT TO THE TRANSACTIONS

Further to the signature of transaction agreements, it is proposed that the Transactions will be subject to, inter alia, the following conditions precedent:

- the passing of all necessary resolutions by the requisite majority of shareholders at a general meeting of Ceramic Industries;
- the approval of the JSE to the extent required; and
- the approval of other regulators to the extent required, including the Department of Minerals and Energy, of the Transactions set out in this announcement.

7. DOCUMENTATION

A circular containing the full details of the Transaction, including a notice of general meeting, will be posted to Ceramic Industries shareholders in due course.

8. CAUTIONARY ANNOUNCEMENT

Ceramic Industries shareholders are advised to exercise caution when dealing in Ceramic Industries securities until a further announcement regarding the signature of the transaction agreements and the disclosure of the financial effects of the Transactions is made.

Vereeniging
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