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Sedgman enters agreement to acquire MDM Engineering

Leading resource sector services company, Sedgman Limited (ASX Code: SDM) (**Sedgman**), today announced that it would acquire 100% of the issued share capital of MDM Engineering Group Limited (**MDM**) by way of merger, for approximately £67.9m (A\$104m).

MDM is a South African based minerals process engineering and project management company currently employing approximately 270 personnel. MDM provides services to the metalliferous mining industry internationally, predominantly in Africa, and is listed on the Alternative Investment Market of the London Stock Exchange (AIM).

Sedgman, MDM and Sedgman Africa Investments Limited (a wholly owned subsidiary of Sedgman) (**Sedgman Africa**) have entered into a Merger Implementation Agreement to effect the acquisition of MDM (**MIA**). The MIA sets out the terms on which Sedgman Africa will acquire MDM by way of a merger under the provisions of the *BVI Business Corporations Act 2004* (**BVI Act**) and the obligations of the parties with respect to the implementation of the Merger.

Completion of the Merger is expected to occur by March 2013, but remains subject to a number of conditions precedent in the MIA, including the receipt of certain regulatory approvals in South Africa and Tanzania and an MDM minimum working capital, surplus cash and order book requirement. To be implemented, the Merger must also be approved by greater than 75% of MDM shareholders voting in favour of the Merger. Sedgman has entered into voting agreements with certain key shareholders representing approximately 25% of MDM shares, and has undertakings from an additional 40% of shareholders to enter into such arrangements, pursuant to which those shareholders have irrevocably agreed to vote in favour of the Merger.

It is expected that MDM will send a Notice of Meeting to MDM shareholders in early December 2012, with a shareholder meeting expected to be held in the week commencing 17 December 2012.

A summary of the key terms of the MIA is set out in Appendix A to this announcement.

Acquisition Highlights

- The acquisition is a strong fit for Sedgman's current strategic imperatives, namely:
 - Building a stronger service capability targeting the metalliferous sector;
 - Building geographical diversity in key mining regions;
 - · Support Australian mining companies in Africa; and
 - Growth via strategic mergers and acquisitions.
- The acquisition of MDM will significantly expand Sedgman's operations in Africa and in the metalliferous sector.
- MDM provides a platform for growth in one of the largest and fastest growing mining regions in the world.
- MDM will provide Sedgman with diversification benefits across geography and commodity creating a broader based business.



 MDM capabilities include feasibility studies, plant design, construction and commissioning (EPC & EPCM) providing Sedgman the opportunity to leverage its core competencies into new geographic markets and client bases.

Commenting on the Merger, Sedgman Chairman Russell Kempnich said the MDM acquisition is an important milestone in Sedgman's strategy to diversify by commodity and region.

"The acquisition of MDM is in line with our strategy to grow our business in Africa and build a stronger presence in the metalliferous sector."

"MDM is a world class engineering company with significant projects across commodities including platinum, gold, copper, cobalt, zinc, chromite, uranium and manganese," Mr Kempnich said. "We are excited about the opportunities that this acquisition brings to both companies including the ability to expand our client base and extend our reach in the highly attractive African markets."

MDM's Chairman Bill Nairn said that he is confident the expanded company will have the ability to meet shareholder and client expectations.

"Sedgman is a world leading engineering company with a strong presence in Australia and internationally. The Merger provides a great opportunity for the combined group to leverage skills and expertise, create competitive advantage and strengthen the service offering to clients within African and global markets."

Sedgman's South African business will be integrated with MDM, with the combined entity operating as Sedgman MDM Engineering. Mr Nick Jukes will remain as Chief Executive Officer and Managing Director of Sedgman with MDM Chief Executive Officer Martin Smith leading the merged African operations.

Acquisition Summary

- Total consideration payable for MDM's fully paid ordinary shares on issue of approximately £67.9m (A\$104m) (includes an estimated MDM surplus cash balance of A\$24m at completion).
- Acquisition price is equivalent to £1.81 per MDM share. This represents a premium of 23% to the one month vwap.
- Sedgman will also acquire the outstanding unlisted options held by MDM option-holders for approximately £2.4m (A\$3.7m).
- Consideration is a mix of equity and cash, namely:
 - 15.4m Sedgman shares valued at A\$13.6m issued to key MDM shareholders (representing approximately 7.1% of Sedgman's issued capital); and
 - Cash of approximately A\$90.4m.

Of the Sedgman shares issued as consideration to key MDM shareholders, approximately 14.9m shares will be escrowed until the Sedgman 2014 AGM.

- Cash consideration of A\$90.4m (includes an estimated MDM surplus cash balance of A\$24m at completion) to be funded via a mix of existing Sedgman cash and banking facilities.
- Net Debt upon completion of the transaction is expected to be modest and well within existing banking covenants.
- MDM is expected to report strong growth with operating revenue of approx. \$US79m and NPAT of approx. \$US6m for the six months to 30 Sept 2012. This compares with the 12 months ended 31 March 2012 with revenue of US\$89m and NPAT of US\$5.8m.
- MDM has a number of opportunities in its pipeline that demonstrate an ability to continue to deliver strong growth in revenue and profits.
- The acquisition is anticipated to be EPS accretive in FY13 pre amortisation of intangibles.



- Key MDM management and executives have been retained.
- MDM's current and prospective client base consist of a blend of tier 1 and emerging project owners and developers with a pipeline of multiple projects in various stages of lifecycle from study/ evaluation to construction/ execution.
- Consistent with Sedgman's approach to de-risking project delivery, MDM have a strong history of
 partnering with project owners to undertake detailed study and feasibility work then converting
 studies into execution/ construction projects utilising MDM's detailed project knowledge to ensure the
 mitigation of execution risk.

Sedgman has been advised by Integra Advisory Partners Pty Ltd and Standard Bank of South Africa Limited as corporate advisers and Norton Rose Australia as legal advisers.

About Sedgman

Sedgman Limited (ASX: SDM) was established in 1979 and is a leading provider of mineral processing and associated infrastructure solutions to the global resources industry. Specialising in the design, construction and operation of coal handling and preparation plants (CHPPs), Sedgman is recognised internationally for its mineral processing and materials handling technologies.

Sedgman listed on the ASX in June 2006. The company has approximately 1,000 employees and services the global coal and metalliferous markets by offering innovative Engineering and Operations capabilities. Sedgman won the Prime Minister's Australian Exporter of the Year Award for 2011. The company also won both the Australian Export Award and the Premier of Queensland's Export Award in the Minerals and Energy category in 2011, and the Australian Export Award and the Premier of Queensland's Export Award in the Large Services category in 2010.

Head Office is in Brisbane with international offices established in Beijing, Shanghai, Ulaanbaatar, Santiago and Johannesburg targeting the growth regions of China/Mongolia, South America and southern Africa.

www.sedgman.com

About MDM

MDM Engineering Group Limited is a minerals process and project management company focused on the mining industry. The Company provides a wide range of services from preliminary and final feasibility studies, through to plant design, construction and commissioning. To date, the Company's clients have largely been junior and mid-tier mining corporations with operations in Africa.

The MDM Engineering core technical team has a 23 year track record of completing a wide range of studies and execution projects across a variety of minerals, including precious metals, base metals, ferrous and non-ferrous metals, uranium and diamonds.

The Company has adopted an approach to project execution based on an open-book Engineering, Procurement, and Construction Management "EPCM" or "cost-plus" basis and on an Engineering, Procurement and Construct (EPC) basis. With a core focus on Africa, MDM Engineering is setting the benchmark standard for best practice in the mining services industry through its commitment to providing the highest quality services and actively engaging with clients to ensure efficient project delivery.

www.mdm-engineering.com

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Appendix A - Key Terms of Merger Implementation Agreement

Key terms of the Merger Implementation Agreement dated 28 November 2012 between Sedgman Limited (**Sedgman**), Sedgman Africa Investments Limited (a wholly owned subsidiary of Sedgman) (**Sedgman**) **Africa**) and MDM Engineering Group Limited (**MDM**) (**MIA**).

1 Introduction

1.1 The MIA sets out the terms on which Sedgman Africa will acquire MDM by way of a merger under the provisions of the *BVI Business Corporations Act 2004* (as amended) (**BVI Act**) (**Merger**), and the obligations of the parties with respect to the implementation of the Merger. Sedgman has agreed to guarantee the obligations of Sedgman Africa under the MIA, including the obligation to issue Sedgman shares as part of the consideration for the Merger.

2 Merger Consideration

The Merger consideration payable to MDM shareholders under the MIA is as follows:

- (1) each issued share of MDM owned by certain key MDM shareholders (**Key Shareholders**) shall be cancelled in exchange for consideration comprising (i) the issue of 0.9475 shares of Sedgman, and (ii) payment of cash consideration of £1.27 per MDM share:
- (2) each issued share of MDM not owned by the Key Shareholders shall be cancelled in exchange for payment of cash consideration of £1.81per MDM share; and
- (3) each share option held under the MDM Global Share Option Plan shall be cancelled upon the effectiveness of the Merger and each option holder shall be paid cash consideration equivalent to the difference between the amount paid per MDM share cancelled pursuant to (2) above and the exercise price applicable to the relevant option. MDM will enter into deeds of release and cancellation with each option holder to effect the release and cancellation.

Under the MIA, the parties have agreed that in circumstances where MDM has met certain working capital and cash requirements, there may be an increase in the consideration payable by Sedgman. Any additional consideration will be in the form of an increase to the Merger Consideration or by way of a special dividend payable to MDM Shareholders.

3 Conditions Precedent

There are a number of customary conditions precedent which need to be satisfied before the Merger will be implemented. The key conditions are as follows:

- (1) Regulatory Approvals All required regulatory approvals being received including approval by the South African Competition Commission, Competition Tribunal or Competition Appeal Court (as the case may be), and by the Tanzanian Fair Competition Commission or the Fair Competition Tribunal (as the case may be).
- (2) Merger Approval MDM shareholder approval being obtained by the requisite majority (set out in section 5 below).
- (3) No MDM prescribed events or material adverse change events having occurred.
- (4) Agreements There is no exercise of any change of control right under a material contract which could result in monies becoming repayable under a material contract, a material contract being terminated or adversely modified or the business of any entity in the MDM Group being adversely affected.



- (5) Litigation and investigations No litigation or any action taken by any Regulatory Authority against any entity of the MDM Group.
- (6) Financial Arrangements Parties to financial arrangements confirming in a form acceptable to Sedgman, that they will not exercise rights under those financial arrangements in a manner which is adverse to MDM.
- (7) MDM Options All outstanding MDM Options have been surrendered or cancelled on terms acceptable to Sedgman (acting reasonably).
- (8) Contracts MDM provides written confirmation to Sedgman signed by two directors and the chief financial officer of MDM confirming, and Sedgman is satisfied in its discretion as to certain agreed aggregate revenue values, profit margins and terms and conditions for all contracts comprising the Order Book.
- (9) Working Capital The working capital and cash position of MDM being at certain agreed values.

4 Voting Agreement and Voting and Escrow Agreement

- 4.1 MDM has entered into Voting and Escrow Agreements, and a Voting Agreement, with certain Key Shareholders. Under both agreements, the Key Shareholders have irrevocably agreed to vote all of their MDM shares in favour of the Merger at the MDM shareholder meeting in consideration for receiving the Merger Consideration.
- 4.2 Under the Voting and Escrow Agreements, the Key Shareholders have agreed to a period of escrow up to the close of the 2014 Sedgman Annual General Meeting, in respect of the Sedgman shares they will receive as part of the Merger Consideration.

5 MDM Shareholder Approval of the Plan of Merger

- 5.1 The Merger must be authorised by a special resolution of MDM shareholders entitled to vote on the merger (a resolution passed by a majority of in excess of 75% of the votes of those MDM shareholders entitled to vote and voting on the MDM resolution).
- 5.2 Notice of the meeting, accompanied by a copy of the Plan of Merger, must be given to each MDM shareholder, whether or not entitled to vote on the Merger, at least 14 days prior to the date of the meeting.

6 Exclusivity

Under the MIA, MDM has agreed to certain restrictions during the Exclusivity Period (being the period from the date of the MIA to the earlier of 30 June 2013, or the termination of the MIA) including not to:

- (1) make, solicit, initiate, encourage or promote (including by way of furnishing information, permitting any visit to facilities or properties of the MDM Group) any inquiries or proposals regarding, constituting or that may reasonably be expected to lead to an acquisition proposal or potential acquisition proposal or communicate to any person an intention to do any of these things;
- (2) enter into, facilitate, continue or participate, directly or indirectly, in any discussions or negotiations regarding, or furnish to any person any information or otherwise co-operate with, respond to, assist or participate in, any acquisition proposal or potential acquisition proposal even if the acquisition proposal was:
 - (a) not directly or indirectly solicited; or
 - (b) publicly announced;



- (3) accept, enter into, or propose publicly to accept or enter into, any agreement, understanding or arrangement related to any acquisition proposal or potential acquisition proposal; or
- (4) make any public announcement or take any other action inconsistent with the Merger.

However the obligations referred to in items (2), (3) and (4) above are subject to a fiduciary carveout.

MDM is also under obligations to:

- (1) procure that the MDM Board does not withdraw, modify or qualify its unanimous recommendation of the Merger; and
- (2) notify and provide details to Sedgman of any approach to discuss a potential acquisition proposal, or any other proposal likely to result in a change of recommendation by the MDM Board and any acquisition proposal. This obligation is also subject to a fiduciary carve-out.

Sedgman also has certain matching rights under the MIA with regards to any superior proposal which may arise.

7 Reimbursement of costs

Under the MIA, the parties have agreed that, in certain circumstances, either Sedgman or MDM may be required to reimburse the other, for certain costs incurred, up to the following amounts:

- (1) in respect of MDM pay to Sedgman an amount which is equal to 1% of the aggregate of the total consideration (whether in cash or Sedgman shares) offered by Sedgman to implement the Merger (**Capped Amount**); and
- (2) in respect of Sedgman pay to MDM an amount which is equal to 50% of the Capped Amount.