



21 December 2006

## **Mermaid Marine and P&O Maritime Services Announce Merger**

*Creates Australia's leading diversified marine services business with a strong contracted earnings base and exciting global growth opportunities*

The board of Mermaid Marine Australia Limited ("MMA") has entered into an agreement to merge MMA with P&O Maritime Services Pty Limited ("P&OMS"), a DP World Company, to create Australia's leading diversified marine services company.

The merged company will:

- ▶ be Australia's leading diversified marine services company with annual revenue in the order of \$200 million;
- ▶ operate more than 40 directly owned specialist vessels and manage an additional 100 vessels for third parties<sup>1</sup>;
- ▶ have approximately 75% of its revenue under medium to long term contracts across different market segments and geographies;
- ▶ employ more than 1,300 employees<sup>1</sup>;
- ▶ have substantially reduced gearing; and
- ▶ have the support of its major shareholder, DP World, in growing the company in Australia and internationally in all business sectors.

The proposed merger will be implemented by MMA issuing 221.9 million shares to DP World in return for 100% of the shares in P&OMS, P&O Maritime Services (PNG) Limited and P&O Polar Australia Pty Limited (the P&OMS Group), subject to the approval of MMA shareholders. DP World is currently the beneficial owner of the three companies and the proposed merger will result in DP World holding approximately 60.4% of the enlarged fully diluted share capital of MMA making it the majority shareholder. MMA will also assume \$40 million of net debt<sup>2</sup>, giving an enterprise value for the P&OMS Group of \$261.9 million<sup>3</sup>. MMA's Directors believe the merger terms represent an appropriate control premium to existing MMA shareholders reflecting the "change of control" nature of the transaction. Importantly, MMA shareholders will own approximately 39.6% of the merged group and will participate in the significant on-going benefits that your Directors believe will arise from the combination of MMA and P&OMS.

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<sup>1</sup> Including joint ventures

<sup>2</sup> Including share of joint venture debt

<sup>3</sup> Based on \$1.00 per MMA share.

The MMA Directors have recommended unanimously that MMA shareholders vote in favour of the proposed merger subject to certain conditions, including the Independent Expert not concluding that the transaction is fair and reasonable or a superior offer being made. MMA Directors also intend to vote in favour of the proposed merger in respect of all MMA shares held by each director on the same basis.

MMA believes that the proposed merger will create a highly attractive business diversified across a range of maritime services. The core activities of MMA will remain unchanged. The merged group will have strong growth prospects with sufficient capital to exploit opportunities in a broad range of sectors and geographies. MMA proposes, subject to shareholder approval, to change its name to P&O Marine Limited and therefore will be able to leverage off one of the best known brands in the international shipping industry.

The proposed merger will also combine the significant management and board expertise of MMA and the P&OMS Group. The Chairman of the merged company will be MMA's current Chairman, Mr Tony Howarth, and the Managing Director and Chief Executive Officer will be P&OMS' current Managing Director, Mr. Andrew King. Mr Jeff Weber, the current Managing Director and Chief Executive Officer of MMA, continues as an Executive Director and will be the Chief Operating Officer of the merged company. The balance of the seven member Board will comprise two further Independent Directors (one from MMA's existing Board and one to be appointed by agreement between the parties) and 2 non-executive Directors appointed by DP World.

The MMA Directors believe the merger will provide a number of benefits to MMA shareholders, including:

- ▶ combining two highly complementary asset portfolios with activities across the marine services industry;
- ▶ proposed merger is expected to be immediately earnings per share accretive on a full year basis<sup>4</sup>;
- ▶ EBIT will increase by approximately 138% based on forecast 2007 financials (excluding synergies);
- ▶ an increase in the proportion of contracted revenue for the financial year ending 30 June 2007 from approximately 50% to approximately 75%;
- ▶ a more diversified earnings base;
- ▶ enhanced financial strength and flexibility - debt to equity ratio is expected to reduce substantially from its current position;
- ▶ cost synergies estimated in excess of \$2.5 million per annum are expected to be realised as a result of the transaction;
- ▶ combining complementary management, technical and operating skills; and
- ▶ an increase in the scale and market capitalisation of the merged company.

Commenting on the merger, Chairman Tony Howarth said "We are delighted to have been able to reach agreement on a landmark deal for MMA, which we believe will be extremely positive for shareholders and will create a substantial international marine services company listed in Australia. P&O and DP World are both highly respected companies and the combination of MMA strength in the oil and gas sector with

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<sup>4</sup> Excluding transaction costs and any amortisation of intangibles

P&OMS' government and defence businesses and existing international presence, will be a powerful force in the industry. The proposed merger will drive earnings growth and will put the merged company in a strong financial position to capture future opportunities".

Mr Mohammed Sharaf, Chief Executive Officer of DP World also welcomed the agreement, saying, "This is a very positive step for P&OMS. The fit with MMA is excellent and will allow the company to grow farther and faster than would have otherwise been possible. The merged company has the potential to become a major international player in marine services. Whilst the core of the group is currently its Australian operations, we have the opportunity, over time to create a global business leveraging the P&O name and DP World's global reach to provide quality services to customers around the world. We look forward to supporting this business in the future and continuing to invest in Australia."

### **Key Terms of the Merger**

A Merger Implementation Deed, and a Share Sale Agreement have been entered into to facilitate the implementation of the merger. Under the agreements, subject to certain conditions, the proposed merger will be implemented by MMA issuing 221,935,777 ordinary shares to DP World in return for 100% of the shares in P&OMS, P&O Maritime Services (PNG) Limited and P&O Polar Australia Pty Limited

It has been agreed that, subject to shareholder approval and the implementation of the merger, MMA will be renamed "P&O Marine Limited" and that subject to some conditions, DP World will license the P&O brand name to the merged company.

As a result of the acquisition of the P&O Group by Dubai based DP World in 2006, P&OMS is presently 100% owned by DP World, now the 3<sup>rd</sup> largest container terminal operator of ports globally. DP World, which operates marine terminals in 23 countries, views P&OMS as its marine services arm, and has agreed to support the merged entity in growing its business globally. DP World, P&OMS and MMA believe there is significant potential to expand the business into numerous new overseas markets by leveraging the relationships and presence of P&OMS and DP World.

Key conditions of the agreement include:

- ▶ the approval of a majority of MMA's existing shareholders at a general meeting, to be convened in early 2007;
- ▶ the Independent Expert commissioned by MMA concluding that the transaction is fair and reasonable for MMA's shareholders; and
- ▶ the approval of the Foreign Investment Review Board.

The conditions must be met by 21 May 2007 or such later date as agreed by the parties.

Other important terms of the agreement are:

- ▶ MMA has agreed to assume an additional \$40 million of net debt initially in the form of debt due to DP World<sup>5</sup> as part of the transaction;

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<sup>5</sup> Including share of joint venture debt

- ▶ Subject to the Independent Expert's conclusion, the Board has agreed to recommend the transaction to shareholders in the absence of a superior offer;
- ▶ MMA has agreed to market standard exclusivity provisions;
- ▶ MMA has agreed to pay DP World a break fee of \$1.40 million in certain circumstances, including the event that a competing offer is made which is recommended by MMA's directors.

### Summary Financials

(in \$ millions)	MMA 30 June 2007 Forecast <sup>6</sup>	P&OMS 30 June 2007 Forecast <sup>7</sup>	MergeCo 30 June 2007 Pro-forma
Revenue	85.5	118.9 <sup>8</sup>	204.4
EBITDA	23.2	33.2	56.4
EBIT	17.9	24.8	42.7
NPAT	9.6	15.3 <sup>9</sup>	24.9

Note: Above financials exclude any synergies estimated to be in excess of \$2.5m per annum.

### Timetable

An indicative timetable for completion of the transaction is set out below:

Despatch Notice of Meeting:	February 2007
General Meeting of MMA Shareholders:	March 2007
Completion:	March/April 2007

### Further information.

MMA is being advised by Azure Capital as financial adviser and Blake Dawson Waldron as legal adviser. DP World is being advised by Carnegie, Wylie & Company as financial adviser and Minter Ellison as legal adviser.

For further information concerning the merger, please contact:

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<sup>6</sup> Excludes transaction costs

<sup>7</sup> P&OMS forecast excludes one-off items of \$850,000 and transaction costs

<sup>8</sup> Excludes share of flow through revenue associated with construction of Royal Australian Navy Armadale class patrol boat

<sup>9</sup> Based on \$40 million net debt; 7.5% cost of debt; 30% tax rate

## **About P&OMS**

P&OMS's primary operations are in government shipping services, cargo and defence sectors. The nature of the P&OMS business is highly stable with over 90% of its expected revenues for the financial year ending 30 June 2007 under contract.

P&OMS currently has operations around Australia, as well as in Papua New Guinea, Ireland, Singapore and Argentina. Among its major clients are the Australian Government Antarctic Division, the Department of Defence, Australian Customs Service, CSIRO, Xstrata and others. P&OMS's defence business in Australia is operated through Defence Maritime Services Pty Ltd, a 50% owned joint venture with Serco Group plc of the United Kingdom, a company capitalised at £1.7 billion on the London Stock Exchange.