ASX announcement

19 May 2015

Market Update – Contracts, Backlog and Outlook

New Contracts

Matrix Composites & Engineering Ltd (MCE) is pleased to announce that it has received notification of award of several new contracts for the supply of drilling riser buoyancy to new clients based in China and the US.

These projects are scheduled for completion and delivery in FY16 and include projects in both the replacement market and the newbuild drillship market. Matrix was selected over other suppliers on a technical, track record and performance basis.

In relation to the newbuild projects, Matrix will be supplying the client with its ‘Nautilus’ drilling riser protection system designed to protect bare riser joints and provide greater flexibility when stacking risers.

Operations

Notwithstanding these new contracts, the fall in global energy prices has resulted in a number of committed client projects being delayed causing an adverse impact on Matrix’s planned production schedule. As a result, Matrix has reduced staff and output at its Henderson and Malaga operations to appropriately match demand for its products and services.

Aaron Begley, CEO said “these production and cost reduction plans will allow us to adapt to the current market challenges, maintaining the competitiveness and long term viability of the business whilst also maintaining the capacity to increase output for short term demand requirements. With a strong balance sheet and minimal debt, the Company is well positioned to manage the short term softening in demand which will see us emerge stronger once the downturn ends”.

Order Book Status

MCE’s current backlog (18 May 2015), inclusive of new contracts, is US$97.7 million which will underwrite production at the lower daily rates until Q2 FY16. Approximately half of contracted

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orders are scheduled for production by the end of Q2 FY16 while the balance will be produced over the balance of FY16 and CY17.

Forecast Earnings

Matrix will incur non-recurring costs related to redundancies and the downsizing of Malaga operations of $2.6 million during FY15 which will adversely affect the Company's reported earnings. The Company notes that analysts' forecast EBITDA for the Company for FY15 range between $21.3 million and $25.6 million which is in line with management's internal forecast of approximately $22.1 million, before foreign exchange losses and non-recurring costs.

Under the reduced output announced above, Matrix expects to generate revenue between $110 million to $130 million in FY16.

Outlook

Matrix has responded to the recent downturn in the oil price by reducing scheduled production output, cutting costs and continuing to improve labour and materials efficiencies. The Board remains confident that demand will increase for its products and services following a recovery in the oil price. Matrix remains well positioned to return to greater production volumes in the medium term.

Matrix has continued to experience strong interest from Asia in its centralizer range which has offset reductions in demand from the US market. We expect to see continual growth in market share from across this region.

MCE CEO Aaron Begley said "despite recent market uncertainty caused by the falling oil price, MCE's outlook remains strong over the medium to long term. It is likely that this reduction in output will be short lived and we expect a return to increased production as market conditions improve. The Company is well positioned to capitalise on future growth opportunities that may emerge from current market conditions".

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About Matrix Composites & Engineering (MCE)

Matrix Composites & Engineering ('Matrix') manufacturers and supplies engineered products and services to the global energy sector. Matrix has an established reputation for developing and utilising advanced composite and polymer materials technologies and innovative manufacturing processes. This means its products are stronger, lighter and longer lasting, and can be manufactured and delivered within shorter timeframes.