

ASX RELEASE

25th January 2018

Strong demand drives SECOS sales growth forecast

Highlights:

- **Strong growth in demand for SECOS resin, with H1 FY18 resin sales of almost \$800k (including undelivered December orders of \$526k), representing an increase of over 400% compared to H1 FY17 resin sales of \$155k. Delays in delivering December sales stemmed from previously-announced shutdown of the Company's Nanjing, China facility during the December quarter, which has now returned to production.**
- **Demand for SECOS compostable and biodegradable resins is being driven by consumer, industry and regulatory demands for more environmentally friendly plastic products.**
- **Strong production output is expected to continue throughout the rest of 2018, with sales in the March quarter expected to be \$1 million to \$1.5 million higher than the December quarter, underpinning SECOS' forecast FY18 sales exceeding \$24 million.**

Sustainable and eco-friendly bioplastics developer SECOS Group Limited (ASX: SES, "the Company") is pleased to advise of strong growth across its business.

This exponential growth stems primarily from global demand for the Company's core product line, its proprietary compostable and biodegradable resins. SECOS' resin orders have continued to grow following the surge in orders the Company announced to the ASX on 13 November 2017.

The move to ban the use of traditional plastics in multiple geographies around the world is driving demand for environmentally friendly alternatives. SECOS expects to continue to benefit from this market shift, as local and state governments around the world increasingly announce bans on traditional, environmentally unfriendly plastics.

China restructuring leads to 100% capacity utilisation with material cost savings

SECOS has gained an immediate benefit from the restructure of the Company's Nanjing operations in 2017. This restructure necessitated an eight-week period during the December quarter during which production was interrupted intermittently, and saw the company incur one-off expenses of approximately \$650k relating to staff redundancies, machine maintenance, legal advice and implementation of global best practices on environmental and safety standards.

The Company has appointed a new management team in China and is achieving fixed overhead cost savings of approximately \$240k per annum.

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Although these activities will have a one-off negative impact on December quarter net cash flow, the completion of this work will result in SECOS' Nanjing resin plant operating at full output capacity for the first time.

The Company expects this robust production to continue in 2018 as its Chinese operations contribute materially to overall growth in revenue and cash flow. SECOS' resin orders are now booked out to the end of the current quarter, with orders expected to continue to grow into the June quarter.

SECOS anticipates opportunities for further growth and investment in the Chinese market after a promising period of consistent and ongoing performance.

Malaysian business performing strongly

SECOS' Malaysian operations will commence producing resin in the June quarter to meet growing Southeast Asian resin orders.

This will follow the expansion, upgrade and setup of the new Malaysian plant as announced on 12 October 2017, and initial investment in new resin compounders. Although resin production was originally planned to commence in the March quarter, the transfer of machinery from China was delayed by the business restructure.

The Company has now packed pre-configured compounding equipment for transfer from the Nanjing plant to Malaysia with arrival expected by mid-February. The Company has also ordered a new compounder to come online midway through the June quarter, adding to its Malaysian resin manufacturing capacity.

SECOS' Malaysian business unit continues to perform strongly, and the Company expects to achieve further growth in orders and revenue in the June quarter as a result of further council contract wins in Australia and initial resin orders from the US.

Capacity management to meet strong demand

With SECOS running at full capacity to meet its current level of resin orders, the Company is considering its options for further capacity expansion to meet anticipated growth in demand. The Company expects to continue to invest in its Malaysian and Chinese business units, having established a structure for sustainable growth.

Sales in the Company's cast film division were stable in the December quarter and have developed positively in 2018.

Outlook

SECOS Managing Director, Stephen Walters, said:

"We expect the strong growth in demand for bioplastics to empower SECOS to expand faster than ever before, particularly in key markets such as Malaysia, China and the US, where the Company has established strong foundations with many years of experience doing business.

"This gives us confidence in our expectation for growth in SECOS' resin sales to continue in line with growing market demand into FY19.

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“Based on our current order book, we expect to achieve sales in the March quarter between \$1 million and \$1.5 million higher than the December quarter, representing quarter-on-quarter growth of more than 24%.

“This underpins our forecast for FY18 sales to exceed \$24 million (up from \$22 million in FY17). We expect to grow the business to a revenue run rate of \$28 million by this year’s June quarter.

“We are complementing this revenue growth with a resolute focus on achieving further operational cost savings and scale improvements. We have more work to do on this front, and thus we continue to strive toward profitably reducing the impact of the way we live on the planet.”

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About SECOS Group Limited

SECOS Group Limited (ASX: SES) is a leading developer and manufacturer of sustainable packaging materials. Based in Melbourne, Australia, SECOS supplies its proprietary biodegradable resins, packaging products and high-quality cast films to a blue-chip global customer base.

SECOS holds a strong patent portfolio and the global trend toward sustainable packaging is fueling the Company’s growth, bringing FY17 revenue of \$22 million.

The Company’s headquarters and Global Application Development Centre are based in Melbourne, Australia. SECOS has a Product Development Centre and manufacturing plant for resins and finished products in Nanjing, China, with manufacturing plants for high quality cast films in Melbourne and Kuala Lumpur, Malaysia. SECOS’ annual production capacity is 7,200 tonnes of bioplastic resins, 15,000 tonnes of cast film and 2,000 tonnes of blown film and finished products.

SECOS has sales offices in Australia, Malaysia, China and the US, with a network of leading distributors across the Americas, Asia and Europe.

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