

26 October 2012

**ASX ANNOUNCEMENT**

**RELEASE OF QUARTERLY UPDATE AND ALIGNMENT OF PRODUCTION  
PROFILE TO FORECAST DEMAND**

Matrix Composites & Engineering Ltd (ASX:MCE) (“Matrix” or “the Company”) released its Quarterly Update for Q1 FY2013 today. Additionally, Matrix is announcing changes to the Company’s cost base and production profile to meet anticipated demand. The changes will have an adverse impact on earnings for FY2013 however will position the Company for stronger future earnings and greater leverage to future increases in demand.

**Quarterly Update – Q1 FY2013**

Matrix released its Quarterly Update for Q1 FY2013 which covered production output, orders and tendering activity. Key points for Q1 FY2013 include:

- Target production rates for the Henderson facility were achieved in August 2012
- Production for Q1 FY2013 was in-line with target production rates
- Backlog (current order book) of US\$73 million
- Pipeline and order book exceeding US\$1 billion
- Continued strong future demand, over the medium to long term, based on market indicators.

Despite lower than anticipated revenue from well construction products, adverse movements in the USD:AUD rate and higher than budgeted labour costs, Matrix has recorded positive earnings and operating cash flow during Q1 FY2013.

**Reduction in Cost Base**

Matrix undertook a review of its manufacturing support and plant operating structures in Q1 FY13 and has taken the following actions:

- Reduced full time equivalent employees (“FTEs”) in manufacturing and administrative support by 46 throughout the month of October 2012.
- Effected changes to operating processes and raw material management which has significantly reduced manufacturing overheads.
- Reconfigured the plant shift roster from three x eight hour shifts to two x eight hour shifts, effective as of 5 November 2012. This will reduce direct labour FTEs by 23.

Matrix retains the flexibility to return to, and maintain, maximum plant capacity by either extending the length of shifts, adding additional shifts on weekends or re-instating a third shift. The improved operating performance of the Henderson facility has significantly increased the maximum potential output from the plant at a lower cost structure increasing Matrix's leverage to any future increases in demand.

The move to a two shift roster provides the optimal operating structure to maximize profitability over the remainders of FY2013. Matrix believes that any future increases in production will not require additional manufacturing or administrative support.

### **Earnings Guidance**

While there exists strong future demand for the Company's diverse range of product lines for the oil and gas industry over the medium to long terms, Matrix (Composites business) is however experiencing a delay in order confirmation for both buoyancy and well construction products. This has led to the decision to reduce short term output of buoyancy products until an appropriate backlog of orders is confirmed.

Consistent with other businesses which service the mineral processing sector, Matrix's Offshore Services and Engineering division (MOSE) has experienced a softening in demand for its fabricated products used in this sector. As a result, the Company expects lower than anticipated revenue from this division in FY2013.

As a result of the changes to Matrix's forecast production output and cost structure, and having regard to its financial performance in Q1 FY2013, the Company has revised its market guidance as follows:

<b>\$million</b>	<b>Low</b>	<b>High</b>
Revenue	165.0	175.0
EBITDA	21.1	26.9
EBDAIT (operating free cash flow)	16.1	20.4
Net Profit after Tax	6.6	10.9

Guidance is based on the following:

1. Conversion of sufficient sales opportunities to exceed revised production capacity
2. Full production at the new shift roster
3. Maintenance of revenue from well construction products at the rate achieved in Q1 FY2013
4. No further softening of demand from the mineral production sector.
5. No impact from foreign exchange fluctuations.



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### **Matrix Composites & Engineering**

Matrix designs, tests, manufactures, distributes and services a range of engineered products used in the oil and gas, and resources industries. Matrix manufactures technically advanced products using composite and polymer materials that originate from the aerospace and defence industries. It is through the use of innovative and advanced materials technology that has given the Company a market leading position in the manufacture of subsea buoyancy systems.

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