

5 November 2014

Chairperson's report – 2014 Annual General Meeting

Introduction

Ladies and Gentlemen, I am delighted to address you today as the Chairperson of Matrix. Aaron Begley will provide a detailed overview of the business performance for FY14 at the conclusion of the meeting. For my part I would like to comment on the business performance from the shareholders' perspective and cover some of the governance issues which are of paramount importance to the Board.

FY14 Performance

It is pleasing to be able to report to you today that Matrix has performed in line with market expectations over the past 12 months. Following the improvement in performance in FY13, FY14 was a year of stable financial performance based on improved operational performance which allowed significant debt to be paid down and the balance sheet returned to stability.

Matrix recorded revenue of \$158.6 million for the year, a 9.0 per cent increase on revenue in FY13, based primarily on improved production from the Company's Henderson buoyancy operations. The USD:AUD remained persistently high during FY14 however recent falls, if maintained throughout FY15 should result in improved revenue in the current financial year.

Matrix reported EBITDA of \$18.6 million for FY14, a 148 per cent improvement on FY13 and in excess of market expectations. The Board considers there remains scope to improve this further as Matrix extends its market reach and continues to lead the industry with materials and technology improvements.

In relation to safety, it was disappointing that three relatively minor incidents during FY14 resulted in an increase from the previous zero LTIFR to 4.1. Matrix is proud of its safety record and does not that accept any injury can't be prevented.

More importantly, I am pleased to advise that the commitment and focus on safety has resulted in the LTIFR falling to 1.4 as at 30 September 2014 which is a substantial improvement and provides confidence that the Company can again attain the targeted zero LTIFR.

1H FY15 Performance

Despite finishing FY14 with record daily production volumes, Matrix was required to ramp back production in Q1 to approximately 80 per cent of nameplate capacity due to slower than anticipated order conversion. Following the recent award of US\$64.3 million of new contracts, the backlog is now significantly improved and Matrix expects to ramp production back up towards 90 per cent of nameplate (on a five day week basis) for the remainder of FY15, subject to customer delivery requirements. As a result, the Board expects the financial results for FY15 will again be skewed towards the second half. It is important to note that Matrix still retains significant spare capacity in 2H FY15 and will continue to seek additional work that can be completed during this period.

For a number of years the persistently high Australian dollar has eroded the margins in Matrix's predominantly export oriented business. The recent fall in the AUD relative to the USD is highly favourable to Matrix and it is anticipated that this will start to be reflected in the 1H FY15 results. Notwithstanding this, the global market remains competitive with margins constantly under pressure from both shipyard and OEM customers.

As previously communicated to the market, Matrix has secured a growing stream of SURF work and within the next few weeks Matrix will despatch a 150mT installation buoy for use in Inpex's Ichthys project, north of Broome in the Timor Sea. This has been a highly successful project for Matrix, demonstrating its capacity to design and deliver a complete buoyancy system for a producing oil & gas field. It is expected this will be the forerunner for similar work in the SURF sector.

Well Construction product volumes have been relatively strong so far in FY15 however margins have been below expectations as Matrix seeks to build brand recognition in its products. As with buoyancy products, the lower currency is highly favourable to Matrix and, should volumes and market penetration be maintained, it is likely there will be a stronger result from this product line in FY15.

The restructure of the former MOSE division has already delivered positive results with duplication of support functions removed and greater alignment between Matrix, its people and its customers being achieved. The focus of the Group into the restructured product and service lines of Offshore/CDE, SURF and Well Construction shows that the Company is clearly focussed on delivering products and services to the oil and gas sector, both within Australia and globally.

Overall the start to FY15 has been positive, albeit not as strong in Q1 as had been anticipated, but with an adequate backlog for FY15 secured, the Board is confident of another improved financial result for FY15.

Bank Facilities

During FY14 Matrix continued its commitment to retiring bank debt. It is pleasing to report that financial indebtedness was reduced by \$11.9 million during FY14 through a mixture of amortisation of core debt and delivering into out-of-the-money hedging instruments. This has resulted in a significant strengthening of the Company's balance sheet and liquidity.

Matrix is currently finalising new debt arrangements which will result in a more simplified debt structure and increased contingent lines to service working capital and bonding requirements. We expect to be able to provide details of these new facilities in the near future.

Achievements

During FY14 the business demonstrated its ability to flex production both up and down, without incurring the previously incurred 'friction' costs. This has allowed the company to manage production output in line with customer demand while maintaining an appropriate margin.

At the beginning of the year Matrix was recognised by being awarded the 2013 CY O'Connor for Excellence in Engineering and Technology in the Western Australian Industry & Export Awards. More recently Matrix was recognised by the 2014 Western Australian Industry & Export Awards being awarded the Manufacturing Export Award and receiving a Special Commendation for Minerals & Energy (and related services), as well as being inducted into the Hall of Fame. Matrix is extremely proud of its achievements as an Australian, export focused, manufacturer and is grateful to receive this recognition.

Dividend Policy

While the Company's improved operational and financial performance has resulted in an improved Balance Sheet and Liquidity position, the Board did not propose a dividend payment in respect of FY14.

The majority of work being completed by Matrix continues to be shipyard contracts which are significantly 'back ended' in relation to cash generation and result in increased levels of working capital. As a result of this the Board has determined that it is paramount to maintain additional liquidity in the business to support this increased working capital.

With an improved order book, reduced and stabilising currency and the prospect of supportive bank facilities, the Board is confident of being able to resume dividend payments in the current financial year.

Corporate Governance

The Board of Matrix is committed to a high level of corporate governance and fostering a culture that values ethical behaviour, integrity and respect. During the year the Matrix Board has been refreshed with the appointment of two experienced Board members in Mr Steven Cole and Dr Duncan Clegg.

Matrix is well advanced in adapting to the introduction of the 3rd Edition Corporate Governance initiatives which will be reported against at the conclusion of FY15. As part of this process, the Board has reviewed its governance policies practices and is in the process of adapting a comprehensive suite of governance policies.

People, Safety and Culture

The labour market has softened in Western Australia over the past year which has provided the opportunity to attract high quality people to the already impressive team at Matrix. The calibre and diversity of our employees, their commitment to the business and the manner in which they consistently strive to deliver outcomes for the business and its shareholders will greatly assist us to achieve the strategies we are pursuing. This 'can do' attitude and focus on continuous improvement has been a significant factor in driving the business growth that has been achieved to date and will deliver improved performance into the future.

As noted earlier, Matrix has a strong commitment to safety and targets zero LTIFR. While it is disappointing to report that this target was not met in FY14, this does not in any way indicate a lack of commitment by the Board or Management to this target. I look forward to being able to report an improved safety performance in the future.

Matrix continued the development of its brand and culture initiative during the year. This is a key component of building organisational capability and competency which are necessary to continue to drive the business and organisational performance into the future. This initiative is representative of the long term planning undertaken by Matrix to allow it to grow and improve its operational and financial performance in the future.

Outlook

The Board continues to have great confidence in the outlook for Matrix for FY15 and beyond. The recent announcement of new orders provides a strong pipeline of work for FY15 and beyond. Importantly, Matrix retains the flexibility to 'ramp-up' additional production should short-term opportunities present themselves.

It is worth noting that recent lead indicators show declining day rates for drilling contractors which, together with softer oil prices, are generally considered to reflect negatively for the energy services sector. Despite these short-term indicators, the longer term macro indicators of confirmed orders for new build drill ships, the aging of the existing buoyancy fleet and the forecast increase in onshore drilling in North America all support strong future demand for the Company's products.

Having recently extended its backlog to almost 12 months, Matrix is focused on building and maintaining this backlog of contracted work to provide revenue and earnings certainty. Matrix considers the visible pipeline of work is sufficient to adequately load the plant through FY16 and beyond.

Matrix has historically, and continues, invested significant resources in developing new products and leading edge technologies to support the global oil & gas sector. This commitment to technology investment and quality is often slow to show a return however in the past year it has positioned Matrix as a preferred supplier of buoyancy products due to their recognised quality and reliability. Matrix is proud of this reputation and is prepared to continue to invest the resources required to ensure that Matrix products continue to be recognised globally for their quality, reliability and technical innovation.

Conclusion

On behalf of the Board I express my thanks to all of the Matrix team for their efforts over the past 12 months. It is indeed pleasing to be able to stand before shareholders and report that the outcomes that were set this time last year have been achieved and in some cases exceeded. Similarly the Matrix investor base continues to be patient and supportive over the past year and the Board looks forward to shareholders being rewarded for their faith and confidence with dividends and share price appreciation in the future.

At this point I would also like to pay tribute to Paul Wright who, as recently announced, will retire from the Board at the conclusion of today's meeting. Paul has been an invaluable member of the Board and been involved with the Matrix Group since 1995 when he was appointed Director and Chief Financial Officer (CFO) of Specialist Engineering Services (Aust) Limited, the original Begley engineering business.

During this time Paul played a pivotal role in the expansion of that business and development of the emerging composite material business. Paul was appointed as Group CEO in 2007 and held that position up to 2009 when Aaron Begley succeeded him. During this time he was responsible for the pre-IPO capital raising, in 2007/ 2008, and preparing the Company for listing on the Australian Stock Exchange (ASX). Subsequent to Aaron's appointment as Group CEO, Paul was appointed as Group CFO and together they oversaw the IPO process and the listing of the Company on ASX. Paul resigned from the CFO role in 2010 and assumed a Non-Executive Director role in the same year.

Paul has played an integral role in many of the Group's key milestones from its origins as a small family organisation to its current position as a leading global manufacturer of subsea buoyancy systems. On behalf of the Board, I thank Paul for his contribution and foresight in the development of Matrix to its current position as a leading producer of buoyancy systems and ancillary equipment to the global oil and gas industry.

The Board is excited about the future for Matrix. Following a period of hard work by the Management team and patience from the shareholder base, the Company enjoys relative financial and operational stability and is well positioned for an exciting future with:

- i) a world class syntactic foam plant;
- ii) an established reputation in the global oil & gas sector as a world class manufacturer of industry leading products;
- iii) exposure to highly favourable industries; and
- iv) favourable macro conditions in relation to exchange rates and the likelihood of reduced global capacity.

The Board is confident that the improvement in cash generation from the business will continue which will allow the Board and Management to pursue new growth opportunities to drive increased earnings growth for shareholders.

PETER J HOOD
Chairperson

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ABOUT MATRIX COMPOSITES & ENGINEERING

Matrix Composites & Engineering ('Matrix') provide solutions consisting of engineered products and integrated services to the global oil and gas industry. Matrix is a leading developer of syntactic foam products using its core competencies in syntactic foam, composites materials and polymer material technology.