APPENDIX 4D & HALF YEAR FINANCIAL STATEMENTS

31 December 2015

Matrix Composites & Engineering Ltd

RESULTS FOR ANNOUNCEMENT TO THE MARKET

ASX announcement

24 February 2016

Matrix Profit Result – 1H FY16

Summary

- Revenue of $63.4 million (1H FY15: $78.5 million)
- EBITDA of $7.4 million (1H FY15: $13.6 million)
- Underlying EBITDA of $9.3 million (1H FY15: $13.6 million)
- NPAT of $1.1 million (1H FY15: $3.9 million)
- Earnings impacted by reduced production output in response to softening demand for drilling equipment in depressed oil price environment
- Further reduced net debt to $4.9 million (FY15: $7.8 million)
- Successfully launched LGS™, a new product aimed at reducing down time on floating drilling rigs operating in high current waters
- FY16 revenue forecast to be approximately $100 million

Financial Performance

Matrix Composites & Engineering Ltd (MCE) today announced earnings before interest, tax and depreciation (EBITDA) of $7.4 million (1H FY15: $13.6 million), on revenue of $63.4 million (1H FY15: $78.5 million). The result was adversely impacted by reduced buoyancy production output in response to softening demand for drilling equipment in the current depressed oil price environment. Non-recurring costs of $1.9 million primarily associated with the reduction in output, also adversely impacted earnings. Prior to these costs, the underlying EBITDA was $9.3 million.

MCE reported an interim net profit after tax of $1.1 million for 1H FY16, compared with $3.9 million in the previous corresponding period.

MCE Chief Executive Officer Aaron Begley said: “The results for the first half reflect the softening in demand for drilling equipment following the sharp decrease in global oil prices over the past year. As a result, Matrix moved quickly to moderate production and reduce costs at Henderson, while completing the managed shut down of the Malaga engineering workshops. During this period, the business has maintained positive earnings and successfully launched

MATRIX COMPOSITES & ENGINEERING LTD
150 Quill Way, Henderson, WA Australia 6166 T +61 8 9412 1200 Fax: +61 8 9412 1299 ABN 54 009 435 250
PO Box 87, Wattleup, WA Australia 6166 matrix@matrixengineered.com www.matrixengineered.com

new products, such as the LGS™ riser buoyancy system. Our continued focus on labour and materials efficiencies have supported the business to achieve this result. Despite market uncertainty for oilfield services businesses, Matrix has maintained operations and significantly improved its market share."

MCE recorded a gross cash balance in excess of $14.9 million and continued to reduce net debt (gross cash less bank debt and customer deposits) to $4.9 million at 31 December 2015. MCE recorded negative cash from operations of $2.4 million due to a build up in working capital as production was smoothed by manufacturing contracted work earlier than anticipated.

MCE has been LTI free at its Henderson facility since May 2014 and has recorded a Group LTIFR of nil as at 31 December 2015.

Dividends

The Board has determined not to pay an interim dividend for this period. The Directors note that the sustained low global oil price is likely to result in a sustained period of low production which will temper the Company's cash generation capacity. The Company will continue to monitor the contracted backlog, operational liquidity and market outlook with respect to future dividends.

On-Market Share Buyback

Matrix commenced its on-market share buyback on 6 March 2015. 805,428 shares, representing 0.85 per cent of the total shares on issue prior to the buyback, were acquired at an average price of $0.54. This volume represents 6.6 per cent of the shares traded on ASX over the period that the buyback was active.

This completes the planned buyback activity and an Appendix 3F notifying completion of the on-market buyback is attached to this announcement

Order Book Status

MCE's backlog at 31 December 2015 was US$56.1 million (unadjusted to reflect subsequent contract cancellation as announced 16 February 2016), compared to US$93.1 million at 30 June 2015, which supports production throughout FY16. MCE expects FY16 revenue of approximately $100 million.

MCE CEO Aaron Begley said "The industry is experiencing a significant reduction in orders for new-build drillships as well as a deferral of existing orders already under construction. Despite this, MCE is experiencing growth in enquiries from the replacement market driven off its new LGS™ product range. We believe the market will transition to LGS relatively quickly given it provides significant cost savings which is highly attractive in the current oil price environment.

Within a few years, we expect LGS will dominate the market. Meanwhile, demand for SURF products has also been adversely impacted as the economic parameters imposed by a lower oil price result in delays and rebidding of previously sanctioned projects."

Outlook

"There has been recent market uncertainty caused by the low oil price, however, Matrix's outlook remains positive over the medium to long term. Output has been moderated to meet market conditions and the Company is expected to continue operations, albeit at much lower rates of production. With a sound balance sheet and minimal debt, Matrix is able to manage short-term disruptions to demand and respond to future increases in demand."

For further information please contact Peter Tazewell, Chief Financial Officer on +61 89412 1200, or email peter.tazewell@matrixengineered.com

About Matrix Composites & Engineering (MCE)

Matrix Composites & Engineering ('Matrix') manufactures 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.

Appendix 4D

Half year report
Period ending on 31 December 2015

Name of entity

Matrix Composites & Engineering Ltd

ABN or equivalent company reference

54 009 235 450

The information contained in this report relates to the following years:

Current half-year ended	31 December 2015
Previous half-year ended	31 December 2014

Results for announcement to the market

				$000s
Revenue	Decreased	19.2%	To	64,422
Profit/(losses) after tax attributable to members	Decreased	71.1%	To	1,116
Profit/(losses) after tax attributable to owners of the parent	Decreased	71.1%	To	1,116

Dividend payments	Amount per security	Franked amount per security
Year ended 30 June 2015 Final dividend (cents per share)	1.0	1.0
Half year ended 31 December 2015 Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2016 dividend is payable	n/a	

Net tangible assets	Current half year $	Previous half year $
Net tangible assets per ordinary security	$1.34	$1.31

Total interim dividend to be paid on all securities	Current half year $	Previous half year $
Ordinary securities	nil	1,418,331.42

The above information should be read in conjunction with the attached Half Year Report for the period ending 31 December 2015.

This report is based on accounts that have been reviewed.

PETER TAZEWELLL
Company Secretary

Date: 24 February 2016

HALF YEAR REPORT

31 DECEMBER 2015

CONTENTS

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the financial report of the Company and its subsidiaries ("Group" or "Consolidated Entity") for the half-year ended 31 December 2015. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names and particulars of the directors of the Company during or since the end of the half-year are:

Peter J Hood	*(Independent Non-Executive Chairman)*
Aaron P Begley	*(Managing Director & Chief Executive Officer)*
Dr Duncan P Clegg	*(Independent Non-Executive Director)*
Steven Cole	*(Independent Non-Executive Director)*
Craig N Duncan	*(Independent Non-Executive Director)*

The above named directors held office since the start of the half-year to the date of this report.

Review of Operations

Overview

The Consolidated Entity's principal activities during the course of the period were the supply of manufactured goods and provision of engineering services to the global oil and gas sector. The goods manufactured and services provided by Matrix can be summarised as follows:

- syntactic foam buoyancy and associated products;
- injection moulded composite plastic products; and
- offshore labour and specialised maintenance and machining services.

Matrix supplies products and provides services categorised as Offshore (drilling riser buoyancy, capital drilling equipment and offshore maintenance services), SURF (subsea buoyancy and ancillary equipment) and Well Construction (conductors and centralizers).

Operations

Matrix manufactures a range of products and provides engineering and maintenance services to the global oil and gas industry. The manufacture of composite foam buoyancy systems was the Company's predominant product line throughout the period.

Matrix manufactures and distributes products to a global customer base from its Henderson, Western Australian manufacturing facility. Through its strong commitment to continuous improvement, Matrix has delivered sustained materials and labour efficiencies from the Henderson facility which has enabled Matrix to lead the industry in lowest cost manufacturing of buoyancy products. Matrix also maintains sales and distribution outlets in Houston, USA and Alnwick, United Kingdom.

During the period Matrix's contracted order book for its buoyancy products has reduced from US$93.1 million at 30 June 2015 to US$56.1 million at 31 December 2015 (inclusive of the recent shipyard cancellation). This backlog has been adjusted downwards to reflect the order cancellation received by Matrix on 15 February 2016. Production is moderated to ensure sufficient contracted work to maintain a stable operating schedule. Offshore maintenance services have declined sharply following the lower oil price and a decline in the number of vessels operating in Australian waters. The Karratha riser maintenance facility continues to attract work from vessels operating off the north-west coast.

During the period Matrix recorded stable sales volumes for its well construction products compared with the previous period. This product line has remained relatively stable, despite the lower oil price and the sharp reduction in volumes being utilised by the onshore drilling sector in North America. Matrix continues to secure new markets for these products, notably in Asia and the Middle East.

Financial Performance

The Group has recorded a net profit after tax of $1,115,992 (2014: $3,866,509) for the six month period ended 31 December 2015

The Group has reported EBITDA of $7,414,861 for the six month period ended 31 December 2015, compared with the previous corresponding period result of $13,572,700. This reduction in EBITDA is attributed primarily to reduced production associated with reduced demand for the Company's products. Associated with the fall in revenue, Matrix recorded a reduced gross profit margin of 13.3 per cent (2014: 14.2 per cent), due primarily to redundancy costs associated with closing the Malaga engineering workshop and reducing the overhead structure at Henderson. This reduced gross profit margin was partly mitigated by ongoing materials and labour efficiencies and a lower AUD:USD exchange rate.

Revenue of $63.4 million was 19.2 per cent below the corresponding period reflecting the lower production in the half.

Finance costs of $270,003 were 59.0 per cent lower than the previous corresponding period, primarily as a result of the reduction in gross interest bearing debt and the lower interest costs associated with the Company's banking facilities.

Cash used in operations of ($2,352,135) was adversely impacted by delayed order conversion, resulting in reduced deposits from customers, and delayed collections of receivables, as demonstrated by the increase in Trade and Other Debtors to $34.4 million.

Strategy and Outlook

Matrix continues its strategy to diversify its products and services and leverage its manufacturing capabilities and customer relationships. Key to the financial success of the Company is the ability to secure sufficient work to efficiently load its manufacturing capacity.

The sustained low global oil price has had a significant adverse impact on many of Matrix's customers, particularly the offshore and onshore drilling sectors. This has resulted in reduced demand for buoyancy and well construction products. In response to this subdued outlook, and a declining backlog, Matrix has reduced its production rates. Notwithstanding the softer demand for its products, Matrix considers there is sufficient committed demand to underwrite manufacturing operations throughout FY16, albeit at lower rates than have been achieved in the six months ended 31 December 2015. As a result, Matrix expects to report revenue for FY16 of approximately $100 million.

Matrix is highly encouraged by the early market acceptance of its new Longitudinally Grooved Suppression (LGS) system which has been developed in collaboration with Melbourne based AMOG Technologies Pty Ltd (AMOG). The LGS system reduced drag and vortex induced vibrations (VIV) on tubular structures when exposed to ocean currents. Matrix has an exclusive global licence from AMOG to manufacture and distribute LGS.

Matrix continues to benefit from the lower AUD:USD exchange rate. As an exporter of products priced predominantly in USD, Matrix will gain a competitive advantage over US based competitors as the AUD falls against the USD.

Dividends

During the period the directors recommended the payment of a final dividend of 1.0 cents per share for the financial year ended 30 June 2015 (2014: nil). The directors have determined that no interim dividend will be paid for the period ended 31 December 2015.

The Directors note that a sustained low global oil price may adversely affect future earnings and cash flow and, as a result, the quantum of future dividends. The Board considers that it is prudent, at this time, to maintain maximum liquidity and strictly allocate available capital to:

- meeting the Company's capital expenditure requirements;
- new product development, to leverage the Company's core competencies;
- retiring term debt in a timely manner; and
- distributions to shareholders.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year report.

This Directors' report is signed in accordance with a resolution of directors made pursuant to s306(3) of the *Corporations Act 2001*.

On behalf of the Directors

A P Begley
Managing Director & Chief Executive Officer

Perth, 24 February 2016

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

The Board of Directors
Matrix Composites & Engineering Ltd
150 Quill Way
Henderson WA 6166

24 February 2016

Dear Board Members

Matrix Composites & Engineering Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Matrix Composites & Engineering Ltd.

As lead audit partner for the review of the financial statements of Matrix Composites & Engineering Ltd for the financial half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	31 Dec 2015	31 Dec 2014
		$	$
Continuing operations			
Revenue		63,422,294	78,486,374
Cost of sales		(55,011,668)	(67,333,569)
Gross profit		**8,410,626**	**11,152,805**
Other income	3	229,766	1,526,584
Other losses	3	(471,120)	(144,859)
Administration expenses		(3,234,325)	(3,898,588)
Finance costs	3	(270,003)	(659,056)
Marketing expenses		(2,039,218)	(2,277,378)
Research expenses		(1,012,427)	(340,376)
Profit before income tax		**1,613,299**	**5,359,132**
Income tax expense	4	(497,307)	(1,492,623)
Profit for the period from continuing operations		**1,115,992**	**3,866,509**
Profit attributable to :			
Owners of the parent		1,115,992	3,866,509
Non-controlling interest		-	-
		1,115,992	**3,866,509**

Profit per share			
Basic profit per share (cents)		1.2	4.1
Diluted profit per share (cents)		1.2	4.1

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2015

		31 Dec 2015	31 Dec 2014
		$	$
Profit for the period		1,115,992	3,866,509
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net foreign currency translation differences		(118,501)	(422,374)
		(118,501)	(422,374)
Change in fair value of cash flow hedges		219,665	(1,438,507)
Income tax (expense)/benefit		(106,729)	431,552
		112,936	(1,006,955)
Total comprehensive income for the period		1,110,427	2,437,180
Total comprehensive income attributable to:			
Owners of the parent		1,110,427	2,437,180
Non-controlling interest		-	-
Total comprehensive income for the period		1,110,427	2,437,180

The above condensed consolidated statement of profit of loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	31 Dec 2015	30 Jun 2015
		$	$
CURRENT ASSETS			
Cash and cash equivalents		14,905,510	14,468,450
Trade and other receivables	5	21,677,535	34,482,261
Inventory		15,424,731	20,726,023
Other current assets		1,244,202	943,787
Financial assets	6	722,949	501,615
TOTAL CURRENT ASSETS		**53,974,927**	**71,122,136**
NON CURRENT ASSETS			
Trade and other receivables	5	12,694,308	-
Property, plant and equipment		88,478,319	91,321,352
Intangible assets	7	8,628,116	8,699,057
Deferred tax assets		7,583,090	9,071,097
TOTAL NON CURRENT ASSETS		**117,383,833**	**109,091,506**
TOTAL ASSETS		**171,358,760**	**180,213,642**
CURRENT LIABILITIES			
Trade and other payables		8,330,407	11,618,252
Progress claims and deposits		6,140,099	14,297,482
Financial liabilities	8	12,060,578	6,164,911
Provisions		794,218	1,098,092
TOTAL CURRENT LIABILITIES		**27,325,302**	**33,178,737**
NON CURRENT LIABILITIES			
Financial liabilities	8	2,000,000	4,000,000
Deferred tax liabilities		3,963,796	4,847,458
Provisions		393,501	373,820
TOTAL NON CURRENT LIABILITIES		**6,357,297**	**9,221,278**
TOTAL LIABILITIES		**33,682,599**	**42,400,015**
NET ASSETS		**137,676,161**	**137,813,627**
EQUITY			
Issued capital	9	111,283,768	111,555,600
Reserves		636,400	678,468
Retained earnings		25,766,196	25,589,762
Equity attributable to owners of the Company		**137,686,364**	**137,823,830**
Non-controlling interest		(10,203)	(10,203)
TOTAL EQUITY		**137,676,161**	**137,813,627**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

		31 Dec 2015	31 Dec 2014
		$	$
CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES			
Receipts from customers		56,030,122	91,410,958
Payments to suppliers and employees		(58,126,889)	(77,725,096)
Interest received		14,635	28,895
Finance costs paid		(270,003)	(659,056)
Net cash (used in)/generated from operating activities		(2,352,135)	13,055,701
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		404,232	56,200
Payments for property, plant and equipment		(2,321,220)	(2,603,928)
Payments for research and development costs		(703,674)	(202,193)
Net cash used in investing activities		(2,620,662)	(2,749,921)
CASH FLOWS FROM/(USED) IN FINANCING ACTIVITIES			
Payment for share buy-back of ordinary shares		(234,045)	-
Payment for share buy-back costs		(37,787)	-
Proceeds on borrowings		7,708,355	10,000,000
Repayment of borrowings		(2,000,000)	(12,947,262)
Dividends paid to members of the parent entity		(939,558)	-
Net cash from/(used in) financing activities		4,496,965	(2,947,262)
Net (decrease)/increase in cash and cash equivalents		(475,832)	7,358,518
Cash and cash equivalents at 1 July		14,468,450	19,546,289
Effects of exchange rate changes on the balance of cash held in foreign currencies		912,892	2,159,061
Cash and cash equivalents at 31 December		14,905,510	29,063,868

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Non-controlling interest	Total
	$	$	$	$	$	$	$	$	$	$
Balance at 1 July 2015	**111,555,600**	**25,589,762**	**273,000**	**787,664**	**(6,336)**	**(455,860)**	**80,000**	**137,823,830**	**(10,203)**	**137,813,627**
Profit for the year	-	1,115,992	-	-	-	-	-	1,115,992	-	1,115,992
Other comprehensive income for the year, net of income tax	-	-	-	-	-	-	-	-	-	
Foreign currency translation	-	-	-	-	-	(118,501)	-	(118,501)	-	(118,501)
Change in fair value of cash flow hedges net of tax	-	-	-	-	112,936	-	-	112,936	-	112,936
Total comprehensive income for the year	-	1,115,992	-	-	112,936	(118,501)	-	1,110,427	-	1,110,427
Payment of dividends	-	(939,558)	-	-	-	-	-	(939,558)	-	(939,558)
Share based payments	-	-	-	-	-	-	(36,503)	(36,503)	-	(36,503)
Buy-back of ordinary shares	(234,045)	-	-	-	-	-	-	(234,045)	-	(234,045)
Share buy-back costs	(37,787)	-	-	-	-	-	-	(37,787)	-	(37,787)
Balance at 31 December 2015	111,283,768	25,766,196	273,000	787,664	106,600	(574,361)	43,497	137,686,364	(10,203)	137,676,161

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share based payment reserve	Attributable to owners of the parent	Non-controlling interest	Total
	$	$	$	$	$	$	$	$	$	$
Balance at 1 July 2014	**111,784,863**	**23,847,043**	**273,000**	**787,664**	**(17,220)**	**146,888**	**-**	**136,822,238**	**(10,203)**	**136,812,035**
Payment of dividends										
Profit for the year	-	3,866,509	-	-	-	-	-	3,866,509	-	3,866,509
Other comprehensive income for the year, net of income tax										
Foreign currency translation	-	-	-	-	-	(422,374)	-	(422,374)	-	(422,374)
Change in fair value of cash flow hedges net of tax	-	-	-	-	(1,006,955)	-	-	(1,006,955)	-	(1,006,955)
Total comprehensive income for the year	-	3,866,509	-	-	(1,006,955)	(422,374)	-	2,437,180	-	2,437,180
Balance at 31 December 2014	**111,784,863**	**27,713,552**	**273,000**	**787,664**	**(1,024,175)**	**(275,486)**	**-**	**139,259,418**	**(10,203)**	**139,249,215**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

Matrix Composites & Engineering Ltd ("the Company") is a limited liability company incorporated in Australia.

Statement of Compliance

The half-year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report for the year ended 30 June 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The half-year financial report comprises the consolidated half-year financial reports of the Group. For the purpose of preparing the consolidated financial report, the Company is a for profit entity.

The half-year financial report was authorised for issue by the directors on 24 February 2016.

Basis of Preparation

The consolidated half-year report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2015 annual financial report for the financial year ended 30 June 2015. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current reporting period.

Application of New and Revised Accounting Standards

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current reporting period. New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

Standard/Interpretation	Effective Date
AASB 2014-1 'Amendments to Australian Accounting Standards' [Part A – Annual Improvements 2010-2012 and 2011- 2013 Cycles]	Part A - Applicable to annual reporting periods beginning on or after 1 July 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

Standard/Interpretation	Effective Date
AASB 2014-1 Amendments to Australian Accounting Standards [Part C – Materiality]	Part C - Applicable to annual reporting periods beginning on or after 1 July 2014
AASB 2014-2 'Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements	Applicable to annual reporting periods beginning on or after 1 July 2014
AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	Applicable to annual reporting periods beginning on or after 1 July 2015

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The reported results and position of the Group will not change on adoption of these pronouncements as currently there are no transactions that will be materially impacted by these pronouncements. Adoption of these pronouncements will however, result in changes to information currently disclosed in the financial statement. The Group does not intend to adopt any of these pronouncements before their effective dates.

Standard/Interpretation	Effective Date
AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards [Part E – Financial Instruments], AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	Applies on a modified retrospective basis to annual periods beginning on or 1 January 2018
AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	Applies on a modified retrospective basis to annual periods beginning on or 1 January 2018
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations'	Applicable to annual reporting periods beginning on or after 1 January 2016
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	Applicable to annual reporting periods beginning on or after 1 January 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	Applicable to annual reporting periods beginning on or after 1 January 2016
AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception	Applicable to annual reporting periods beginning on or after 1 January 2016

2. OPERATING SEGMENT

In conjunction with AASB 8 Operating Segments, the Group has identified its operating segment based on internal reports that are reviewed and used by the Chief Operating Decision Maker (CODM) in assessing performance and in determining the allocation of resources.

Performance Monitoring and Evaluation

The CODM is identified as the Chief Executive Officer (CEO) who monitors the operating results of the consolidated group and organises its business activities and product lines to serve the global oil and gas industry. The performance of the consolidated group is evaluated based on Earnings before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and Earnings before Interest, Taxes, Depreciation, Amortisation, and Foreign Exchange ("EBITDAF") which are measured in accordance with the Group's accounting policies.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment. The comparative results have been adjusted to conform to changes in the presentation of the current financial year.

	MCE Group 31 Dec 2015 $	MCE Group 31 Dec 2014 $
Revenue	63,422,294	78,486,374
EBITDAF	7,885,981	12,335,426
Foreign exchange (loss)/gain	(471,120)	1,237,274
EBITDA	7,414,861	13,572,700
Depreciation and amortisation	(5,546,194)	(7,583,407)
EBIT	1,868,667	5,989,293
Net finance costs	(255,368)	(630,161)
Profit before tax (continuing operations)	1,613,299	5,359,132

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	MCE Group 31 Dec 2015 $	MCE Group 30 Jun 2015 $
Total consolidated assets	171,358,760	180,213,642
Total consolidated liabilities	33,682,599	42,400,015

	MCE Group 31 Dec 2015 $	MCE Group 30 Jun 2015 $
Geographical Assets		
Australia	171,217,960	178,675,604
Others	140,800	1,538,038
	171,358,760	180,213,642
Geographical Liabilities		
Australia	33,339,269	37,386,415
Others	343,330	5,013,600
	33,682,599	42,400,015

2. OPERATING SEGMENT (CONTINUED)

Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, three major customers (31 December 2014: three major customers), each individually accounted for greater than 10 per cent of total group revenue; collectively represented 80 per cent (31 December 2014: 67 per cent) of the total group revenue.

3. OTHER INCOME AND EXPENSES

The following revenue and expense items are relevant in explaining the financial performance for the period:

	31 Dec 2015	31 Dec 2014
	$	$
Other Income		
Interest received	14,635	28,895
Sundry income	61,436	151,075
Financial instruments revaluation gain	140,545	93,473
Foreign exchange gain	-	1,237,274
Fixed assets gain on disposal	13,150	15,867
	229,766	1,526,584
Other Losses		
Foreign exchange loss	(471,120)	-
Research and development expenditure write off	-	(144,859)
	(471,120)	(144,859)
Operating Expenses		
Depreciation and amortisation	(5,546,194)	(7,583,407)
Finance costs	(270,003)	(659,056)

4. INCOME TAX EXPENSE

	31 Dec 2015	31 Dec 2014
	$	$
The components of tax expense comprise:		
Current tax	-	(697,311)
Deferred tax	(497,307)	(795,312)
	(497,307)	(1,492,623)

The prima facie tax position on operating profit is reconciled to income tax as follows:

The prima facie tax payable on operating profit before tax at 30% (2014:30%)	(483,990)	(1,607,740)
Non allowable items	(245,739)	(132,131)
Over provision in prior year	232,422	247,248
Income tax expenses	(497,307)	(1,492,623)

5. TRADE AND OTHER RECEIVABLES

	31 Dec 2015	30 Jun 2015
CURRENT	**$**	**$**
Trade receivables (i)	15,027,166	21,168,585
Other receivables – Trade (ii)	6,392,367	13,077,247
GST refundable	258,002	236,429
	21,677,535	34,482,261
NON CURRENT		
Other receivables – Trade (ii)	12,694,308	-

(i) The Company's standard terms and conditions require customers to pay trade receivables within 30 days from invoice date. The average collectability timeframe is ordinarily between 30 to 60 days. These amounts are generally non-interest bearing, although, there are customers who will be subjected to interest charges subject to individual contractual arrangements and management's discretion.

(ii) Other receivables – Trade, relates to products completed which have been revenue recognised but are yet to be invoiced, pending satisfaction of invoicing milestones.

6. FINANCIAL ASSETS AND OTHER FINANCIAL ASSETS

	31 Dec 2015	30 Jun 2015
	$	**$**
Forward exchange contracts (hedge accounted)	432,202	-
Foreign currency options (hedge accounted)	290,747	501,615
	722,949	501,615

The group had a net hedge asset position of $433,475 (30 June 2015: net hedge liability position of $1,460,002) reflecting the negative mark-to-market value of foreign exchange contracts and call/put options.

7. INTANGIBLE ASSETS

	31 Dec 2015	30 Jun 2015
	$	**$**
Development costs (i)	3,161,306	2,457,633
Accumulated amortisation expense	(948,405)	(173,791)
Goodwill on acquisition of Specialist Engineering Services (Aust) Ltd (ii)	6,415,215	6,415,215
	8,628,116	8,699,057

(i) Development costs incurred in the current period relates to several ongoing projects that are in the development phase prior to anticipated commercialisation.

(ii) Goodwill is associated with acquisition of Specialist Engineering Services (Aust) Ltd.

7. INTANGIBLE ASSETS (CONTINUED)

Matrix has performed an impairment assessment in accordance with AASB 138.

The key assumptions used in the value in use calculations for the impairment testing is as follows.

Discount rate	a post tax discount rate of 10 per cent post tax has been applied.
Growth rate	a growth rate of 1.5 to 2 per cent has been applied.
Terminal growth rate	a terminal growth rate of 2.0 per cent has been applied.
Revenue	average annual revenue of $101.8 million per annum.
Foreign exchange rate	the foreign exchange rate used is AUD:USD of 0.73.

In addition, the value in use calculation assumes an improved gross margin from the introduction of the Longitudinally Grooved Suppression ("LGS") system into the overall product mix with a resultant improvement in overall gross margin. As a result of the revised product mix being incorporated into the value in use calculation, an increase in raw material costs, being the predominant component of direct costs, of 13.7 per cent, without any associated increase in revenue, would result in a reduction in gross margin sufficient to cause an impairment.

Similarly, a reduction in revenue of 4.9 per cent, without any associated reduction in material prices, or improvements in plant efficiencies, would result in a reduction in gross margin sufficient to cause an impairment.

The following table sets out the impact on the recoverable amount for a change in the key assumptions set out above:

Assumption	Variance	Negative Impact	Positive Impact
Discount rate	± 2%	(32,122,262)	53,044,196
Growth rate	± 0.5%	(5,811,860)	6,586,774
Foreign exchange rate	± 0.05	(32,646,365)	37,448,714
Revenue - production rate	± 10%	(45,147,944)	45,147,944

8. FINANCIAL LIABILITIES

	31 Dec 2015	30 Jun 2015
CURRENT	**$**	**$**
Bank loan (i)	4,000,000	4,000,000
Trade finance (i)	7,708,355	-
Interest rate swap option (ii)	62,749	203,294
Foreign currency options (hedge accounted) (iii)	289,474	510,556
Forward exchange contracts liability (hedge accounted) (iii)	-	1,451,061
	12,060,578	6,164,911
NON CURRENT		
Bank loan (i)	2,000,000	4,000,000

8. FINANCIAL LIABILITIES (CONTINUED)

(i) Matrix's banking facilities comprise a $50 million multi-option, multi-currency funding package with Australia and New Zealand Banking Group Limited (ANZ). The funding package comprises a $10 million term loan facility and up to $40 million working capital and bonding facility. During the period Matrix utilised a portion of its $40 million working capital facility with ANZ. These amounts are repayable in a timeframe between 90 days and 180 days.

(ii) These are held at fair value through profit or loss.

(iii) The Group had a net hedge asset position of $433,475 (30 June 2015: net hedge liability of $1,460,002) reflecting the negative mark-to-market value of foreign exchange contracts and call/put options.

9. ISSUED CAPITAL

Movements in Ordinary Share Capital

	31 Dec 2015 $	30 Jun 2015 $
Issued and paid up capital 93,750,000 (2015: 94,231,942) fully paid ordinary shares	111,555,600	111,784,863
Less: Buy-back of ordinary shares	(234,045)	(200,659)
Less: Share buy-back costs	(37,787)	(28,604)
	111,283,768	111,555,600

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Date	Number of shares	$
Balance 1 July 2014	94,555,428	111,784,863
Less: Buy-back of ordinary shares	(323,486)	(200,659)
Less: Share buy-back costs	-	(28,604)
Balance 30 June 2015	94,231,942	111,555,600
Less: Buy-back of ordinary shares	(481,942)	(234,045)
Less: Share buy-back costs	-	(37,787)
Balance 31 December 2015	93,750,000	111,283,768

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. Ordinary shares carry one vote per share.

10. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

This note provides information about how the Group determines the fair values of various financial assets and financial liabilities.

10. FINANCIAL INSTRUMENTS (CONTINUED)

10.1 Fair Value of the Group's Financial Assets and Financial Liabilities that are measured at fair value on a recurring basis

The Group has financial assets and financial liabilities that are measured at fair value at the end of each reporting date.

The table below gives information about how the fair values of these financial assets and financial liabilities are determined.

These level 2 financial assets and financial liabilities include:

- Foreign exchange derivative assets of $722,949 (30 June 2015: $501,615), are valued using discounted cash flow techniques. Under this technique future cash flows are estimated based on forward exchange contract rates (from observable forward exchange contract rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparties.

- Foreign exchange derivative liabilities $352,223 (30 June 2015: $2,164,911), that are valued using discounted cash flow techniques. Under this technique future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the counterparties.

In neither case are there significant unobservable inputs.

	Level 1	Level 2	Level 3	Total
31 December 2015	**$**	**$**	**$**	**$**
Derivative financial assets	-	722,949	-	722,949
Derivative financial liabilities	-	(352,223)	-	(352,223)
Total	-	370,726	-	370,726
30 June 2015				
Derivative financial assets	-	501,615	-	501,615
Derivative financial liabilities	-	(2,164,911)	-	(2,164,911)
Total	-	(1,663,296)	-	(1,663,296)

The Group has no significant financial assets and liabilities grouped as level 1 or level 3 fair value measurements.

10.2 Financial Assets and Financial Liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)

At 31 December 2015 and 30 June 2015, the directors consider that the carrying amount of financial assets and financial liabilities for the Group approximate their fair values.

11. DIVIDENDS

	Period Ended 31 Dec 2015		Year Ended 30 Jun 2015	
Recognised amounts	**Cents per share**	**Total $**	**Cents per share**	**Total $**
Fully paid ordinary shares				
Interim dividend	-		2.0	1,891,109
Final dividend	1.0	939,558	-	-
		939,558		1,891,109
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend	-	-	1.0	939,558

12. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2015.

13. EVENTS SUBSEQUENT TO REPORTING DATE

On 15 February 2016, MCE received notification from a shipyard customer requesting cancellation of two orders to the value of US$10.9 million each. Prior to notification, MCE manufactured product under the first order. Production of goods under the second order has not yet commenced.

MCE has recorded a non-current receivable in relation to the first order of $11.5 million.

Matrix is pursuing its contractual rights in relation to this matter.

DIRECTORS' DECLARATION

The directors declare that:

a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors

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A P Begley
Managing Director & Chief Executive Officer

Perth, 24 February 2016

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

Independent Auditor's Review Report to the members of Matrix Composites & Engineering Ltd

We have reviewed the accompanying half-year financial report of Matrix Composites & Engineering Ltd, which comprises the condensed statement of financial position as at 31 December 2015, the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 21.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Matrix Composites & Engineering Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Matrix Composites & Engineering Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Matrix Composites & Engineering Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants
Perth, 24 February 2016