APPENDIX 4D & HALF YEAR FINANCIAL STATEMENTS

31 December 2016

Matrix Composites & Engineering Ltd

RESULTS FOR ANNOUNCEMENT TO THE MARKET

ASX announcement

23 February 2017

Matrix announces 1H FY17 results, unveils new business structure

Summary

- Revenue of $22.9 million (1H FY16: $63.4 million), impacted by subdued energy sector
- Small underlying EBITDA[1] loss of $1.0 million despite revenue reduction (H1 FY16: $9.8 million underlying EBITDA)
- Net loss after tax of $12.4 million (1H FY16: $1.1 million NPAT)
- NPAT impacted by $6.4 million one-off, non-cash goodwill write off relating to the previously closed MOSE Engineering business (closed in 2015) and $2.4 million in redundancy and lease termination costs
- Strong cash flow from operations of $5.6 million (1H FY16: $2.4 million outflow)
- Developed new business structure targeting growth opportunities in three core areas – Oil and Gas, Civil and Mining, and Performance Materials
- Increase in adjusted net cash[2] to $8.4 million (30 June 2016: $3.6 million adjusted net cash), with no term debt, enabling Matrix to pursue growth opportunities
- Cash position to be further strengthened by US$9.8m receivable to be paid in Q4 FY17

Financial Performance

Matrix Composites & Engineering Ltd (MCE) has today announced its results for H1 FY17, reporting an underlying EBITDA[1] loss of $1.0 million (1H FY16: $9.8 million EBITDA) on revenue of $22.9 million (1H FY16: $63.4 million).

MCE's ability to mitigate the impact of a substantial fall in revenue reflected the benefit of cost savings made to restructure the business. Revenue was impacted by weak oil and gas prices resulting in a subdued global market for riser bouyancy products.

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[1] As in prior years, underlying EBITDA excludes non-recurring costs (impairment charge of $6.4m and restructuring charges of $2.4m relating to redundancies and exit of leased premises) and foreign exchange losses ($0.1m).

[2] Adjusted net cash comprises Cash less Financial Debt less Progress Claims and Deposits.

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In addition to cost savings, MCE has proactively restructured the business to target growth opportuntiies in Oil and Gas, Civil and Mining, and Performance Materials.

MCE Chief Executive Officer Aaron Begley said Matrix had developed tangible new products and services that were expected to lead to opportunties in the targeted growth areas.

“Matrix continued to operate in a challenging market for drilling equipment, and we moderated production and reduced its fixed cost base accordingly,” Mr Begley said

“We have also taken a strategic approach identifying growth areas we will target by developing products and services that utilise Matrix’s core capabilities in advanced materials, intellectual property, and our large, modern manufacturing facility in Henderson.

Our ability to capture these growth opportunities is strengthened by Matrix’s strong balance sheet, with $8.4 million in net cash, no term debt, and ongoing cash generation.”

Financial Results H1 FY17

MCE recorded an EBITDA loss of $9.9 million (1H FY16: $7.4 million EBITDA).

The company continued to reduce its fixed cost base in line with the weakened demand, incurring non-recurring restructure costs of $2.4 million (redundancies and lease terminations) and a non-cash impairment charge of $6.4m relating to intangible goodwill from the previously closed MOSE business.

The lower revenue and impact of non-recurring costs resulted in a net loss after tax of $12.4 million (H1 FY16: $1.1 million NPAT).

MCE ended 31 December 2016 in a strong balance sheet position, with an improved net cash position at the end of the period of $8.4m (30 June 2016: $3.6m), and no term debt.

During February this year MCE reached an agreement with a large outstanding debtor whereby US$9.8 million is expected to be received prior to the end of FY17. This should improve MCE’s net cash position and further strengthen the company’s balance sheet.

The Board of MCE has decided not to declare a dividend for the period in order to invest in growth opportunities.

MCE has been LTI free at its Henderson facility since May 2014 and has recorded a Group LTIFR of nil as at 31 December 2016.

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Growth opportunities

Oil and Gas

MCE is pushing ahead with its newly developed LGS™ riser buoyancy system. The first order for this system has been in the water off the Gulf of Mexico during the half, with a 2nd order being produced in March 2017 for delivery at the end of this financial year.

MCE continues to receive enquiries and quotation requests for Riser Buoyancy, however the timing of project awards is uncertain as capex in the offshore oil and gas industry remains constrained. We have observed an increase in enquires and quotations in the brownfields SURF market and are currently pursuing a number of opportunities in this space.

Our well construction products continue to provide a baseline of continuing revenue, and over recent months, has shown signs of growth as we reach out to new markets, and new customers in the US.

Civil and Mining, Performance Materials

MCE has previously identified the need to diversify its traditional revenue base which has been heavily reliant on the offshore drilling equipment market and this year has ramped up efforts to develop product offerings outside its traditional market.

The company is currently developing a number of new products in Civil and Mining – Performance Chemicals and Performance Materials. New products have been developed that utilise our existing capacity in MCE's state of the art Henderson facility and build on our expertise in the manufacturing of composites.

Matrix has invested significant resources over the last year in developing a number of innovative products such as Kinetica™ energy absorption materials, Paragon™ Epoxy Resins and LiCos™ synthetic aggregates which we expect to launch this year to create new and diversified revenue sources.

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Order Book Status

MCE's backlog at 31 December 2016 was US$22.0 million, compared to US$46 million at 30 June 2016. Matrix will be moving away from a continuous production process for riser buoyancy production and will schedule production based on customer requirements and lead times. Manufacture of well construction products will continue regularly on a forecast basis and the plant will be utilised based on project priority and customer delivery requirements. This will enable the business to be able to meet production requirements upon successful commercialisation of new products.

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For further information please contact Brendan Cocks, Chief Financial Officer on +61 89412 1200, or email brendan.cocks@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 2016

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 2016
Previous half-year ended	31 December 2015

Results for announcement to the market

				$000s
Revenue	Decreased	63.9%	To	22,895
Profit/(losses) after tax attributable to members	Decreased	1209.8%	To	(12,385)
Profit/(losses) after tax attributable to owners of the parent	Decreased	1209.8%	To	(12,385)

Dividend payments	Amount per security	Franked amount per security
<u>Year ended 30 June 2016</u> Final dividend (cents per share)	-	-
<u>Half year ended 31 December 2016</u> Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2017 dividend is payable	n/a	

Net tangible assets	Current half year $	Previous half year $
Net tangible assets per ordinary security	$1.17	$1.34

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

The above information should be read in conjunction with the attached Half Year Report for the period ending 31 December 2016.

This report is based on accounts that have been reviewed.

BRENDAN COCKS
CHIEF FINANCIAL OFFICER

Date: 22 February 2017

HALF YEAR REPORT

31 DECEMBER 2016

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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 2016. 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 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 Singapore.

During the period Matrix experienced a continued reduction in its contracted order book for its buoyancy products in the currently subdued offshore drilling equipment market. In response the company reduced production levels and reduced fixed costs to right size the business for the currently subdued order activity. There was little work performed in the offshore oil and gas services and SURF products markets , although the Company experienced an increase in enquires in the brownfields SURF market.

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, with an increase in activity late in the period in an improved oil price environment. Matrix continues to secure new markets and new customers for these products, notably in Asia and the Middle East and the USA.

Financial Performance

The Group has recorded a net loss after tax of $12,385,001 (Dec 2016: net profit $1,115,992) for the six month period ended 31 December 2016.

The Group has reported EBITDA of ($9,862,033) for the six month period ended 31 December 2016, compared with the previous corresponding period result of $7,414,861. This reduction in EBITDA is attributed to both reduced production associated with reduced demand for the Company's products in the current oil price environment, and one off costs relating to an impairment charge (intangible goodwill $6.4m) and redundancy and lease termination costs ($2.4m).

Revenue of $22.9 million was 64 per cent below the corresponding period reflecting the lower production in the half.

There was positive cash generation of $5.7m which was driven by a positive operating cashflow of $5.6m as the company managed its working capital position tightly. Cashflow also included $0.3m of capital expenditure and $0.6m of R&D related work on new potential product lines.

The Company maintained banking facilities with no term debt and $3.9m of trade finance outstanding at the end of the period.

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 drilling sectors. This has resulted in reduced demand for buoyancy products. In response to this subdued outlook, and a declining backlog, Matrix has reduced its production rates.

Over the medium term Matrix will continue to manage its operations demand on a project basis rather than continuous production. The will allow Matrix the flexibility to schedule work through the production facility in the most efficient way, and hire additional direct staff on a project by project basis. It will also allow the opportunity to retask the facility upon successful orders for new products.

Matrix continues to market its 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. The first order for this product was deployed in the Gulf of Mexico during the period, with a second order planned for production in March 2017.

The company is also focusing on a number of new products which upon success will diversify its revenue base into other sectors targeting the resources, infrastructure and construction industries. A number of new product launches are planned for the June 17 half.

Dividends

The directors have determined that no interim dividend will be paid for the period ended 31 December 2016.

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, 22 February 2017

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

22 February 2017

Dear Board Members

Auditor's Independence Declaration to 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 report of Matrix Composites & Engineering Ltd for the half-year ended 31 December 2016, 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 2016

	Note	31 Dec 2016	31 Dec 2015
		$	$
Continuing operations			
Revenue		22,894,863	63,422,294
Cost of sales		(26,167,525)	(55,011,668)
Gross (loss)/profit		**(3,272,662)**	**8,410,626**
Other income	3	73,910	229,766
Other losses	3	(6,559,401)	(471,120)
Administration expenses		(2,719,694)	(3,234,325)
Finance costs	3	(10,144)	(270,003)
Marketing expenses		(1,790,216)	(2,039,218)
Research expenses		(493,173)	(1,012,427)
(Loss)/profit before income tax		**(14,771,380)**	**1,613,299**
Income tax benefit/(expense)	4	2,386,379	(497,307)
(Loss)/profit for the period from continuing operations		**(12,385,001)**	**1,115,992**
(Loss)/profit attributable to :			
Owners of the parent		(12,385,001)	1,115,992
Non-controlling interest		-	-
		(12,385,001)	**1,115,992**

(Loss)/profit per share			
Basic (loss)/profit per share (cents)		(13.2)	1.2
Diluted (loss)/profit per share (cents)		(13.2)	1.2

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 2016

		31 Dec 2016	31 Dec 2015
		$	$
(Loss)/Profit for the period		(12,385,001)	1,115,992
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Net foreign currency translation differences		(118,953)	(118,501)
		(118,953)	(118,501)
Change in fair value of cash flow hedges		319,755	219,665
Income tax expense		-	(106,729)
		319,755	112,936
Total comprehensive (expense)/income for the period		(12,184,199)	1,110,427
Total comprehensive (expense)/income attributable to:			
Owners of the parent		(12,184,199)	1,110,427
Non-controlling interest		-	-
Total comprehensive (expense)/income for the period		(12,184,199)	1,110,427

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 2016

	Note	31 Dec 2016	30 Jun 2016
		$	$
CURRENT ASSETS			
Cash and cash equivalents		14,270,378	8,403,463
Trade and other receivables	5	17,982,054	25,487,486
Inventory		8,567,042	10,632,083
Other current assets		542,637	746,754
TOTAL CURRENT ASSETS		**41,362,111**	**45,269,786**
NON CURRENT ASSETS			
Trade and other receivables	5	1,505,390	1,444,576
Property, plant and equipment		77,566,183	81,742,949
Intangible assets	6	2,780,294	9,004,065
Deferred tax assets		11,322,657	9,179,510
TOTAL NON CURRENT ASSETS		**93,174,524**	**101,371,100**
TOTAL ASSETS		**134,536,635**	**146,640,886**
CURRENT LIABILITIES			
Trade and other payables		3,413,659	4,414,667
Progress claims and deposits		2,065,246	1,879,063
Financial liabilities	7	3,919,420	3,429,048
Provisions		1,226,543	780,272
TOTAL CURRENT LIABILITIES		**10,624,868**	**10,503,050**
NON CURRENT LIABILITIES			
Deferred tax liabilities		2,198,595	2,304,788
Provisions		470,155	396,032
TOTAL NON CURRENT LIABILITIES		**2,668,750**	**2,700,820**
TOTAL LIABILITIES		**13,293,618**	**13,203,870**
NET ASSETS		**121,243,017**	**133,437,016**
EQUITY			
Issued capital	8	111,283,768	111,283,768
Reserves		(454,723)	(645,725)
Retained earnings		10,424,175	22,809,176
Equity attributable to owners of the Company		**121,253,220**	**133,447,219**
Non-controlling interest		(10,203)	(10,203)
TOTAL EQUITY		**121,243,017**	**133,437,016**

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 2016

		31 Dec 2016	31 Dec 2015
		$	$
CASH FLOWS GENERATED BY/(USED IN)OPERATING ACTIVITIES			
Receipts from customers		38,764,233	56,030,122
Payments to suppliers and employees		(33,115,787)	(58,126,889)
Interest received		4,559	14,635
Finance costs paid		(10,144)	(270,003)
Net cash generated by/(used in) operating activities		5,642,861	(2,352,135)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		66,634	404,232
Payments for property, plant and equipment		(347,069)	(2,321,220)
Payments for research and development costs		(580,139)	(703,674)
Net cash used in investing activities		(860,574)	(2,620,662)
CASH FLOWS GENERATED BY FINANCING ACTIVITIES			
Payment for share buy-back of ordinary shares		-	(234,045)
Payment for share buy-back costs		-	(37,787)
Proceeds from borrowings		3,841,090	7,708,355
Repayment of borrowings		(2,957,833)	(2,000,000)
Dividends paid to members of the parent entity		-	(939,558)
Net cash generated by financing activities		883,257	4,496,965
Net increase/(decrease) in cash and cash equivalents		5,665,544	(475,832)
Cash and cash equivalents at 1 July		8,403,463	14,468,450
Effects of exchange rate changes on the balance of cash held in foreign currencies		201,371	912,892
Cash and cash equivalents at 31 December		14,270,378	14,905,510

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 2016

	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 2016	**111,283,768**	**22,809,176**	**-**	**-**	**(392,610)**	**(415,102)**	**161,987**	**133,447,219**	**(10,203)**	**133,437,016**
Loss for the year	-	(12,385,001)	-	-	-	-	-	(12,385,001)	-	(12,385,001)
Other comprehensive income for the year, net of income tax										
Foreign currency translation	-	-	-	-	-	(118,953)	-	(118,953)	-	(118,953)
Change in fair value of cash flow hedges net of tax	-	-	-	-	319,755	-	-	319,755	-	319,755
Total comprehensive income for the year	-	(12,385,001)	-	-	319,755	(118,953)	-	(12,184,199)	-	(12,184,199)
Payment of dividends	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	(9,800)	(9,800)	-	(9,800)
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	-	-
Share buy-back costs	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2016	**111,283,768**	**10,424,175**	**-**	**-**	**(72,855)**	**(534,055)**	**152,187**	**121,253,220**	**(10,203)**	**121,243,017**

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 2016

	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

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 2016 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 22 February 2017.

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 2016 annual financial report for the financial year ended 30 June 2016. 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 their operations and are mandatorily effective for the current reporting period.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and has no significant effect on the disclosures or the amounts reported for the current or prior periods.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Adoption of these pronouncements will however, result in changes to information currently disclosed in the financial statement. The analysis of impact on adoption of these pronouncements has not yet been performed. The Group does not intend to adopt any of these pronouncements before their effective dates.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1 January 2018	30 June 2019
AASB 1057 'Application of Australian Accounting Standards' and AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

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.

2. OPERATING SEGMENT (CONTINUED)

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

	MCE Group 31 Dec 2016 $	MCE Group 31 Dec 2015 $
Revenue	22,894,863	63,422,294
EBITDAF	(9,913,208)	7,885,981
Foreign exchange gain/(loss)	51,175	(471,120)
EBITDA	(9,862,033)	7,414,861
Depreciation and amortisation	(4,903,762)	(5,546,194)
EBIT	(14,765,795)	1,868,667
Net finance costs	(5,585)	(255,368)
(Loss)/profit before tax (continuing operations)	(14,771,380)	1,613,299

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

	MCE Group 31 Dec 2016 $	MCE Group 30 Jun 2016 $
Total consolidated assets	134,536,635	146,640,886
Total consolidated liabilities	13,293,618	13,203,870

	MCE Group 31 Dec 2016	MCE Group 30 Jun 2016
Geographical Assets	$	$
Australia	133,729,221	145,304,651
Others	807,414	1,336,235
	134,536,635	146,640,886
Geographical Liabilities		
Australia	6,336,989	6,661,816
Others	6,956,629	6,542,054
	13,293,618	13,203,870

Major Customers

Matrix supplies goods and services to a broad range of customers in the global oil & gas industry. During the reporting periods, one major customer (31 December 2015: three major customers), individually accounted for greater than 80 per cent of 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 2016	31 Dec 2015
	$	$
Other Income		
Interest received	4,559	14,635
Sundry income	11,197	61,436
Financial instruments revaluation gain	-	140,545
Fixed assets gain on disposal	58,154	13,150
	73,910	229,766
Other Losses		
Net foreign exchange gain/(loss)	51,175	(471,120)
Goodwill write off	(6,415,215)	-
Other expenses	(195,361)	-
	(6,559,401)	(471,120)
Operating Expenses		
Depreciation and amortisation	(4,903,762)	(5,546,194)
Finance costs	(10,144)	(270,003)

4. INCOME TAX BENEFIT/(EXPENSE)

	31 Dec 2016	31 Dec 2015
	$	$
The components of tax benefit/(expense)comprise:		
Current tax	-	-
Deferred tax	2,386,379	(497,307)
	2,386,379	(497,307)

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

The prima facie tax payable on operating (loss)/profit before tax at 30% (2015:30%)	4,431,414	(483,990)
Non allowable items	(2,045,035)	(245,739)
Over provision in prior year	-	232,422
Income tax benefit/(expenses)	2,386,379	(497,307)

5. TRADE AND OTHER RECEIVABLES

	31 Dec 2016	30 Jun2016
CURRENT	$	$
Trade receivables (i)	14,364,406	8,825,068
Other receivables – Trade (ii)	3,492,855	16,512,282
GST refundable	124,793	150,136
	17,982,054	25,487,486
NON CURRENT		
Other receivables – Trade (ii)	1,505,390	1,444,576

5. TRADE AND OTHER RECEIVABLES (CONTINUED)

(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 collection by customer. During the period there was a receivable of $15.1m which was classified as an "other receivable" in the prior period, however became a trade receivable during the period when the customer, Samsung Heavy Industries, was invoiced. The amount was outstanding at period end, and is expected to be fully recoverable with 90 per cent classified as current, and the remainder classified as non current.

6. INTANGIBLE ASSETS

	31 Dec 2016	30 Jun 2016
	$	$
Development costs (i)	4,367,012	3,786,874
Accumulated amortisation expense	(1,586,718)	(1,198,024)
Goodwill on acquisition of Specialist Engineering Services (Aust) Ltd (ii)	-	6,415,215
	2,780,294	9,004,065

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

(ii) Upon review of goodwill associated with acquisition of Specialist Engineering Services (Aust) Pty Ltd and in accordance with AASB 136, the Company has written off $6,415,215 during the period.

The Group has evaluated whether the remaining recoverable amount of the CGU exceeds its carrying amount. The carrying amount is determined to be the higher of its fair value less costs to sell or its value in use. For impairment testing purposes at 31 December 2016 the Group has prepared a value in use model. The value in use model uses cash flow projections approved by the directors covering a five year period with a modest growth rate for years beyond the five year period.

The estimation of future cash flows requires significant estimates and judgements. Details of the key assumptions used in the value in use model at 31 December 2016 and adopted by the Board are included below.

6. INTANGIBLE ASSETS (CONTINUED)

Key Assumptions:

Discount Rate

A post-tax discount rate of 10 per cent reflecting the Group's long term weighted average cost of capital adjusted for market risk.

Revenue

The sustained low oil and gas price over the past year has led to reduced levels of activity in the oil and gas sector which the Group primarily services. Revenue forecasts have incorporated the impacts of the lower levels of activity but incorporate a gradual recovery in demand over the next five year period. The model assumes manufacturing products and providing services based on current volumes achieved with a gradual recovery in demand commencing in 2019 to 2021. Selling prices reflect current values with an assumption that over the next five year period the price will retain its baseline USD price and will also grow at a rate of US CPI being two per cent.

In addition, the model incorporates the introduction of the Longitudinally Grooved Suppression (LGS) system into the overall product mix including a pricing structure that represents recent contract prices and industry guidance.

Cost of Goods Sold

In determining gross margin, management has used historical performance trends, overlaying the impacts of recent initiatives and changes to product mix to reduce costs.

Terminal Growth Rate

A terminal value growth rate of two per cent has been applied.

Foreign Exchange Rate

An AUD:USD foreign exchange rate of 0.77 has been applied.

Sensitivity Analysis:

Sensitivity analyses were performed to determine whether carrying values are supported by different assumptions. Key variables to the sensitivity analysis include:

- Revenue – production growth rates over the next five year period
- Revenue – sales price growth rates over the next five year period
- Discount rate
- Terminal value growth rate
- Foreign exchange rate

Each of the assumptions in the analysis has been evaluated at levels above and below expected values, as described above. The following table sets out the impact on the recoverable amount for a change in the key assumptions:

6. INTANGIBLE ASSETS (CONTINUED)

Assumption	Variance	Negative Impact $ million	Positive Impact $ million
Revenue – production growth rate	± 10%	$29.4	$29.4
Revenue – sales price growth rate	± 5%	$29.3	$29.3
Discount rate	± 2%	$25.8	$43.8
Terminal value growth rate	± 0.5%	$4.8	$5.5
Foreign exchange rate	± 0.05	$23.7	$26.9

7. FINANCIAL LIABILITIES

	31 Dec 2016	30 Jun 2016
CURRENT	**$**	**$**
Trade finance (i)	3,814,068	2,930,811
Foreign currency options (hedge accounted) (ii)	105,352	231,975
Forward exchange contracts liability (hedge accounted) (ii)	-	266,262
	3,919,420	3,429,048

(i) The Company has a $13.3 million multi-option, multi-currency funding package with Australia and New Zealand Banking Group Limited (ANZ). The facility covers the Group's working capital, bonding and trade finance facilities. The facilities can be drawn in multiple currencies using a variety of instruments. During the period the group received a waivor from ANZ for a breach in two of its covenants. Please see note 12 for details on a variation of the ANZ facility agreement signed subsequent to year end.

(ii) The Group had a net hedge liability position of $105,352 (30 June 2016: net hedge liability of $498,237) reflecting the negative mark-to-market value of call/put options.

8. ISSUED CAPITAL

Movements in Ordinary Share Capital

	31 Dec 2016 $	30 Jun 2016 $
Issued and paid up capital 93,750,000 (2015: 94,231,942) fully paid ordinary shares	111,283,768	111,555,600
Less: Buy-back of ordinary shares	-	(234,045)
Less: Share buy-back costs	-	(37,787)
	111,283,768	111,283,768

8. ISSUED CAPITAL (CONTINUED)

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.

	Number of shares	$
Date		
Balance 1 July 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 30 June 2016	93,750,000	111,283,768
Less: Buy-back of ordinary shares	-	-
Less: Share buy-back costs	-	-
Balance 31 December 2016	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.

9. 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.

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 liabilities of $105,352 (30 June 2016: $498,237), 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.

9. FINANCIAL INSTRUMENTS (CONTINUED)

In neither case are there significant unobservable inputs.

31 December 2016	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Derivative financial assets	-		-	
Derivative financial liabilities	-	(105,352)	-	(105,352)
Total	-	(105,352)	-	(105,352)
30 June 2016				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(498,237)	-	(498,237)
Total	-	(498,237)	-	(498,237)

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

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

At balance date, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

10. DIVIDENDS

In respect of the reporting period ended 31 December 2016, no interim dividend was paid (June 2016: nil).

11. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2016.

12. EVENTS SUBSEQUENT TO REPORTING DATE

During November 2016, the Company reported to ANZ that two of the covenants had failed to meet their requirments. ANZ provided a waivor against acting on a breach of these covenants subject to removing the unused overdraft facility and entering into a restructured facility agreement.

On 17 February 2017, subsequent to year end, ANZ Bank and the Group entered into a revised facility agreement with the following material changes.

- The facility would be reduced to $13.3m (from $20m) as a multi option facility used for trade finance and bank guarantee purposes
- The unused overdraft facility would be removed ($5m)
- The Group would be required to maintain a cash balance in excess of $5m in accounts held with ANZ
- Three out of the four facility covenants (Borrowing Base Ratio, Leverage Ratio, Interest Cover Ratio) would not be tested until 30 Sept 2017 providing a nine month “holiday” from performance against these covenants.
- The Tangible Net Worth Ratio would continue to be tested, however the requirement to meet this measure was reduced from $100m to $80m.

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

____

A P Begley
Managing Director & Chief Executive Officer

Perth, 22 February 2017

Deloitte.

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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 2016, the condensed statement of profit or loss, 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, notes comprising a summary of significant accounting policies and other explanatory information, 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 2016 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.

Deloitte.

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.

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 2016 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, 22 February 2017