

APPENDIX 4D & HALF YEAR FINANCIAL STATEMENTS

31 December 2014

Matrix Composites & Engineering Ltd

RESULTS FOR ANNOUNCEMENT TO THE MARKET

18 February 2015

Matrix Profit Result – 1H FY15

Matrix Composites & Engineering Ltd (MCE) today announced reported earnings before interest, tax and depreciation (EBITDA) of \$13.6 million, an increase of 76.7 per cent over the previous corresponding period. EBITDA for 1H FY15 was generated from revenue of \$78.5 million, an increase of 20.7 per cent over the previous corresponding period. The increased revenue was primarily attributable to:

- i) Increased output (17.8 per cent) of buoyancy products compared to the previous corresponding period
- ii) Increased sales of well construction products
- iii) A more favourable exchange rate.

MCE recorded an interim net profit after tax of \$3.9 million for 1H FY15, an increase of 467 per cent over the previous corresponding period.

MCE Chief Executive Officer (CEO) Aaron Begley said “the results for 1H FY15 reflect the capacity and capabilities of the Company’s manufacturing facilities at Henderson, as well as the leverage of the business to increased volume. Through a continued focus on costs together with labour and materials efficiencies the business has delivered increased margins across all of its key products. Matrix also increased sales and market share for its well construction products in the target North American market. Despite market uncertainty arising from the recent fall in the global oil price, Matrix has the ability to flex production output up or down as required by the market.”

As previously reported, MCE refinanced its debt requirements during the period and now has a significantly improved facility with a modest amortisation profile. MCE achieved a gross cash balance in excess of \$29 million and net cash (gross cash less bank debt and customer deposits) of \$7.2 million at 31 December 2014. Improved cash flow during the period is attributed to tighter working capital management and margin improvement.

Dividend Payment

Following the strong 1H FY15 result Matrix will resume payment of dividends with a 2 cent per share dividend.

The Directors note that volatility in the global oil price may adversely affect future earnings and cash flow and, as a result, the quantum of future dividends. The Company will continue to monitor the contracted backlog, operational liquidity and market outlook with respect to future dividend considerations.

On-Market Share Buyback

Matrix has today announced its intention to undertake an on-market share buyback of not more than 9.4 million shares, being 10 per cent of the lowest number of shares on issue in the last 12 months. This move is part of the Company's ongoing capital management strategy. The Matrix Board believes that the Company's shares are trading at a level which significantly undervalues the underlying earnings and future prospects of the business.

The buyback will open on 6 March 2015 (14 days after lodging documents with ASIC) and will continue for 12 months, unless terminated earlier.

Other key points in relation to the buyback include:

1. Matrix has appointed Argonaut Securities Limited to facilitate the buyback
2. The Appendix 3C in relation to the on-market buyback is attached to this announcement
3. All shares acquired in the buyback will be cancelled

Order Book Status

MCE's backlog at 31 December 2014 was US\$86 million which underwrites production at current rates into Q1 FY16. Notwithstanding the recent downward movements in the global oil price, MCE considers there is sufficient demand for its products from committed projects together with replacement work to support production over the next two years. MCE is able to reduce output over this period to efficiently manage production and backlog.

Mr Begley said "While there is expected to be a slowdown in new build drillships, MCE is experiencing growth in enquiries from the replacement market. We believe this sector will continue to grow as drilling contractors shift their capital expenditure budgets towards improving existing vessels rather than committing to new build drillships. Revenue from our SURF ancillary product line was strong in 1H FY15 with efforts to grow this product line continuing."

Achievements

During the period MCE delivered a 150MT installation buoy to Heerema Marine Contractors for use on a major LNG project off the coast of Western Australia. Believed to be one of the largest installation buoys in the world, this was a significant project for MCE due to the scale and complexity of the structure.

MCE has recently established a base in Karratha, Western Australia to manage the storage, inspection and maintenance of riser and buoyancy assemblies for third parties. With the growing number of offshore vessels operating in Australian waters this is expected to be a growing revenue source for MCE and utilises the Company's existing skill base in the management and repair of riser assemblies.

MCE has been LTI free at its Henderson facility since May 2014 and has recorded a Group LTIFR of 1.4 as at 31 December 2014.

Outlook

MCE CEO Aaron Begley said "despite recent market uncertainty caused by the falling oil price, MCE's outlook remains strong over the medium to long term. It is likely there will be some short term reductions in output due to market conditions although this will be well within the Company's ability to manage. With a strong balance sheet and minimal debt, Matrix will be able to manage any short term disruptions to demand. The Company is well positioned to capitalise on future growth opportunities that may emerge from current market conditions".

For further information please contact Sophie Roe, PR & Communications Manager on +61 89412 1200, or email sophie.roe@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 2014

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 2014
Previous half-year ended	31 December 2013

Results for announcement to the market

					\$'000
Revenue	Increased	20.6%	To		78,486
Profit/(losses) after tax attributable to members	Increased	467%	To		3,867
Profit/(losses) after tax attributable to owners of the parent	Increased	467%	To		3,867

Dividend payments	Amount per security	Franked amount per security
<u>Year ended 30 June 2014</u> Final dividend (cents per share)	-	-
<u>Half year ended 31 December 2014</u> Interim dividend (cents per share)	2.0	2.0
Record date for determining entitlement to dividend	12 March 2015	
Date the interim 2015 dividend is payable	31 March 2015	

Net tangible assets	Current half year \$	Previous half year \$
Net tangible assets per ordinary security	\$1.38	\$1.22

Total interim dividend to be paid on all securities	Current half year \$	Previous half year \$
Ordinary securities	1,891,109	nil

The above information should be read in conjunction with the attached Half Year Report for the period ending 31 December 2014.

This report is based on accounts that have been reviewed.

Peter Tazewell
Company Secretary

Date: 18 February 2015



HALF YEAR REPORT

31 DECEMBER 2014

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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 2014. 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	<i>(Independent Non-Executive Chairman)</i>
Aaron P Begley	<i>(Managing Director & Chief Executive Officer)</i>
Steven Cole	<i>(Independent Non-Executive Director)</i>
Craig N Duncan	<i>(Independent Non-Executive Director)</i>
Dr Duncan P Clegg	<i>(Independent Non-Executive Director)</i>
Paul R Wright	<i>(Non-Executive Director)</i>

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

Mr Paul R Wright – resigned on 5 November 2014

Dr Duncan P Clegg – appointed 17 September 2014

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;
- fabricated metal products; and
- offshore labour and specialised maintenance and machining services.

In June 2014, Matrix undertook a reorganisation of its business operations to centralise key support functions, including engineering, project management, procurement and finance, across its two business operations. This reorganisation was undertaken to improve the efficiency of these support functions and partly in response to the declining revenue base for fabricated metal products and machining services.

As a result of the business reorganisation, Matrix supplies products and provides services categorised as Offshore (capital drilling equipment and offshore maintenance services), SURF (subsea buoyancy and ancillary equipment) and Well Construction (conductors and centralizers).

Following the reorganisation, and consequent changes to the internal reporting within the Company, Matrix now reports a single operating segment.

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 products at its Henderson, Western Australian manufacturing facility on a five day-three shift roster in order to meet the delivery requirements of its global customers. The business continues to benefit from materials and labour efficiencies as well as a more favourable exchange rate. Matrix also maintains an engineering workshop at Malaga, Western Australia as well as sales and distribution outlets in Houston, USA and Alnwick, United Kingdom.

During the period Matrix has maintained its contracted order book for its buoyancy products of between US\$80 million and US\$100 million. Production is moderated to ensure sufficient contracted work to maintain a stable operating schedule. Offshore maintenance services continues to grow due to the increased number of operating offshore rigs in Australian waters while the recently established riser maintenance facility in Karratha has commenced operations.

A notable achievement was the delivery by Matrix of its largest ever SURF project, the 150MT installation buoyancy structure to Heerema Marine Contractors for the Ichthys project. Matrix continues to grow its reputation in this sector and SURF projects are expected to provide ongoing future growth opportunities for the Company.

During the period Matrix recorded increased sales for its well construction products over the previous period. This product line continues to grow, supported by ongoing onshore drilling programmes in North America.

Financial Performance

The Group has recorded a net profit after tax of \$3,866,509 (2013: \$682,358) for the six month period ended 31 December 2014, a 467 per cent improvement on the previous corresponding period.

The Group has reported EBITDA of \$13,572,700 for the six month period ended 31 December 2014, representing a 77.2 per cent improvement on the previous corresponding period result of \$7,661,398. This improvement in EBITDA is attributed to:

- i) increased production;
- ii) ongoing materials and labour efficiencies;
- iii) stable operating profile; and
- iv) margin improvement arising from the falling Australian dollar.

Sales revenue of \$78.5 million was 20.6 per cent above the corresponding period reflecting the higher production rates achieved in the half and increased sales of well construction products.

Finance costs of \$659,056 were 45.3 per cent lower than the previous corresponding period, primarily as a result of the reduction in gross interest bearing debt.

In November 2014 Matrix refinanced its bank debt which resulted in all existing facilities being extinguished and replaced with a \$10 million term loan facility and \$40 million working capital facility with Australia and New Zealand Banking Group ("ANZ").

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 recent fall in global oil prices is expected to have an adverse impact on many of Matrix's customers, particularly the offshore and onshore drilling sectors. This is likely to lead to reduced demand for buoyancy and well construction products in the immediate near term. Notwithstanding this, Matrix considers there is sufficient committed demand for its products to underwrite manufacturing operations throughout FY15 and FY16, albeit at lower rates than have been achieved in the six months ended 31 December 2014.

On a more positive note, Matrix will substantially benefit from the recent falls in the 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 did not recommend the payment of a final dividend for the financial year ended 30 June 2014 (2013: nil). The directors have determined that a half-yearly dividend for the period ended 31 December 2014 of 2.0 cents per share will be payable.

The Directors note that volatility in the global oil price may adversely affect future earnings and cash flow and, as a result, the quantum of future dividends. The Company will continue to monitor the contracted backlog, operational liquidity and market outlook with respect to future dividend considerations.

The Board has adopted the following policy in relation to future dividend payments:

- Maintaining an annual ordinary fully franked dividend payout ratio not exceeding net profit after tax; and
- Dividends will be subject to numerous factors including the profitability and outlook for the business, capital and other expenditure commitments and be subject to Board discretion.

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, 18 February 2015

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

18 February 2015

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 2014, 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



Peter Rupp
Partner
Chartered Accountants

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

	Note	31 Dec 2014	31 Dec 2013
		\$	\$
Continuing operations			
Revenue		78,486,374	65,056,818
Cost of sales		(67,333,569)	(55,745,154)
Gross profit		11,152,805	9,311,664
Other income	3	1,526,584	956,973
Other losses	3	(144,859)	(1,155,983)
Administration expenses		(3,898,588)	(3,730,882)
Finance costs	3	(659,056)	(1,204,563)
Marketing expenses		(2,277,378)	(2,750,949)
Research expenses		(340,376)	(202,540)
Profit before income tax		5,359,132	1,223,720
Income tax expense	4	(1,492,623)	(541,362)
Profit for the period from continuing operations		3,866,509	682,358
Profit attributable to :			
Owners of the parent		3,866,509	682,358
Non-controlling interest		-	-
		3,866,509	682,358

Profit per share			
Basic profit per share (cents)		4.1	0.7
Diluted profit per share (cents)		4.1	0.7

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 2014**

	31 Dec 2014	31 Dec 2013
	\$	\$
Profit for the period	3,866,509	682,358
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Net foreign currency translation differences	(422,374)	(30,964)
	(422,374)	(30,964)
Change in fair value of cash flow hedges	(1,438,507)	376,274
Income tax benefit/(expense)	431,552	(112,882)
	(1,006,955)	263,392
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Income tax benefit arising from prior period tax expense	-	-
	-	-
Other comprehensive income for the period, net of tax	(1,429,329)	232,428
Total comprehensive income for the period	2,437,180	914,786
Total comprehensive income attributable to:		
Owners of the parent	2,437,180	914,786
Non-controlling interest	-	-
Total comprehensive income for the period	2,437,180	914,786

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 2014**

	Note	31 Dec 2014	30 Jun 2014
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		29,063,868	19,546,289
Trade and other receivables	5	22,911,923	33,484,070
Inventory		16,984,795	18,758,132
Other current assets		1,382,893	555,300
Financial assets		469,690	322,947
TOTAL CURRENT ASSETS		70,813,169	72,666,738
NON CURRENT ASSETS			
Property, plant and equipment		94,948,339	99,851,691
Intangible assets	6	8,421,857	8,470,860
Deferred tax assets		11,503,691	11,053,809
TOTAL NON CURRENT ASSETS		114,873,887	119,376,360
TOTAL ASSETS		185,687,056	192,043,098
CURRENT LIABILITIES			
Trade and other payables		15,264,308	19,983,602
Progress claims and deposits		11,882,966	16,681,890
Financial liabilities	7	7,154,916	13,354,189
Provisions		1,252,054	1,513,932
Income tax liabilities		8,911	-
TOTAL CURRENT LIABILITIES		35,563,155	51,533,613
NON CURRENT LIABILITIES			
Financial liabilities	7	6,000,000	-
Deferred tax liabilities		4,471,652	3,330,619
Provisions		403,034	366,831
TOTAL NON CURRENT LIABILITIES		10,874,686	3,697,450
TOTAL LIABILITIES		46,437,841	55,231,063
NET ASSETS		139,249,215	136,812,035
EQUITY			
Issued capital	8	111,784,863	111,784,863
Reserves		(238,997)	1,190,332
Retained earnings		27,713,552	23,847,043
Equity attributable to owners of the Company		139,259,418	136,822,238
Non-controlling interest		(10,203)	(10,203)
TOTAL EQUITY		139,249,215	136,812,035

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 2014**

	Note	31 Dec 2014	31 Dec 2013
		\$	\$
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES			
Receipts from customers		91,410,958	75,462,576
Payments to suppliers and employees		(75,566,035)	(68,891,350)
Interest received		28,895	37,535
Finance costs paid		(659,056)	(1,204,563)
Net cash generated from operating activities		15,214,762	5,404,198
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		56,200	17,042
Payments for property, plant and equipment		(2,603,928)	(2,359,135)
Payments for research and development costs		(202,193)	(126,129)
Net cash used in investing activities		(2,749,921)	(2,468,222)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds on borrowings		10,000,000	-
Repayment of borrowings		(12,947,262)	(2,799,975)
Net cash used in financing activities		(2,947,262)	(2,799,975)
Net increase in cash and cash equivalents		9,517,579	136,001
Cash and cash equivalents at 1 July		19,546,289	15,960,631
Cash and cash equivalents at 31 December		29,063,868	16,096,632

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 2014**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging reserve	Foreign currency translation 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
Total comprehensive income for the year									
Profit for the period	-	3,866,509	-	-	-	-	3,866,509	-	3,866,509
Other comprehensive income									
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)
	-	3,866,509	-	-	(1,006,955)	(422,374)	2,437,180	-	2,437,180
Transactions with owners, recorded directly in equity									
Issue of shares net of costs and tax	-	-	-	-	-	-	-	-	-
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.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging reserve	Foreign currency translation reserve	Attributable to owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	111,784,863	20,829,039	273,000	787,664	(1,447,000)	72,345	132,299,911	(10,203)	132,289,708
Total comprehensive income for the year									
Profit for the period	-	682,358	-	-	-	-	682,358	-	682,358
Other comprehensive income									
Foreign currency translation	-	-	-	-	-	(30,964)	(30,964)	-	(30,964)
Change in fair value of cash flow hedges net of tax	-	-	-	-	263,392	-	263,392	-	263,392
	-	682,358	-	-	263,392	(30,964)	914,786	-	914,786
Transactions with owners, recorded directly in equity									
Issue of shares net of costs and tax	-	-	-	-	-	-	-	-	-
Balance at 31 December 2013	111,784,863	21,511,397	273,000	787,664	(1,183,608)	41,381	133,214,697	(10,203)	133,204,494

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 2014

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 2014 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 18 February 2015.

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 2014 annual financial report for the financial year ended 30 June 2014. 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	Application Date
AASB 1031 Materiality (December 2013)	1 January 2014	31 December 2014

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 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	Application Date
AASB CF 2013-1 Amendments to the Australian Conceptual Framework, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Period ending on or after 20 December 2013	31 December 2014
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	31 December 2014
AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)	1 January 2014	31 December 2014
AASB 2013-3 ‘Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	31 December 2014
AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	31 December 2014
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	<i>Part B – Materiality</i> 1 January 2014	31 December 2014
AASB 2014-1 Amendments to Australian Accounting Standards [Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles]	1 July 2014	31 December 2014

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	Application Date
AASB 9 Financial Instruments (December 2009), AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2014-1 Amendments to Australian Accounting Standards	1 January 2018	31 December 2018

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and Interpretations in issue not yet adopted

Standard/Interpretation	Effective Date	Application Date
AASB 9 Financial Instruments (December 2010), AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2014-1 Amendments to Australian Accounting Standards	1 January 2018	31 December 2018
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments - Part C incorporates the IASB's Standard IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) released in November 2013	Part C – Financial Instruments 1 January 2018	31 December 2018
AASB 2014-1 Amendments to Australian Accounting Standards [Part E – Financial Instruments]	1 January 2015	31 December 2015
AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	31 December 2016
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	1 January 2017	31 December 2017
IFRS 9 Financial Instruments	1 January 2018	31 December 2018
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016	31 December 2016
AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvement to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	31 December 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016	31 December 2016

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

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 monitored two separate business units; Matrix Composite Materials (MCM) and Matrix Offshore Services and Engineering (MOSE). Following an internal reorganisation which was effective on 1 July 2014, the functions of the MOSE business unit have been integrated with MCM.

The new organisational structure has created a more integrated and streamlined reporting structure up to the CODM. The CODM currently 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 period.

	MCE Group 31 Dec 2014	MCE Group 31 Dec 2013
	\$	\$
Revenue	78,486,374	65,056,818
EBITDAF	12,335,426	8,404,449
Foreign exchange gain/(loss)	1,237,274	(743,051)
EBITDA	13,572,700	7,661,398
Depreciation and amortisation	(7,583,407)	(5,270,650)
EBIT	5,989,293	2,390,748
Net finance costs	(630,161)	(1,167,028)
Profit before tax (continuing operations)	5,359,132	1,223,720

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

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 2014	MCE Group 30 Jun 2014
	\$	\$
Total consolidated assets	185,687,056	192,043,098
Total consolidated liabilities	46,437,841	55,231,063
	MCE Group 31 Dec 2014	MCE Group 30 Jun 2014
	\$	\$
Geographical Assets		
Australia	183,888,927	190,621,233
Others	1,798,129	1,421,865
	185,687,056	192,043,098
Geographical Liabilities		
Australia	42,473,807	50,982,531
Others	3,964,034	4,248,532
	46,437,841	55,231,063

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 (2013: four major customers), each individually accounted for greater than 10% of total group revenue; collectively represented 67% (2013: 74%) of the total group revenue.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

3. OTHER INCOME AND EXPENSES

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

	31 Dec 2014	31 Dec 2013
	\$	\$
Other Income		
Interest received	28,895	37,535
Sundry income	151,075	27,553
Financial instruments revaluation gain	93,473	117,760
Fees recovered from customer	-	476,499
Import duties recovery	-	297,626
Foreign exchange gain	1,237,274	-
Fixed assets gain on disposal	15,867	-
	<u>1,526,584</u>	<u>956,973</u>
Other Losses		
Foreign exchange loss	-	(743,051)
Fixed assets disposals/write off	-	(37,932)
Research and development expenditure write off	(144,859)	-
Other expenses	-	(375,000)
	<u>(144,859)</u>	<u>(1,155,983)</u>
Operating Expenses		
Depreciation and amortisation	(7,583,407)	(5,270,650)
Finance costs	(659,056)	(1,204,563)

4. INCOME TAX EXPENSE

	31 Dec 2014	31 Dec 2013
	\$	\$
The components of tax expense comprise:		
Current tax	(697,311)	625,024
Deferred tax	(795,312)	(1,166,386)
	<u>(1,492,623)</u>	<u>(541,362)</u>

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

The prima facie tax payable on operating profit before tax		
at 30% (2014:30%)	(1,607,740)	(367,116)
Non allowable items	(132,131)	(157,412)
Over/(under) provision in prior year	247,248	(16,384)
Income tax expense	<u>(1,492,623)</u>	<u>(541,362)</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

5. TRADE AND OTHER RECEIVABLES

	31 Dec 2014	30 Jun 2014
CURRENT	\$	\$
Trade receivables ⁽ⁱ⁾	13,247,979	19,989,657
Other receivables – Trade ⁽ⁱⁱ⁾	8,904,135	8,974,191
Other receivables – Restricted cash ⁽ⁱⁱⁱ⁾	379,265	3,662,420
GST refundable	380,544	857,802
	<u>22,911,923</u>	<u>33,484,070</u>

- (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 at management's discretion.
- (ii) Other receivables – Trade, relates to products completed which are yet to be invoiced, pending collection by customer.
- (iii) Other receivables – Restricted cash, relates to cash term deposits associated with the issue of performance bonds to customers.

6. INTANGIBLE ASSETS

	31 Dec 2014	30 Jun 2014
	\$	\$
Development costs ⁽ⁱ⁾	2,122,158	2,064,823
Accumulated amortisation expense	(115,516)	(9,178)
Goodwill on acquisition of Specialist Engineering Services (Aust) Ltd	6,415,215	6,415,215
	<u>8,421,857</u>	<u>8,470,860</u>

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

7. FINANCIAL LIABILITIES

	31 Dec 2014	30 Jun 2014
CURRENT	\$	\$
Bank bill – secured ⁽ⁱ⁾	-	6,089,878
Bank loan ⁽ⁱ⁾	4,000,000	-
Interest rate swap option ⁽ⁱⁱ⁾	313,454	406,927
Call/put options ⁽ⁱⁱⁱ⁾	337,928	-
Finance lease liability	-	6,857,384
Forward exchange contracts liability (hedge accounted) ⁽ⁱⁱⁱ⁾	2,503,534	-
	<u>7,154,916</u>	<u>13,354,189</u>
NON CURRENT		
Bank loan ⁽ⁱ⁾	<u>6,000,000</u>	-

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

7. FINANCIAL LIABILITIES

- (i) The Company negotiated a new \$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. The working capital and bonding facility can be drawn in multiple currencies using a variety of instruments to assist with working capital, bonding and trade requirements. The existing facilities with National Australia Bank (NAB) were retired utilising the \$10 million term loan, which will amortise within three years.
- (ii) These are held at fair value through profit or loss.
- (iii) The Group had a net hedge liability position of \$2,371,772 (2014: net hedge asset of \$322,947) reflecting the negative mark-to-market value of foreign exchange contracts and call/put options. Refer to note 9 financial instruments for further details on the instruments.

8. ISSUED CAPITAL

	31 Dec 2014	30 Jun 2014
	\$	\$
a) Issued and fully paid shares 94,555,428 (2014: 94,555,428) fully paid ordinary shares	111,784,863	111,784,863
b) Movements in issued and fully paid shares	Number of shares	\$
Balance at beginning of period	94,555,428	111,784,863
Shares issued	-	-
Less: capital issue costs net of tax	-	-
Balance at the end of period	<u>94,555,428</u>	<u>111,784,863</u>

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.

9.1 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

9. FINANCIAL INSTRUMENTS (CONTINUED)

These level 2 financial assets and financial liabilities include:

- Derivative financial assets represented by option assets of \$469,690 (2014: \$322,947), 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.
- Derivative financial liabilities represented by foreign exchange derivatives and interest rate swap liabilities of \$3,154,916 (2014: \$406,927), 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 2014				
Derivative financial assets	-	469,690	-	469,690
Derivative financial liabilities	-	(3,154,916)	-	(3,154,916)
Total	-	(2,685,226)	-	(2,685,226)
30 June 2014				
Derivative financial assets	-	322,947	-	322,947
Derivative financial liabilities	-	(406,927)	-	(406,927)
Total	-	(83,980)	-	(83,980)

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

9.2 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 2014 and 30 June 2014, the directors consider that the carrying amount of financial assets and financial liabilities for the Group approximate their fair values.

10. DIVIDENDS

During the period (2014: nil payment), the Company did not make any dividend payments. The directors did not recommend payment of a final dividend in respect of the financial year ended 30 June 2014.

The directors have determined that a half-yearly dividend is payable for the period ended 31 December 2014 of 2.0 cents per share.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

11. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2014.

12. EVENTS SUBSEQUENT TO REPORTING DATE

No matter or circumstance has arisen subsequent to 31 December 2014 that has significantly affected, or may significantly affect the operations or the state of affairs of the Group in future financial years.

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, 18 February 2015

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 2014, and 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, 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 22.

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 2014 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.

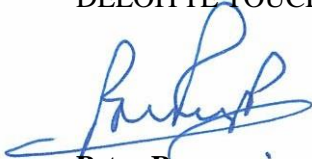
Conclusion

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 2014 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



Peter Rupp

Partner

Chartered Accountants

Perth, 18 February 2015

Appendix 3C

Announcement of buy-back (*except* minimum holding buy-back)

Information and documents given to ASX become ASX's property and may be made public.

Introduced 1/9/99. Origin: Appendix 7B. Amended 13/3/2000, 30/9/2001, 11/01/10

Name of entity	ABN/ARSN
MATRIX COMPOSITES & ENGINEERING LTD	54 009 235 450

We (the entity) give ASX the following information.

Information about buy-back

1	Type of buy-back	On-market
2	+Class of shares/units which is the subject of the buy-back (<i>eg, ordinary/preference</i>)	Ordinary Shares
3	Voting rights (<i>eg, one for one</i>)	One for one
4	Fully paid/partly paid (<i>and if partly paid, details of how much has been paid and how much is outstanding</i>)	Fully Paid
5	Number of shares/units in the +class on issue	94,555,428
6	Whether shareholder/unitholder approval is required for buy-back	Not required – within the 10/12 rule

Appendix 3C
Announcement of buy-back

7	Reason for buy-back	Capital Management
8	Any other information material to a shareholder's/unitholder's decision whether to accept the offer (eg, details of any proposed takeover bid)	N/A

On-market buy-back

9	Name of broker who will act on the company's behalf	Argonaut Securities Limited
10	Deleted 30/9/2001.	
11	If the company/trust intends to buy back a maximum number of shares - that number Note: This requires a figure to be included, not a percentage.	9,455,542
12	If the company/trust intends to buy back shares/units within a period of time - that period of time; if the company/trust intends that the buy-back be of unlimited duration - that intention	The Company intends to commence the buyback on 6 March 2015 and continue until 5 March 2016 or earlier if the maximum number of shares are acquired or the buyback is terminated.
13	If the company/trust intends to buy back shares/units if conditions are met - those conditions	The Company will only buy-back shares at such times and in such circumstances as is considered beneficial to the capital management of the Company

Employee share scheme buy-back

14	Number of shares proposed to be bought back	N/A
15	Price to be offered for shares	N/A

Selective buy-back

16 Name of person or description of class of person whose shares are proposed to be bought back N/A

17 Number of shares proposed to be bought back N/A

18 Price to be offered for shares N/A

Equal access scheme

19 Percentage of shares proposed to be bought back N/A

20 Total number of shares proposed to be bought back if all offers are accepted N/A

21 Price to be offered for shares N/A

22 +Record date for participation in offer N/A
Cross reference: Appendix 7A, clause 9.

Compliance statement

1. The company is in compliance with all Corporations Act requirements relevant to this buy-back.
2. There is no information that the listing rules require to be disclosed that has not already been disclosed, or is not contained in, or attached to, this form.

Sign here: Date:
.....
(Director/Company secretary)

Print name: PETER JOHN TAZEWELL