HALF YEAR REPORT (APPENDIX 4D)

31 December 2013

Matrix Composites & Engineering Ltd

Matrix Half Yearly Profit Result – 1H FY2014

Matrix Composites & Engineering Ltd (MCE) today announced reported earnings before interest, tax and depreciation (EBITDA) of $7.7 million, an increase of 20 per cent over the previous corresponding period. EBITDA for 1H FY14 was generated from revenue of $65.1 million, a decrease of 20.2 per cent over the previous corresponding period. The lower revenue was attributable to:

i) Lower production output from the Company's Henderson manufacturing facility, as conveyed via the last two Quarterly Updates for FY14; and

ii) Delays in project revenue recognition

Matrix recorded an interim net profit after tax of $0.7 million for 1H FY14, an increase of 29.4 per cent over the previous corresponding period.

MCE Chief Executive Officer (CEO) Aaron Begley said "the results for 1H FY14 were pleasing given lower production output over the period due to a number of technically challenging projects which in turn affected total revenue. The results showcase the outcomes of our continued focus on reducing costs throughout the organisation and optimizing plant production. It is a credit to our team that we have been able to achieve these results given the challenges faced in 1H FY2104".

MCE continues to reduce its financial debt. After some difficult trading periods, improved cash flow is being reflected in a strengthening Balance Sheet and increased production from the improved backlog should result in stronger cash flow generation over the next 12 to 18 months.

Increase in Order Book – US$30m in January 2014

Matrix has recorded a significant improvement in its order book since the Q2 FY14 Quarterly Update was released. Additional contracts totalling US$30 million have been awarded to MCE since 31 December 2013, increasing the contracted backlog of work to US$118 million.

Mr Begley said "A strong market outlook for our key product and service lines persists, with the business highly leveraged to increased product demand and a falling AUD. The improved order backlog will support elevated production until Q2 FY15. Revenue from our SURF ancillary product line is also increasing, with the largest order intake ever occurring in 1H FY14. This record reflects our growing presence and reputation within this particular market."

Achievements - 1H 2014 MCE

MCE's other key achievements during the period ended 31 December 2013 include:

- Achieved two years' lost time injury (LTI) free at its Henderson facility
- Continued to roll out its brand and culture initiative
- Extended strategic partnership with Oil States Industries Inc
- Accredited to AS/NZS 4801:2001 at the Company's Malaga workshops
- Achieved stable production rates at the Henderson facility

MCE CEO Aaron Begley said “with a strong market outlook for our key product lines, some exciting opportunities in the local subsea industry and a business highly leveraged to increased product demand, Matrix is well positioned to capitalise on future growth opportunities within the international oil and gas industry”.

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

Appendix 4D

Half year report
Period ending on 31 December 2013

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 2013
Previous half-year ended	31 December 2012

Results for announcement to the market

				$'000
Revenue	Decreased	20.2%	To	65,057
Profit/(losses) after tax attributable to members	Increased	29.4%	To	682
Profit/(losses) after tax attributable to owners of the parent	Increased	22.7%	To	682

Dividend payments	Amount per security	Franked amount per security
Year ended 30 June 2013 Final dividend (cents per share)	-	-
Half year ended 31 December 2013 Interim dividend (cents per share)	-	-
Record date for determining entitlement to dividend	n/a	
Date the interim 2014 dividend is payable	n/a	

Net tangible assets	Current half year $	Previous half year $
Net tangible assets per ordinary security	$1.22	$1.28

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 2013.

This report is based on accounts that have been reviewed.

Peter Tazewell
Company Secretary

Date: 12 February 2014

HALF YEAR REPORT

31 DECEMBER 2013

CONTENTS

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the financial report of the Company and its subsidiaries ("Group" or "Consolidated Entity") for the half-year ended 31 December 2013. 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)*
Craig N Duncan	*(Independent Non-Executive Director)*
Nigel L Johnson	*(Independent Non-Executive Director)*
Paul R Wright	*(Non-Executive Director)*

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

Principal Activities

The Consolidated Entity's principal activities during the course of the period were the:

- manufacture and sale of syntactic foam buoyancy and associated products;
- manufacture and sale of injection moulded composite plastic and polyurethane products;
- manufacture and sale of fabricated metal products; and
- provision of offshore labour and specialised maintenance services.

Financial Performance

The Group has recorded a net profit after tax of $682,358 (2012: profit of $527,501) for the six month period ended 31 December 2013, a 29.4 per cent improvement on the previous corresponding period.

The Group has reported EBITDA[1] of $7,661,398 for the six month period ended 31 December 2013 (2012: $6,382,864), representing a 20.0 per cent improvement on the previous corresponding period. This improvement in EBITDA is attributed to:

i) positive results from cost management initatives;

ii) lower raw material costs arising from material efficiencies;

iii) reduced maintenance spend arising from improved plant stability; and

iv) margin improvement arising from the falling Australian dollar.

Sales revenue of $65.1 million (2012: $81.6 million) was 20.2 per cent below the corresponding period and has been adversely impacted by a combination of:

i) lower production rates, as reported in the September 2013 and December 2013 Quarterly Updates, associated with with non-standard products; and

ii) construction of a significant number of modules where recognition of revenue is deferred until completion of the project.

[1] EBITDA denotes earnings before interest, taxes, depreciation and amortisation.

Gross finance costs of $1,204,563 (2012: $856,433) were 40.6 per cent higher than the previous period, primarily as a result of interest charges on amounts due to the Australian Taxation Office ("ATO") in relation to prior year's superannuation issues. These costs will reduce as the amount due to ATO is repaid.

Financial Position

Matrix has continued its focus on reducing bank debt as quickly as practicable with gross financial debt reducing by 15.3 per cent during the six month period to $16.1 million. Matrix has funded its capital requirements and interest payments on debt from operating cash flow while maintaining an aggressive debt amortisation profile.

While Matrix has met all of its repayment obligations to its bank, it suffered a breach of its cumulative EBITDA covenant at 30 September 2013 due to lower than anticipated production in Q1 FY14 and the deferral of recognition of revenue on certain projects. This situation was anticipated by Matrix which received a waiver from its bank in advance of the breach. The bank waiver was conditional on the provision of certain information which has since been provided to the bank. In addition, Matrix's reported cumulative EBITDA for the six months ended 31 December 2013 met the covenant at this date and the Company currently meets all of its covenants with its bank.

As the waiver was conditional on the provision of certain information, and the condition was outstanding at 31 December 2013, this represents a technical breach of the Company's debt facilities resulting in all financial debt being classified as current as at 31 December 2013. Despite this, Matrix maintains a surplus of current assets over current liabilities and remains committed to eliminating core financial debt as soon as practicable.

Review of Operations

Matrix operates two distinct business; Matrix Composite Materials ("MCM") and Matrix Offshore Services and Engineering ("MOSE"), which service the global oil and gas industry and the domestic resources sector respectively. The manufacture of composite foam buoyancy systems was the Company's principal activity throughout the period.

Matrix Composite Materials

MCM operated on a five day-two shift roster for the majority of the period under review, with production accelerating towards the end of the period in order to meet customer requirements. As noted above, production did not meet targeted levels due to a number of project specific operational issues. More positively, the business benefitted from lower operating costs which arose from stable production and improved raw material efficiency.

During the period Matrix has maintained its contracted order book between US$80 million and US$90 million which equates to a backlog of approximately nine months. Matrix has a number of near-term client delivery targets that will require accelerated production in the next six to 12 month period. Matrix continues to target a backlog of contracted orders of US$100 million to US$150 million.

The commercial terms of certain contracts, namely invoicing deferral and the requirement to provide cash support for bank guarantees, resulted in MCM suffering increased working capital requirements during the period. This increased working capital requirement has peaked and MCM is focussed on negotiating more favourable commercial outcomes on future contracts.

During the period MCM recorded increased sales for its well construction products over the previous period. While revenue from this product line remains below expectations, it is gaining traction in multiple markets and is expected to provide a growing revenue stream to MCM in future years.

The outlook for MCM's products continues to be strong with all lead indicators trending strongly positive. Matrix expects to benefit strongly from the lower Australian dollar and the benefits of higher production through the Henderson facility.

Matrix Offshore Services & Engineering

MOSE continues to provide specialised engineered products to both the oil and gas and mining sectors in Western Australia. Reduced capital expenditure in the mining sector in Western Australia has resulted in reduced demand for MOSE's engineering and fabrication services from these sectors. During the period MOSE increased its exposure to the provision of specialised maintenance and labour services to the offshore oil and gas sector as well as positioning itself to benefit from planned new capital and operations expenditure supporting the offshore oil and gas sector.

Revenue generated by MOSE was $11,128,416 (2012: $12,986,029), a reduction of 14.3 per cent compared to the previous corresponding period. In the near term MOSE will be fabricating a significant volume of equipment for the MCM operations and is tendering for the supply of fabricated equipment for a number of significant offshore oil and gas projects.

The outlook for MOSE remains challenging with revenue opportunities adversely impacted by reduced capital and operating expenditure in the minerals sector as well as generally high labour costs in Australia resulting in engineering and fabrication work being completed offshore. MOSE's strategy to focus on provision of maintenance services and servicing the requirements of the offshore oil and gas sector have proved timely.

Dividends

During the period the directors did not recommend the payment of a final dividend for the financial year ended 30 June 2013 (2012: nil). The directors have not declared any interim dividend for the period ended 31 December 2013.

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, 12 February 2014

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

12 February 2014

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 2013, 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

Peter Rupp
Partner
Chartered Accountants

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31 Dec 2013	31 Dec 2012
		$	**$**
Continuing operations			
Revenue	3	65,056,818	81,570,317
Cost of sales		(55,745,154)	(73,937,448)
Gross profit		**9,311,664**	**7,632,869**
Other income	3	956,973	873,440
Other losses	3	(1,155,983)	(12,332)
Administration expenses		(3,730,882)	(3,843,354)
Finance costs	3	(1,204,563)	(856,433)
Marketing expenses		(2,750,949)	(2,966,500)
Research expenses		(202,540)	(240,930)
Profit before income tax		**1,223,720**	**586,760**
Income tax expense	9	(541,362)	(59,259)
Profit for the period from continuing operations		**682,358**	**527,501**
Profit attributable to :			
Owners of the parent		682,358	527,501
Non-controlling interest		-	-
		682,358	**527,501**

Earnings per share			
Basic earnings per share (cents)		0.7	0.6
Diluted earnings per share (cents)		0.7	0.6

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 2013

		31 Dec 2013	31 Dec 2012
		$	$
Profit for the period		682,358	527,501
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net foreign currency translation differences		(30,964)	51,156
		(30,964)	51,156
Change in fair value of cash flow hedges		376,274	(70,494)
Income tax (expense)/benefit		(112,882)	21,148
		263,392	(49,346)
Items that will not be reclassified subsequently to profit or loss:			
Income tax benefit arising from prior period tax expense		-	338,254
		-	338,254
Other comprehensive income for the period, net of tax		232,428	340,064
Total comprehensive income for the period		914,786	867,565
Total comprehensive income attributable to:			
Owners of the parent		914,786	867,565
Non-controlling interest		-	-
Total comprehensive income for the period		914,786	867,565

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 2013

	Note	31 Dec 2013	30 Jun 2013
		$	$
CURRENT ASSETS			
Cash and cash equivalents		16,096,632	15,960,631
Trade and other receivables	4	35,273,207	26,813,423
Inventory		20,353,676	23,597,244
Other current assets		895,418	1,323,046
Income tax asset		-	4,571
TOTAL CURRENT ASSETS		72,618,933	67,698,915
NON CURRENT ASSETS			
Trade and other receivables	4	-	9,315,364
Property, plant and equipment		101,619,734	104,584,765
Intangible assets		8,432,902	8,306,773
Deferred tax assets		13,342,368	13,613,322
TOTAL NON CURRENT ASSETS		123,395,004	135,820,224
TOTAL ASSETS		196,013,937	203,519,139
CURRENT LIABILITIES			
Trade and other payables		15,981,845	23,404,957
Progress claims and deposits		21,230,436	17,560,890
Financial liabilities	5	19,515,884	11,680,094
Provisions		1,186,682	1,399,137
TOTAL CURRENT LIABILITIES		57,914,847	54,045,078
NON CURRENT LIABILITIES			
Financial liabilities	5	500,863	13,137,140
Deferred tax liabilities		3,964,803	3,602,360
Provisions		428,930	444,853
TOTAL NON CURRENT LIABILITIES		4,894,596	17,184,353
TOTAL LIABILITIES		62,809,443	71,229,431
NET ASSETS		133,204,494	132,289,708
EQUITY			
Issued capital	6	111,784,863	111,784,863
Reserves		(81,563)	(313,991)
Retained earnings		21,511,397	20,829,039
Equity attributable to owners of the Company		133,214,697	132,299,911
Non-controlling interest		(10,203)	(10,203)
TOTAL EQUITY		133,204,494	132,289,708

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 2013

	Note	31 Dec 2013	31 Dec 2012
		$	$
CASH FLOWS GENERATED FROM/(USED IN) OPERATING ACTIVITIES			
Receipts from customers		75,462,576	66,410,320
Payments to suppliers and employees		(68,891,350)	(75,254,417)
Interest received		37,535	145,466
Finance costs paid		(1,204,563)	(937,266)
Net receipt from income tax		-	415,580
Net cash generated from/(used in) operating activities		5,404,198	(9,220,317)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		17,042	-
Payments for property, plant and equipment		(2,359,135)	(3,046,990)
Payments for research and development costs		(126,129)	(416,492)
Net cash used in investing activities		(2,468,222)	(3,463,482)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of borrowings		(2,799,975)	(3,287,112)
Capital raising costs		-	(39,798)
Net cash used in financing activities		(2,799,975)	(3,326,910)
Net increase/(decrease) in cash and cash equivalents		136,001	(16,010,709)
Cash and cash equivalents at 1 July		15,960,631	29,921,332
Cash and cash equivalents at 31 December		16,096,632	13,910,623

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 2013

	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.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	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 2012	111,812,722	23,776,177	273,000	787,664	49,346	46,125	136,745,034	(10,203)	136,734,831
Total comprehensive income for the year									
Profit for the period	-	527,501	-	-	-	-	527,501	-	527,501
Other comprehensive income									
Foreign currency translation	-	-	-	-	-	51,156	51,156	-	51,156
Change in fair value of cash flow hedges net of tax	-	-	-	-	(49,346)	-	(49,346)	-	(49,346)
Revaluation of freehold property net of tax	-	-	-	338,254	-	-	338,254	-	338,254
	-	527,501	-	338,254	(49,346)	51,156	867,565	-	867,565
Transactions with owners, recorded directly in equity									
Dividends paid to equity holders	(27,859)	-	-	-	-	-	(27,859)	-	(27,859)
	(27,859)	-	-	-	-	-	(27,859)	-	(27,859)
Balance at 31 December 2012	111,784,863	24,303,678	273,000	1,125,918	-	97,281	137,584,740	(10,203)	137,574,537

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 2013

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 2013 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 12 February 2014.

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 2013 annual financial report for the financial year ended 30 June 2013. 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 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 December 2013

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 13 'Fair Value Measurement' and related AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	31 December 2013
AASB 119 'Employee Benefits (2011)' and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	31 December 2013
AASB 127 'Separate Financial Statements (2011)' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 December 2013
AASB 1048 'Interpretation of Standards' (2013)	Period ending on or after 20 December 2013	31 December 2013
AASB 2010-10 'Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters'	1 January 2013	31 December 2013
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	1 July 2012	31 December 2013
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	31 December 2013
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments' [AASB 1, 5, 7, 8, 10, 11, 12, 13, 101, 102, 108, 112, 118, 119, 127, 128, 132, 133, 134, 137, 1023, 1038, 1039, 1049 & 2011- 7 and Interpretation 12]	1 January 2013	31 December 2013
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	*Part A – Conceptual Framework* Period ending on or after 20 December 2013	31 December 2013
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework'	Period ending on or after 20 December 2013	31 December 2013

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

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. 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) and 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 8 and Transition Disclosure' AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2017	31 December 2018
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 8 and Transition Disclosure' AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2017	31 December 2018
AASB 1031 'Materiality' (2013)	1 January 2014	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 2011-6 'Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements'	1 July 2013	31 December 2014
AASB 2012-1 'Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements'	1 July 2013	31 December 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	31 December 2014
AASB 2012-7 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'	1 July 2013	31 December 2014
AASB 2012-11 'Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments' [AASB 1, AASB 2, AASB 8, AASB 10, AASB 107, AASB 128, AASB 133, AASB 134 & AASB 2011-4]	1 July 2013	31 December 2014

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and Interpretations in issue not yet adopted

Standard/Interpretation	Effective Date	Application Date
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 2013-6 'Amendments to AASB 136 arising from Reduced Disclosure Requirements'	1 January 2014	31 December 2014
AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and consolidation and interests of policyholders'	1 January 2014	31 December 2014
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	*Part B –Materiality* 1 January 2014 *Part C – Financial Instruments* 1 January 2014	31 December 2014

2. OPERATING SEGMENTS

In conjuction with AASB 8, the Group has identified its operating segments 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. The Chief Executive Officer (CEO) is considered to be the CODM of the Group.

Matrix Composite Materials Business Unit (MCM)

The Composite Materials business unit designs, manufactures and supplies buoyancy systems, pipeline insulation, pipeline and riser protection, riser ancillaries and a range of down hole products to the offshore oil and gas industry. It also supplies product solutions for military and other commercial applications.

Matrix Offshore Services and Engineering Business Unit (MOSE)

The Offshore Services and Engineering business unit supplies connectors, conductors and casing, offshore structures, subsea skids and manifolds, offshore cranes and winches together with associated testing, refurbishment and maintenance to the oil and gas industry. This division also supplies heavy material handling equipment, winches and other processing equipment to the mining and mineral processing industries. Furthermore, it deploys qualified labour onto its customers' vessels and other offshore facilities to complete mostly short-term works.

Performance Monitoring and Evaluation

The CODM monitors the operating results of the Business Units separately for the purposes of making decisions about resource allocation and performance assessment. The performance of operating segments 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 accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1.

2. OPERATING SEGMENTS (CONTINUED)

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

	Half Year ended 31 December 2013			
	MCM	MOSE	Group Eliminations	MCE Group
	$	$	$	$
Revenue	53,928,402	11,128,416	-	65,056,818
EBITDAF[1]	7,896,360	508,089	-	8,404,449
Foreign Exchange	(660,517)	(82,534)	-	(743,051)
EBITDA[2]	7,235,843	425,555	-	7,661,398
Depreciation and amortisation	(4,805,730)	(464,920)	-	(5,270,650)
EBIT	2,430,113	(39,365)	-	2,390,748
Net finance costs	(1,119,675)	(47,353)	-	(1,167,028)
Profit before tax (continuing operations)	1,310,438	(86,718)	-	1,223,720
	31 Dec 2013			
Total assets	185,284,271	14,195,650	(3,465,984)	196,013,937
Total liabilities	56,847,919	4,987,341	974,183	62,809,443

	Half Year ended 31 December 2012			
	MCM	MOSE	Group Eliminations	MCE Group
	$	$	$	$
Revenue	68,584,288	12,986,029	-	81,570,317
EBITDAF[1]	4,789,437	909,258	-	5,698,695
Foreign Exchange	700,499	(16,330)	-	684,169
EBITDA[2]	5,489,936	892,928	-	6,382,864
Depreciation and amortisation	(4,660,870)	(424,448)	-	(5,085,318)
EBIT	829,066	468,480	-	1,297,546
Net finance costs	(649,534)	(61,252)	-	(710,786)
Profit before tax (continuing operations)	179,532	407,228	-	586,760
	30 Jun 2013			
Total assets	188,877,258	17,090,895	(2,449,014)	203,519,139
Total liabilities	62,490,082	8,127,609	611,740	71,229,431

[1] EBITDAF stands for earnings before interest, taxes, depreciation, amortisation and foreign exchange.
[2] EBITDA stands for earnings before interest, taxes, depreciation and amortisation.

3. REVENUE AND EXPENSES

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

	31 Dec 2013	31 Dec 2012
Revenue	**$**	**$**
Manufacturing revenue	53,928,402	68,584,287
Contract revenue	11,128,416	12,986,030
	65,056,818	81,570,317
Other Income		
Interest received	37,535	145,647
Sundry income	27,553	-
Financial instruments revaluation gain	117,760	43,624
Fees recovered from customer	476,499	-
Import duties recovery	297,626	-
Foreign exchange gain	-	684,169
	956,973	873,440
Other Losses		
Foreign exchange loss	(743,051)	-
Fixed assets disposals/write off	(37,932)	-
Sundry expense	-	(12,332)
Other expenses	(375,000)	-
	(1,155,983)	(12,332)
Operating Expenses		
Depreciation and amortisation	(5,270,650)	(5,085,318)
Finance costs	(1,204,563)	(856,433)

4. TRADE AND OTHER RECEIVABLES

	31 Dec 2013	30 Jun 2013
CURRENT	**$**	**$**
Trade receivables (i)	17,420,989	17,220,357
Other receivables – Trade (ii)	11,097,479	8,978,253
Other receivables – Restricted cash (iii)	5,833,706	-
GST refundable	921,033	614,813
	35,273,207	26,813,423
NON-CURRENT		
Other receivables – Restricted cash (iii)	-	9,315,364

(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, relate 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 a major customer.

5. FINANCIAL LIABILITIES

The Group is subjected to financial convenants including a cumulative EBITDA covenant (defined as the Group's earnings before interest, taxes, depreciation and amortisation), which requires Matrix to report a cumulative EBITDA, on a quarterly basis, within 10 per cent of budget. The covenant gave rise to a breach at 30 September which has since been met, on a cumulative basis, at 31 December 2013. However, the bank waiver relating to this breach included a condition regarding the provision of additional information which was provided to the bank subsequent to 31 December 2013. This resulted in the reclassification of the debt at 31 December 2013.

In the absence of this breach, or had the waiver from the bank at 30 September 2013 been unconditional, the total financial liabilities would have been disclosed as follows:

	31 Dec 2013	30 Jun 2013
CURRENT	**$**	**$**
Bank bill – secured	1,720,000	1,720,000
Interest rate swap option (i)	495,849	613,608
Finance lease liability	3,666,171	3,755,183
Forward exchange contracts liability (hedge accounted)(ii)	3,397,566	5,591,303
	9,279,586	11,680,094
NON CURRENT		
Bank bill – secured	5,229,878	6,089,878
Finance lease liability	5,006,420	6,857,384
Derivatives – call/put options (hedge accounted) (ii)	500,863	189,878
	10,737,161	13,137,140

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

(ii) Group had a net hedge liability position of $3,898,429 (2013: net hedge liability of $5,781,181) reflecting the negative mark-to-market value of foreign exchange contracts and call/put options. Refer to note 10, financial instruments for further details on the instruments.

6. ISSUED CAPITAL

	31 Dec 2013 $	30 Jun 2013 $
a) Issued and fully paid shares 94,555,428 (2013: 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	94,555,428	111,784,863

7. DIVIDENDS

During the period (2012: 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 2013. The directors have not declared any interim dividend for the period ended 31 December 2013.

8. CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2013.

9. INCOME TAX EXPENSE

	31 Dec 2013	31 Dec 2012
The components of tax expense comprise:	$	$
Current tax	625,024	(89,775)
Deferred tax	(1,166,386)	30,516
	(541,362)	(59,259)

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

Prima facie tax payable on operating profit before income tax at 30% (2013: 30%)	(367,116)	(166,297)
Non allowable items	(157,412)	(22,356)
Research & development tax concession	-	219,169
Over provision in prior year	(16,834)	(89,775)
Income tax expense	(541,362)	(59,259)

10. FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, trade and other receivables, trade and other payables, finance leases, bank borrowings, other borrowings and derivatives. The main purpose of non-derivative financial instruments is to raise finance for Group operations. Derivatives are used by the Group for hedging purposes. The Group does not speculate in the trading of derivative instruments. Senior executives meet regularly to analyse and monitor the financial risk associated with the financial instruments used by the Group.

Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest Rate Risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowing and the use of interest rate swap contracts where appropriate. Hedging activities are evaluated on a regular basis to align with interest rate views and defined risk appetite, ensuring the most cost-effective measures are put in place.

Interest Rate Sensitivity Analysis

The following sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At 31 December 2013, the after tax effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant at balance date would be as follows:

	31 Dec 2013 $	30 Jun 2013 $
Change in profit		
Increase in interest rate by 2% (200 basis point)	32,240	42,679
Decrease in interest rate by 2% (200 basis point)	(32,240)	(42,679)
Change in other comprehensive income		
Increase in interest rate by 2% (200 basis point)	-	-
Decrease in interest rate by 2% (200 basis point)	-	-

The sensitivity to a 200 basis point increase or decrease in interest rates is considered reasonable given the markets forecast available at the reporting date and under the current economic environment in which the Group operates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

10. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing	
					Within 1 Year		Over 1 Year			
	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013
	%	%	$	$	$	$	$	$	$	$
Cash and Cash Equivalents	-	-	-	-	-	1,242,049	-	-	16,096,632	14,718,582
Trade and Other Receivables	-	-	-	-	5,833,706	-	-	9,315,364	28,518,468	26,198,610
Total Financial Assets			-	-	5,833,706	1,242,049	-	9,315,364	44,615,100	40,917,192

FINANCIAL LABILITIES

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing	
					Within 1 Year		Over 1 Year			
	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013
	%	%	$	$	$	$	$	$	$	$
Trade and Other Payables	-	-	-	-	-	-	-	-	15,475,618	22,576,058
Finance Leases	6.5	6.5	-	-	3,666,172	3,755,183	5,006,420	6,857,384	-	-
Interest Rate Swaps	2.8	2.8	495,849	613,608	-	-	-	-	-	-
Bank bills	4.0	4.0	6,949,878	7,809,878	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-	-	-	-	3,898,429	5,781,181
Total Financial Liabilities			7,445,727	8,423,486	3,666,172	3,755,183	5,006,420	6,857,384	19,374,047	28,357,239

10. FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk

Credit risk relates to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no material amount of collateral held as security at 31 December 2013.

Credit risk is managed on a Group basis and reviewed regularly by senior executives. It arises from exposures to customers and deposits with financial institutions. The following criteria are applied by senior executives in the assessment of counter party risk:

- Deposits and borrowings are with Australian based banks;
- All potential customers are rated for credit worthiness.

Exposure to Credit Risk

The consolidated entity's maximum exposure to credit risk at the reporting date was:

	31 Dec 2013	30 Jun 2013
	$	$
Trade receivables	17,420,989	17,220,357

At balance date, the aging analysis of trade receivables is as follows:

Days		
0-30	10,011,253	16,646,835
31-60	6,905,500	264,254
61-90	501,630	299,748
90+	2,606	9,520
	17,420,989	17,220,357

Trade receivables of $504,236 (June 2013: $309,268) were past due at 31 December, of which $20,723 has been collected up to the date of this report. There were no impairment provisions in respect of trade receivables that were past due as at 31 December 2013.

Foreign Currency Risk

The Group undertakes transactions denominated in foreign currencies; consequently exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency option contracts.

The carrying amount of the Group's foreign currency denominated assets and monetary liabilities at the end of the period are as follows:

	Liabilities		Assets	
	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013
	$	$	$	$
US$	20,069,553	22,720,626	34,089,015	28,874,875

10. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to fluctuations in the US Dollar.

The following table details the Group's sensitivity to a 10 per cent increase and decrease in the Australian dollar against the relevant foreign currencies. 10 per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10 per cent change in foreign currency rates. A positive number below indicates an increase in profit or equity where the Australian dollar strengthens 10 per cent against the relevant currency. For a 10 per cent weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit or equity, and the balances would be negative.

		Profit after tax		Other Comprehensive Income	
		Increase/(Decrease)		Increase/(Decrease)	
		31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013
		$'000	$'000	$'000	$'000
A$ vs US$	+10%	(1,424)	(603)	2,591	4,597
A$ vs US$	-10%	1,567	664	(2,850)	(5,057)

The movement in other comprehensive income is due to an increase/decrease in the fair value of forward foreign exchange contracts designated as cash flow hedges.

Forward Foreign Exchange Contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 50 to 100 per cent of the net exposure generated. The Group also enters into forward foreign exchange contracts to manage the risk associated with contracted sales transactions for the period of contracts within 50 to 100 per cent of the net exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

The following table details the forward foreign currency (FC) contract outstanding at the end of the reporting period:

	Average exchange rate		Foreign currency		Notional value		Fair value	
	Dec-13	Jun-13	Dec-13	Jun-13	Dec-13	Jun-13	Dec-13	Jun-13
	$	$	US$000	US$000	US$000	US$000	US$000	US$000
Cash flow hedges								
Sell US$								
Less than 3 months	1.0119	1.0250	12,000	12,100	11,859	11,804	(1,623)	(1,456)
3 to 6 months	1.0029	1.0192	12,500	5,800	12,463	5,691	(1,648)	(699)
6 months to 1 year	0.9936	1.0078	1,000	29,000	1,006	28,775	(127)	(3,436)
							(3,398)	**(5,591)**

10. FINANCIAL INSTRUMENTS (CONTINUED)

Forward Foreign Exchange Contracts

The Group has entered into forward foreign exchange contracts (for terms not exceeding 1 year) to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

At 31 December 2013, the aggregate amount of gains under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to the exposure on these anticipated future transactions loss of $1,183,608 (June 2013: loss $1,447,000). It is anticipated that the sales will take place during the next half financial year, at which time the amount deferred in equity will be reclassified to profit or loss.

The Group is exposed to fluctuations in foreign currencies arising from the sale of goods denoted in U.S. Dollars. Currently the Group uses derivatives to hedge against movements in foreign currency.

Call/Put Options

The Group has entered into a series of call/put options to protect a portion of the Group's future revenue against unfavourable exchange rate movements.

The face value of the call/put options as at 31 December 2013 was $27 million.

At 31 December 2013, the aggregate amount of losses recognised under call/put option in profit or loss is loss of $310,985 (June 2013: loss $189,878).

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The Group manages liquidity risk by monitoring forecast cash flows, maintaining cash reserves and managing trade payables.

The following table details the Group's expected maturity for its financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

10. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	$	$	$	$	$	$
31 December 2013							
Cash and other equivalents	-	16,096,632	-	-	-	-	16,096,632
Trade and other receivables	-	20,759,092	-	13,593,082	-	-	34,352,174
Trade and other payables	-	(5,139,776)	(9,037,827)	(1,298,015)	-	-	(15,475,618)
Borrowing and Finance leases	6.5	(353,882)	(1,461,648)	(15,440,576)	-	-	(17,256,106)
Interest Rate Swap Option	2.8	-	-	(495,849)	-	-	(495,849)
Foreign Exchange Contracts	-	-	(1,622,694)	(1,774,872)	-	-	(3,397,566)
Call/Put Options	-	-	-	-	(500,863)	-	(500,863)
		31,362,066	(12,122,169)	(5,416,230)	(500,863)		13,322,804

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	$	$	$	$	$	$
30 June 2013							
Cash and other equivalents	0.02	14,718,582	-	1,242,049	-	-	15,960,631
Trade and other receivables	-	17,594,836	-	8,603,774	9,315,364	-	35,513,974
Trade and other payables	-	(19,957,705)	(486,693)	(2,131,660)	-	-	(22,576,058)
Borrowing and finance leases	5.5	(404,187)	(1,212,560)	(2,892,157)	(13,340,141)	(211,274)	(18,060,319)
Interest Rate Swap Option	2.8	-	-	(613,608)	-	-	(613,608)
Foreign Exchange Contracts	-	(821,366)	(996,356)	(3,773,581)	-	-	(5,591,303)
Call/Put Options	-	-	-	-	(189,878)	-	(189,878)
		11,130,160	(2,695,609)	434,817	(4,214,655)	(211,274)	4,443,439

The amounts included above for variable interest rate instruments for both financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair Value of Financial Instruments

The directors consider that the carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair value.

10. FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy

Fair value measurements recognised in the consolidated statement of financial position.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2[1]	Level 3	Total
31 December 2013	**$**	**$**	**$**	**$**
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(4,394,278)	-	(4,394,278)
Total	-	(4,394,278)	-	(4,394,278)
30 June 2013				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(6,394,789)	-	(6,394,789)
Total	-	(6,394,789)	-	(6,394,789)

There were no transfers between Level 1 and 2 in the period.

[1]Level 2 Derivative financial assets and liabilities are valued using a discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period), contract forward rates, forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, and discounted at a rate that reflects the credit risk of various counterparties.

11. EVENTS SUBSEQUENT TO REPORTING DATE

No matter or circumstance has arisen subsequent to 31 December 2013 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, 12 February 2014

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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 2013, 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 27.

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 2013 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 2013 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, **12 February 2014**