Matrix Composites & Engineering

ANNUAL REPORT 2014

Matrix Composites & Engineering Ltd

VISION STATEMENT

To be the first choice integrated engineering solutions provider, applying innovative manufacturing, advanced material technologies and superior service, to deliver value and exceed customer expectations.

ANNUAL REPORT 2014

MATRIX COMPOSITES & ENGINEERING LTD

"With a return to profitable operations in 2014, stable production output and continued growth in the SURF, well construction and drilling riser buoyancy repair and replacement markets, Matrix is well positioned for further growth in FY15 and beyond".

2014 ANNUAL GENERAL MEETING

Date: Wednesday 5th November 2014
Time: 10am
Location: AMC Jakovich Centre, Garden Island Room, 4 McGrath Road, Henderson, Western Australia

Matrix
Composites & Engineering

ANNUAL REPORT 2014

Matrix Composites & Engineering Ltd

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2014 in Summary

Key Data (as at 30 June 2014)

Market Capitalisation	$111.6m
Revenue	$158.6m
EBITDAF	$20.0m
EBITDA	$18.6m
Net Profit/ (Loss) after Tax	$3.0m
Total Equity	$136.8m
Share price as at 30 June 2014	$1.18
Final Dividend	nil
No. of employees	394

Company Profile & Structure

Matrix Composites & Engineering (Matrix) provides solutions consisting of engineered products and integrated services to the global oil and gas industry. Using innovative manufacturing and advanced composite and polymer materials technology, Matrix is a leading manufacturer of subsea buoyancy systems.

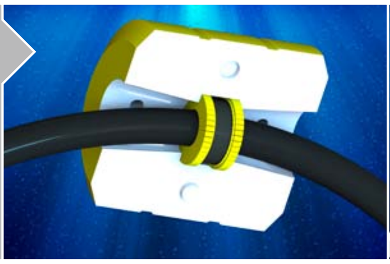
In 2014 Matrix restructured its MOSE division to create a more integrated, streamlined and efficient business model focused on providing offshore services to the oil and gas industry. The Group is now organised around three product lines and services:

- Offshore – Capital Drilling Equipment (CDE) and Offshore Services
- Subsea Umbilicals, Risers and Flowlines (SURF) – URF products and 'packaged' subsea solutions
- Well Construction – Advanced polymer centralizers and other products, and conductors, connectors and tubular welding

PRODUCTS / SERVICES

Offshore
Capital Drilling Equipment & Offshore Services

SURF
Products & Solutions



Well Construction
Products

MATERIALS – Syntactic Foams, Composites & Thick Section Thermoplastics

COMPETENCIES – Materials Technology & Application

Annual Report 2014

2014 in Summary

A Turnaround Year...

- The Company reported EBITDAF of $20.0m and a net profit after tax of $3.0m, marking a return to profitable operations
- Production levels stabilised and increased by 14 per cent over the previous year as the Company returned to a three shift roster and successfully implemented its continuous improvement program
- Restructured the MOSE division into the wider Matrix Group to create a more integrated, streamlined and efficient business model focused on providing offshore services to the oil and gas industry
- Increased penetration of the SURF and well construction markets, with a record 24 individual SURF projects completed or awarded in FY14
- Increased drilling riser buoyancy (DRB) sales in the repair and replacement market which represents a platform for further growth in the offshore CDE product line.

Growth Strategies

- Maintain and grow share of existing markets
  - continued materials research and development (R&D), and product innovation
  - expand range of products and services within existing markets through investment in core capabilities
- Penetrate new markets within the global oil and gas industry by using the Company's leading edge materials technologies, processes and core competencies
- Continue focus on cost reduction and optimising plant production to better utilise the investment in the Henderson manufacturing facility.

Operational Highlights & Challenges

Highlights

Financial	• Revenue $158.6m ↑ 9% • EBITDAF $20m ↑ 108% • EBITDA $18.6m ↑ 148% • NPAT $3.0m • Capital expenditure $7.2m ↑ 47.5%
Operating	• Group LTIFR 4.1 (as of 30 June 2014) • Record year for SURF with 24 individual projects completed or awarded in FY14 • Stable and improved production output • Successful re-instatement of 3 shift production • Successfully implemented materials efficiency initiatives
Strategic	• Continued penetration into drilling riser buoyancy (DRB) repair and replacement, SURF and well construction market • Expansion of well construction distribution channels • MOSE restructure – focus on services • Continuation of Matrix Brand and Culture Initiative • AS/NZS 4801:2001 obtained

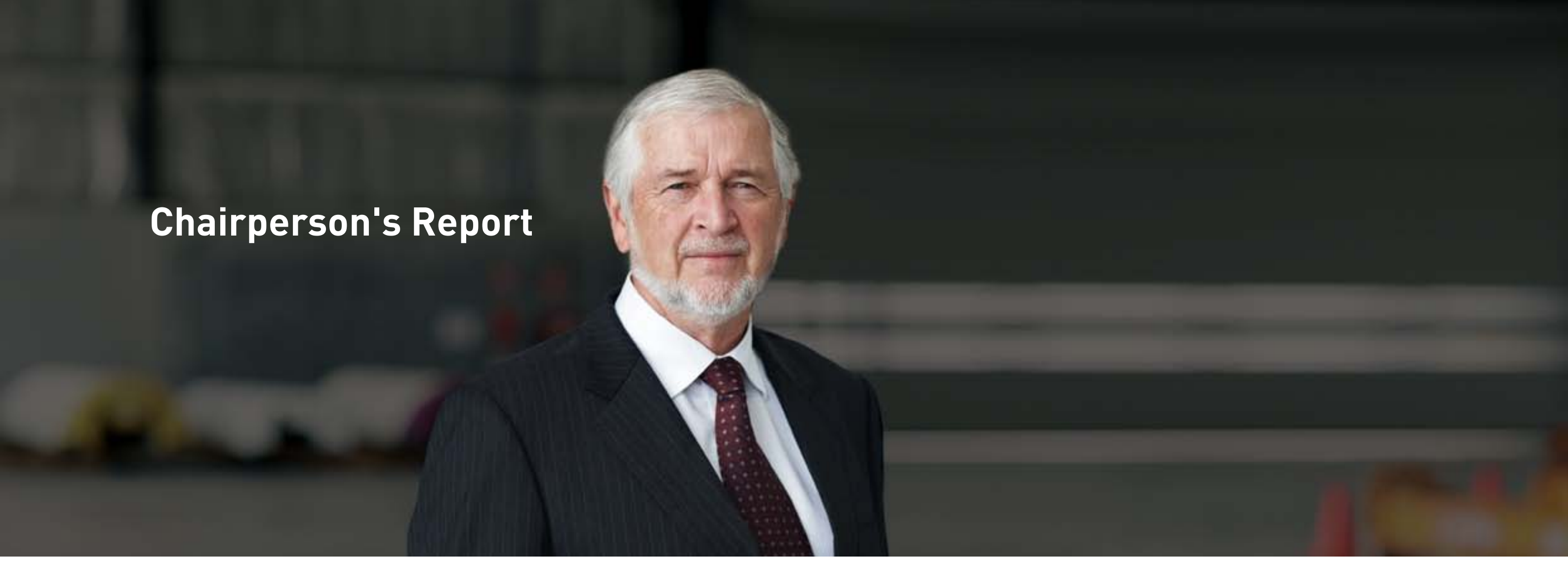
Challenges

Shorter lead times for DRB systems due to shipyard procurement and global capacity	• Tighter management of DRB order cycle • Focus on CDE repair and replacement market (riser buoyancy) to grow product line • Focus on newer shipyards in China, Singapore and Brazil to expand newbuild drillship client base
Ongoing penetration of well construction market	• Continuing to expand distribution channels in the US and Canada to more aggressively penetrate the market • Continued R&D and product innovation • Expansion of products and 'packaged' solutions • Targeting other growth markets in South America, West Africa and Asia
AUD:USD exchange rate	• Persistently high AUD:USD exchange rate which appears to have peaked at current rates
Decline in demand for engineering and fabrication services from the mineral resources sector	• Restructured the MOSE division by integrating many of its functions into the wider Group. This will create a more integrated, streamlined and efficient business model focused on delivering offshore services to the oil and gas industry

Three Year Financial Summary

		2014	2013	2012
Profitability				
Total revenue	$000	158,580	145,487	144,812
EBITDA	$000	18,569	7,477	(13,205)
EBITDA margin	%	11.7	5.1	(9.0)
Profit after tax from continuing operations	$000	3,018	(2,947)	(14,446)
Earnings per share (undiluted)	Cents	3.2	(3.12)	(18.4)
Cash Flow				
Cash flow from operations	$000	16,461	(2,189)	10,908
Balance Sheet				
Net current assets	$000	21,133	13,654	11,533
Total equity	$000	136,812	132,290	136,735
Net asset backing per share	$	1.45	1.40	1.45
Adjusted Net Debt	$000	6,420.4	10,707.3	15,749.5
Ratios				
Current ratio	times	1.41	1.25	1.16
Return on total equity	%	2.21	(2.23)	(10.56)
Return on total assets	%	1.48	(1.45)	(6.87)
Net debt/(Net debt + equity)	%	(5.07)	1.83	(2.99)
Market Capitalisation				
Share price at 30 June	$	1.18	0.78	1.75
Ordinary shares on issue	m	94.56	94.56	94.56
Market capitalisation	$m	111.58	73.76	165.47

Chairperson's Report



On behalf of the Board I am pleased to present the 2014 Annual Report for Matrix Composites & Engineering Ltd (Matrix).

FY14 marked a turnaround in the Company's performance following a number of challenging years during which Matrix has built and commissioned its world class syntactic foam manufacturing complex at Henderson, Western Australia while managing the complexities associated with a persistently high Australian dollar, a slowing world economy and a highly competitive landscape.

Matrix's commitment to quality and product development continues to enhance its reputation as a world class supplier of oil and gas equipment. The oil and gas industry is renowned for only using products with the highest standards of quality and safety. Matrix is proud that its products are recognised throughout the industry for their leading technical specifications and low failure rates, particularly in buoyancy products where Matrix riser buoyancy leads the market in design, innovation and quality.

Matrix is committed to safety with a target lost time injury frequency rate (LTIFR) of zero and therefore it is disappointing to report that three individual incidents during FY14 have resulted in an increase in the Company LTIFR from zero to 4.1. While this remains well below industry average performance, Matrix retains its commitment to a zero LTIFR and remains focussed on initiatives to reduce incidents in the future.

The Matrix group generated sales revenue of $158.6 million, an increase of $13.1 million over the previous year, and earnings before interest, tax and depreciation (EBITDA) of $18.6 million, an improvement of $11.1 million over the previous year. The Company reported a net profit after tax of $3.0 million marking a return to profitable operations for the Company.

Cash flow from operations was similarly strong at $16.5 million, an improvement of $18.7 million over the previous year. A strong focus on working capital and cash management enabled Matrix to continue to aggressively reduce financial debt. It is pleasing to report adjusted net debt of only $6.4 million at year end with financial indebtedness reduced by $11.9 million during FY14. Ship yard contracts continue to adversely impact Matrix's working capital and it is likely that ongoing participation by ship yards in the riser buoyancy market will result in continued high levels of working capital being carried by the Company.

While the persistently high Australian dollar continued to have an adverse impact on the Company's operating margins, reduced currency volatility during the year resulted in significantly reduced foreign exchange losses.

Matrix did not declare a final dividend for FY14. The decision was made taking into account the continued focus on reducing financial debt and the lower than anticipated backlog of contracted work for FY15. The Board anticipates that the Company will be in a positive net cash position during FY15 and, provided a sufficient level of backlog has been secured, believes it will be in a position to consider resuming dividend distributions at that time.

In addition to its improved financial result, Matrix recorded a number of achievements during FY14 including:

- Return to three-shift operating status, demonstrating its ability to flex output in line with market demand;
- Continued significant product development commitments to its well construction and distributed buoyancy clamp products;
- Reorganised the operations of its engineering and services business to integrate them into a single business unit based at Henderson; and
- Was recognised for its focus on innovation by being awarded the C.Y. O'Connor Award for Excellence in Engineering and Technology in the 2013 WA Industry & Export Awards.

The riser buoyancy market continues to be dominated by the newbuild drillship sector which has been growing, but in a highly cyclical manner. The proportion of work completed in the replacement market continues to grow, albeit at lower rates than have been anticipated. The Board considers that Matrix's quality product offering and relationship with major drilling contractors makes it well placed to grow its share of the replacement market disproportionately to its competitors. During the year Matrix continued its materials research programme into improving the quality and standards of buoyancy products.

Matrix has continued to develop additional product lines in the SURF and well construction sectors. Both of these product lines are beginning to show strong signs of growth as Matrix continues to penetrate their markets and gain improved brand and product recognition with customers. The Board expects steady growth in these product lines to help offset the cyclicality of the riser buoyancy market.

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Chairperson's Report

Matrix remains leveraged to the global oil and gas exploration and development sector, which is supported by ongoing strong demand for hydrocarbons. Matrix continues to investigate opportunities to grow its revenue and earnings base through increased market penetration of its existing product and services, research and development of new products and exploitation of its expertise in materials technology and processes.

On behalf of the Matrix Board I would like to thank our senior management and all employees for their commitment and determination to return the business to profitability. We look forward to maximising the opportunities from the Company's exposure to the oil and gas sector and delivering greater shareholder returns in FY15.

Peter Hood
Chairperson

Chief Executive Officer's Report

2014 was a turnaround year for Matrix. With a return to profitable operations, Matrix confirmed its reputation as the global technical leader in the manufacture and supply of subsea buoyancy. Production rates from its Henderson manufacturing operations stabilised and increased, and the Company was able to further penetrate the markets for SURF and well construction products. 2014 was a record year for Matrix's SURF products with 24 individual projects completed or awarded.

Financial Results

Matrix recorded significant increases in all of its key financial metrics: sales revenue of $158.6 million, an increase of $13.1 million over the previous year; earnings before interest, tax and depreciation (EBITDA) of $18.6 million, an improvement of $11.1 million over the previous year; and net profit after tax of $3.0 million, compared to the prior year loss of $2.9 million.

Financial indebtedness has reduced to $12.9 million and adjusted net debt stood at just $6.4 million at year end.

Business

In June 2014 Matrix restructured its MOSE division in response to a decline in demand for engineering and fabrication services from the mineral resources sector. Many of the support functions previously based at Malaga have been integrated into a single group wide function based at Henderson, Western Australia. Machining, conductor sales and offshore services have all been integrated into one of Matrix's principal product and service lines; capital drilling equipment (CDE), SURF and well construction. The new structure has created a more integrated, streamlined and efficient business model.

2014 saw production levels stabilise and increase by 14 per cent over FY13 as the Company returned to a three shift roster in Q3 in response to market demand. Production output also improved as a result of the successful implementation of the Company's continuous improvement program which delivered a number of production and technical enhancements throughout the year, as well as improving the supply chain function and deployment of labour. At 30 June 2014 the backlog of buoyancy work represented approximately 50 per cent of Matrix's planned operational capacity for FY15.

The ability to flex production levels in-line with market demand along with the capacity of the plant allowed Matrix to rapidly turnaround several urgent drilling riser buoyancy (DRB) replacement jobs. Representing approximately 20 per cent of total buoyancy contracts in FY14, the repair and replacement market is a platform for further growth in the offshore CDE product line. Matrix's reputation for DRB in the newbuild drillship market and its capacity and ability to deliver fast turnaround drilling operations services will support expected future growth in this market.

In 2014 Matrix was awarded over US$100 million worth of DRB contracts from clients operating in Korea, Brazil, Malaysia, US and West Africa. Throughout the year a number of major order conversions were delayed although the pending order book and short turnaround project activity remained high. Matrix continued its materials research and development (R&D) throughout the year which is fundamental to growth in the offshore CDE market.

The opportunities for offshore services work within the domestic market is improving with increased exposure to the major drilling contractors operating floaters off the coast of Western Australia (WA) and the Northern Territory (NT). Growth opportunities are expected to arise in the areas of inspection, original equipment manufacturers (OEM) equipment servicing, in-situ repairs and modifications, and bespoke engineering and maintenance.

2014 was a record year for the Company's SURF product line with 24 individual projects completed or awarded. Milestone deliveries included installation buoyancy for the Gorgon and Wheatstone projects (Australia), and distributed flexible flowline buoyancy for use on a major project in West Africa. Matrix also won a contract to supply installation buoyancy (150MT) and mid water arch syntactic foam elements for a major project off the Western Australian coast. The 150MT structure is one of the largest ever built for installation purposes. With strong quotation activity, focused marketing efforts and a growing reputation within the SURF market, Matrix expects this product/service line to represent a strong platform for future growth.

Centralizer sales in FY14 continued to grow although remained below expectations. Recent third party and client tests have demonstrated quality differentials over competitor products, traits which are being recognised by the wider industry. Matrix expects growth in sales in FY15 due to continued research and development and innovation across its centralizer range, as well as the continued expansion of its distribution channels in North America. North America remains the principal market and key focus for Matrix in the short to medium term.

People

Safety is an essential and integral part of the business and is one of Matrix's core values. Throughout 2014, Matrix continued to improve its safety performance through various means including the establishment of high expectations at the recruitment stage. Matrix maintained its LTIFR of zero for 879 days. The recording of three individual incidents resulted in an increase in the LTIFR to 4.1 as of 30 June 2014 which, while disappointing, remains well below industry benchmarks.

Throughout 2014 Matrix continued its brand and culture initiative with an aim to making it a higher performing, more successful organisation. The Company introduced a range of programs, processes and initiatives which have resulted in higher retention rates, lower levels of absenteeism and more positive feedback generated from exit interviews.

In 2014 Matrix expanded its service and distribution network in the US and Canada to increase its penetration of the well construction market. An additional four agents were appointed to market our well construction products. Matrix also commissioned an agent in Brazil to market its CDE line of products throughout South America.

Strategy

Matrix seeks to invest in its core capabilities and expand the range of products and services to its existing markets. Using its leading edge materials technologies, processes and core competencies, Matrix is also focusing on penetrating new markets within the global oil and gas industry. More specifically:

- Enter and/ or grow share of market for specific offshore services based on existing capabilities and geographic proximity
- Maintain and grow share of existing markets through continued materials R&D, and product innovation.

Matrix continues its emphasis on cost reduction and optimisation of plant production to better utilise the significant investment in the Henderson manufacturing facility.

Outlook

The market outlook for Matrix's key products and services remains strong as highlighted below.

Global demand for floaters is expected to increase by 63 per cent from 2014 to 2020. Along with the increasing retirement of older rigs, this will sustain the newbuild drillship market and its demand for CDE for a further six years. Matrix is also growing its newbuild client base by focusing on newer shipyards in China, Singapore and Brazil. The market for DRB repair and replacement remains buoyant, especially for vessels over 10 years old which represent 59 per cent of the global mobile offshore drilling unit (MODU) fleet.

The outlook for offshore services remains strong with the global floater market expected to increase by eight per cent in 2015, and six per cent in 2016. A record number of floaters are expected in Australian waters, rising from 12 in 2014 to 14 in 2018. A large number of projects are also entering the commissioning and installation stage in FY15. This combined activity will support an expected increase in CDE, riser and DRB repair and replacement work in Australia and abroad.

The outlook for SURF products and solutions remains strong with Floating Production Systems (FPS) expenditure expected to increase by 68 per cent from 2014 to 2017. Between 2017 and 2018, 821 FPS projects are due for delivery, over twice the number for 2008 -2012. The Australasian market for FPS is forecast to increase strongly, with a projected 15 per cent of global spend to 2017. Matrix's penetration of the SURF market continues to grow as it gains increased recognition through its clients' qualification processes, expands its product range in-line with client demand and continues gaining brand recognition within the global SURF market.

The well construction market, namely North America (NA) remains strong having risen significantly to 2015 in terms of the number of oil wells and footage drilled. From 2015 to 2019 the number of oil wells and footage drilled in NA is expected to plateau, albeit at high levels. With a growing service and distribution network in NA, positive third party and client test results and an expanding product range, Matrix is confident that it can significantly grow its market share of the NA well construction market. Matrix is also targeting other growth markets including Brazil, West Africa, Thailand, Malaysia and Indonesia for the sale of its advanced polymer centralizers.

With a return to profitable operations in 2014, stable production output and continued growth in the SURF, well construction and DRB repair and replacement markets, Matrix is well positioned for growth and shareholder return in FY15 and beyond.

Aaron Begley
Managing Director & Chief Executive Officer

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the annual report of the Company for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows.

Information about the Directors'

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

Peter J Hood	Independent Non-Executive Chairman
Qualifications & Experience	Peter Hood is a qualified Chemical Engineer with over 43 years' experience in senior management and project development in the mining, oil and gas, and chemical industries.
	Mr Hood was previously the CEO of Coogee Resources Ltd, a company involved in the exploration and production of oil and gas in the Timor Sea. Prior to this he was the CEO of Coogee Chemicals Pty Ltd where he oversaw a period of significant growth in the company's enterprise value.
	Mr Hood is currently the President of the Australian Chamber of Commerce and Industry (ACCI), a Non-Executive Director of the Chamber of Commerce and Industry of WA, GR Engineering Ltd and Chairman of MAK Industrial Water Systems Pty Ltd. He was also previously Chairman of Apollo Gas Ltd and Vice-Chairman of APPEA.
	Mr Hood is a member of both the Audit and Risk and Remuneration Committees.
Education	Bachelor of Engineering (Chemical), Melbourne University, 1970
	Advanced Management Program, Harvard Business School, 1997
	Graduate Diploma of Administration, Western Australian Institute of Technology (now Curtin University), 1974
Memberships	Fellow of the Australian Institute of Company Directors
	Fellow of the Institute of Chemical Engineers
	Member of the Australian Institute of Mining and Metallurgy

Aaron P Begley	Managing Director & Chief Executive Officer
Qualifications & Experience	Aaron Begley has 20 years' experience in manufacturing and marketing products in the field of industrial ceramics and composite materials for the offshore energy industry.
	Prior to his current role as Managing Director and Chief Executive Officer, Mr Begley held various positions within Matrix Composites & Engineering Ltd since starting with the company in 1993. Throughout his tenure, Mr Begley has overseen the company's growth from a local engineering firm to a global market leader in the manufacture and development of composite materials technologies and engineered products for the oil and gas sector.
Education	Post Graduate Diploma of Management (Curtin), 2002
	Bachelor of Economics (University of Western Australia), 1993
Memberships	Australian Institute of Company Directors
	Society of Underwater Technology (SUT)

Steven Cole	Independent Non-Executive Director
Qualifications & Experience	Steven Cole has over 40 years' of legal, business and corporate experience as well as a range of executive management and non-executive appointments. His extensive boardroom and board sub-committee experience includes ASX listed, statutory, proprietary and NFP organisations covering the industrial, financial, educational, professional services, health and resources sectors. Mr Cole is Deputy Chairman of Reed Resources Limited, Chairman of the Queen Elizabeth II Medical Centre Trust, Chairman of Brightwater Care Group Inc. and a member of the General Council of the Chamber of Commerce & Industry (WA). Mr Cole was also previously WA State President and a national board member of the Australian Institute of Company Directors. Mr Cole is a member of the Remuneration Committee.
Education	Bachelor of Laws (Hons)
Memberships	Fellow of the Australian Institute of Company Directors
Craig N Duncan	Independent Non-Executive Director
Qualifications & Experience	Craig Duncan has over 35 years' experience in the petroleum and mining industries in Australia, Asia, the Middle East and Africa. He was previously a Drilling Superintendent at Apache Energy for 12 years and was responsible for managing well construction operations. Prior to this role, Mr Duncan was involved in manufacturing specialised equipment for the gold mining industry. Mr Duncan is Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.
Education	Graduate Diploma in Petroleum Engineering, University of New South Wales, 2005
Nigel L Johnson	Independent Non-Executive Director
Qualifications & Experience	Nigel Johnson is a Chartered Accountant with over 40 years' experience in corporate finance, treasury, accounting and risk management. Mr Johnson has specific expertise in accounting and financial management, capital raisings, debt financing, treasury and financial risk management, change and relationship management, and strategic planning. Mr Johnson has worked for a number of public and private organisations across a range of industries including Straits Resources Ltd as the company's CFO and Heytesbury Pty Ltd in the role of Group Treasurer. Mr Johnson has also been a director for various public and private companies and has provided consultancy services to such companies in Australia and overseas.
Education	Diploma in Accountancy Studies, University of Rhodesia, 1975
Memberships	The Institute of Chartered Accountants in Australia Australian Institute of Company Directors

Paul R Wright	Non-Executive Director
Qualifications & Experience	Paul Wright has an accounting degree and has worked in public accounting and managerial roles for a number of engineering and manufacturing businesses. Mr Wright has been involved with the Matrix Group since 1995 and was instrumental in securing capital for the establishment of the composites business. Prior to the company's listing on the ASX in 2009, Mr Wright was the CFO for 11 years and CEO for two years. Preceding the listing, he resumed the role of CFO for a further year before retiring in October 2010. Between 22 September 2011 and 18 December 2011 Mr Wright acted in an executive capacity as the acting Chief Financial Officer of the Group. Prior to his involvement with Matrix, Mr Wright was the Managing Director of Centurion Industries Ltd, a national heavy engineering firm, for nine years. In this role he was responsible for an employee buy-out of Tomlinson Steel Ltd and the subsequent ASX listing of the company (now RCR Tomlinson). Mr Wright is a member of the Audit and Risk Committee.
Education	Bachelor of Business, Curtin University, 1978

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Mr N Johnson – resigned 21 March 2014; and
- Mr S Cole – appointed 2 April 2014.

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
PJ Hood	GR Engineering Ltd	2010 – Current
S Cole	Reed Resources Ltd	2008 – Current
	Emerson Stewart Group Limited	2008 – 2011

Directors' Shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Directors'	Fully paid shares Number
PJ Hood	300,000
AP Begley	3,545,877
S Cole	20,000
NL Johnson	n/a*
PR Wright	1,435,635
CN Duncan	590,429

*This individual ceased to be a director of the Company during the year ended 30 June 2014 and the presentation in this table may not indicate the status of his shareholding.

No shares or options have been issued for compensation purposes during or since the end of the financial year to any Director of the Company.

Remuneration of Key Management Personnel

Information about the remuneration of key management personnel is set out in the remuneration report of this director's report, on pages 25 to 30. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

No shares or options have been issued for compensation purposes during or since the end of the financial year to any employee of the Company.

Company Secretary

Mr Peter Tazewell, Chartered Accountant, joined Matrix in December 2011 and held the position of company secretary of the Company at the end of the financial year. He is a Fellow of the Institute of Chartered Accountants in Australia and Senior Associate of the Financial Services Institute of Australasia.

Principal Activities for FY 2014

The consolidated entity's principal activities during the course of the financial year were the:

- Manufacture and supply of capital drilling equipment (primarily comprised of syntactic foam buoyancy) and provision of offshore services;
- Manufacture and supply of subsea umbilical risers and flowline (SURF) ancillary equipment and associated services; and
- Manufacture and supply of well construction products, including centralizers and conductors.

Review of Operations

During the financial year Matrix operated two distinct businesses; 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, supplied as capital drilling equipment, was the company's principal activity throughout the year. Effective 1 July 2014, Matrix restructured its operations such that the products and services provided by MOSE were integrated into the operating and organisational structures of MCM.

Safety

Matrix continued to improve safety performance across all of its operating sites during the financial year. Workforce stability, and high expectations set at the recruitment stage, has been integral to the continuous improvement in safety culture and workforce commitment across the Company. The principal operating plant at Henderson sustained MTIFR and LTIFR levels well below industry benchmarks. The company targets zero LTIs across all worksites.

Matrix operates an occupational health and safety (OHS) system that is accredited to AS/NZS 4801, which is being updated to also align with OHSAS18001. In the transition towards OHSAS18001 accreditation, Matrix continues to scrutinise and identify hazards and risks, and management of those to best practice, to improve controls and understanding of what is still a very new, dynamic and unique operating environment.

Matrix maintained the targeted lost time injury frequency rate (LTIFR) of zero for 879 days. Unfortunately, three LTIs suffered during FY14 led to an LTIFR at 30 June 2014 of 4.1 (relative to a million man hours). Proactive lead indicators have been introduced, with the intent of better understanding the workplace safety culture. These lead indicators support the company wide no-blame culture, which is evident at all levels. The recorded Group LTIFR of 4.1 at 30 June 2014, compared with 0 at 30 June 2013, and 1.1 at 30 June 2012.

Each operational site has an annual plan to measure successes, or otherwise, so that the agreed OHS objectives can be monitored and achieved. The objectives are aligned with the management of Matrix's risk profiles and support the Company values.

Matrix is a member of IFAP, has an affiliation with the Occupational Health Society of WA, and is again providing mentoring and professional practicum opportunities for undergraduate OHS students from Curtin University.

Matrix Composite Materials

MCM manufactures and distributes a range of specialised engineered products for the global oil and gas exploration and production (E&P) sector using syntactic foam and thermoplastic technologies.

Matrix manufactures and distributes a range of specialised engineered products including:

i) Drilling riser buoyancy modules;

ii) SURF ancillary products;

iii) Standard or stock size composite syntactic foam products; and

iv) Well construction products, including thermoplastic centralizers.

Manufacturing Operations

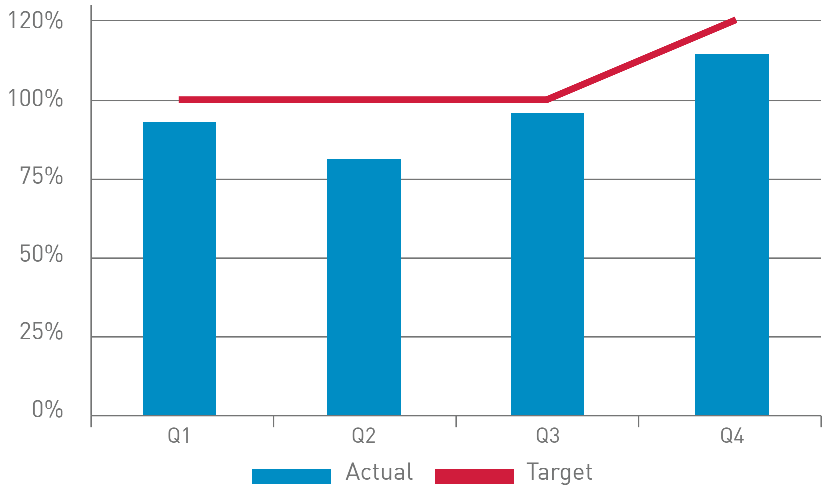


Chart 1

During the financial year MCM operated its buoyancy production on a two-shift operating structure in Q1 and Q2 before transitioning to a three-shift roster during Q3 and achieving a full quarter of three-shift production in Q4. Actual production across the full year was 14 per cent higher than in FY13.

MCM's continuous improvement approach has enabled it to progressively improve its production output through incremental plant improvements and flexible labour deployment.

MCM has achieved a number of production and technical improvements during the year which has:

i) Eliminated certain raw materials resulting in material cost savings and reduced rework requirement;

ii) Reduced logistics costs by moving all suppliers terms to a delivered basis; and

iii) Developed a unique tooling design to manufacture multiple parts per production unit, improving plant efficiency and reducing the cycle time for completion of products through the plant.

Ongoing improvements in the supply chain function have enabled MCM to reduce its absolute raw material costs as well as the volume of raw material stock held.

MCM continued production of its patented centralizer products at Henderson. Ongoing investment in tooling and materials research during the year has enabled MCM to expand its market offering in this product line.

A number of minor capital projects were completed during the year to improve the efficiency of the production process and address identified operating risks.

Commercial

MCM continues to develop its commercial processes to ensure optimum commercial outcomes from its manufacturing activities. During the year, Matrix reorganised its commercial function by appointing Mr Stephen Edgar as General Manager – Commercial reporting to the Chief Executive Officer. Mr Edgar has responsibility for the sales, commercial and project management functions across all of Matrix's product lines.

Through its commitment to producing quality products and delivering technical engineering solutions, Matrix has established itself as a supplier of choice for buoyancy products across the various customer segments – ship yards, drilling contractors and OEMs. This reputation for quality has enabled Matrix to maintain its impressive market share in drilling riser buoyancy as well as gain traction in the SURF market, where 24 individual projects were awarded or completed during FY14.

MCM is focussed on building a sustainable backlog of buoyancy work to support the ongoing operation of its buoyancy manufacturing facility. At 30 June 2014 the backlog represented approximately 50 per cent of Matrix's planned operational capacity for FY15.

In the well construction market, Matrix continued to establish its products in a global market distributing centralizers to eight countries during FY14. North America remains the principal market with 68 per cent of sales by value being recorded in this market.

MCM recorded significantly improved operating margins during FY14 (14.3 per cent compared to 5.3 per cent in FY13) as the business benefitted from greater demand for its products (permitting higher plant utilisation) and continued labour and materials efficiencies. In addition, the AUD:USD exchange rate was relatively stable during the period, albeit persistently high, which reduced the foreign exchange volatility Matrix has experienced in recent years.

Outlook

MCM continues its strategy to diversify its revenue streams across different products and sectors in the oil and gas industry. The market for buoyancy products continues to be strong with MCM recording strong market share with its drilling riser buoyancy products in the new build market.

Newbuild Drillships

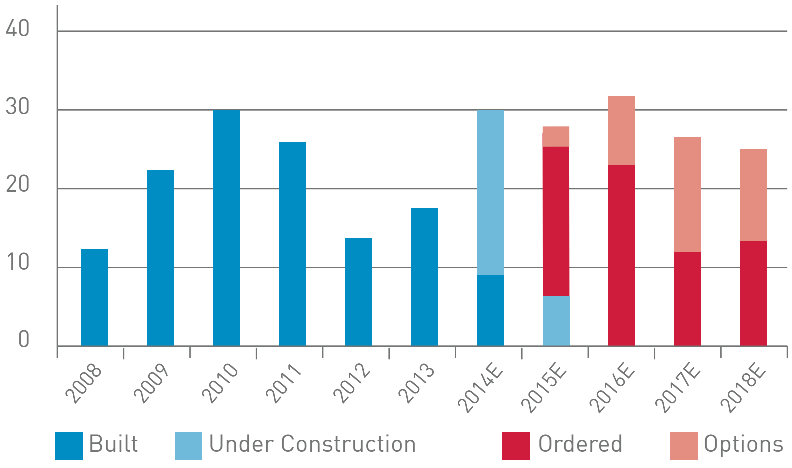


Chart 2 (Source: Company Data)

MODU Fleet – Aged

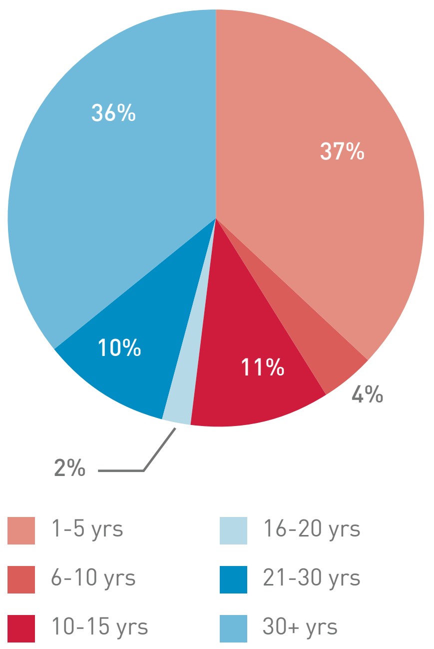


Chart 3 (Source: Company Data)

Chart 2 above shows the anticipated construction profile for new drill ships over the next five years. Matrix expects to maintain, and grow, its market share of the buoyancy requirements for this sector. Matrix also expects continued growth in revenue from the replacement market.

Chart 3 above shows the age of the fleet of mobile offshore drilling units ("MODU") which utilise drilling riser buoyancy products. Matrix anticipates significantly increased work from repairing and replacing buoyancy for vessels over ten years of age.

MCM continues to develop products for SURF applications which remains a strong growth opportunity for the Company. MCM's outlook is supported by a significant increase in the enquiry level for these products. Chart 4 below sets out the forecast capital expenditure for floating production systems (FPS) (2008 – 2017) which is a lead indicator for SURF buoyancy products.

FPS Expenditure (US$bn) by Region

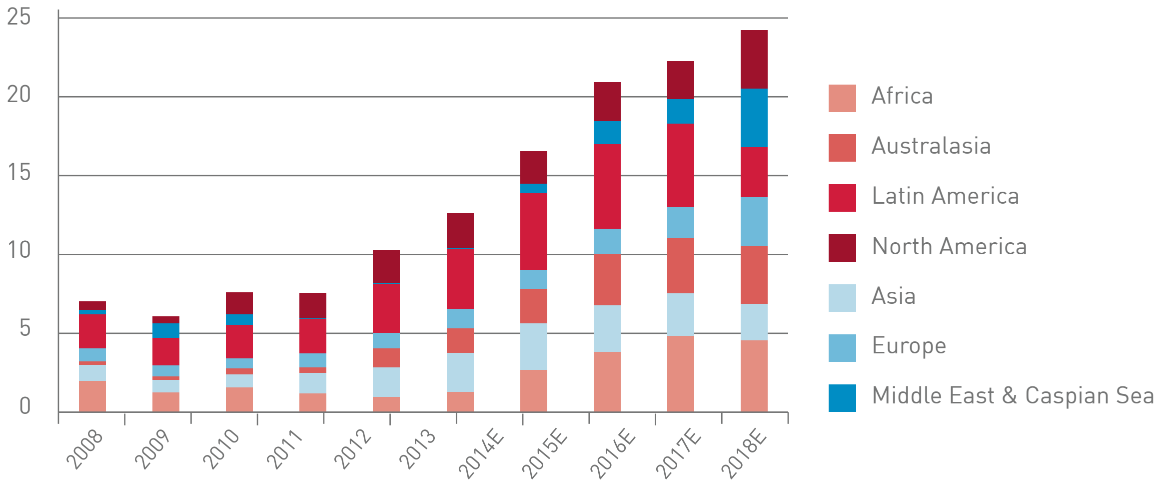


Chart 4 (Source: Infield Systems Limited)

Footage Drilled by Region (mft)

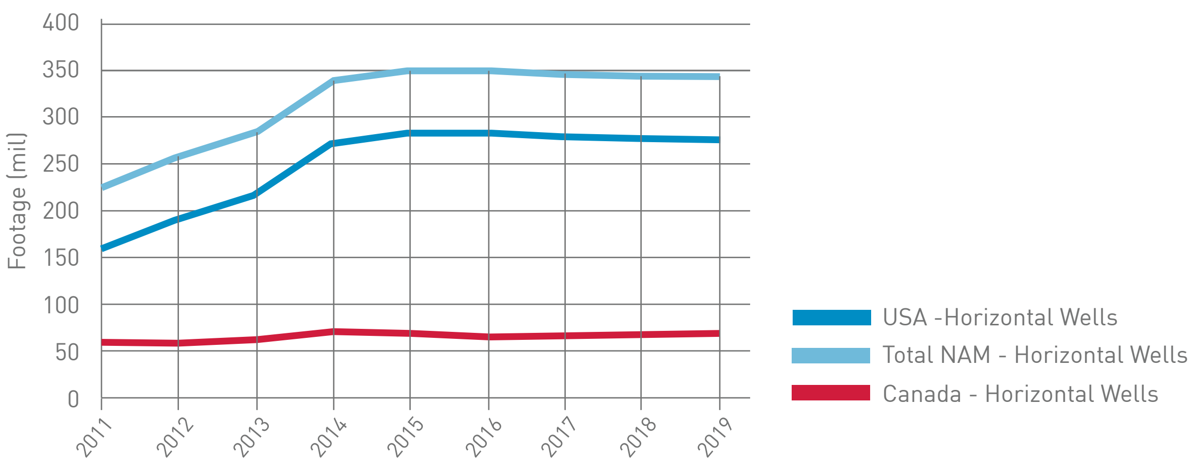


Chart 5 (Source: Spears & Associates: June 2014)

Chart 5 above sets out the historical and forecast 'feet volume' to be drilled in the key North American market. The strong growth in drilling activity supports Matrix's forecast for a strong improvement in sales of its well construction products.

The outlook for MCM products continues to be strong, underwritten by continued high energy prices, committed capital projects in the oil and gas sector and a growing appreciation from customers of the value proposition offered by Matrix through its Henderson manufacturing facility.

Matrix Offshore Services & Engineering

From its Malaga base, MOSE supplies specialised engineering services to the domestic resources sector (particularly iron ore mining), well construction equipment to the oil and gas sector, manufactures engineered products for MCM and provides maintenance support services to the oil and gas sector.

Operations

MOSE continued its fabrication, machining and maintenance services operations from its Malaga base during the year. MOSE maintained its ISO 9001:2008 and API Q1 accreditation throughout the year. In June 2014 Matrix completed a significant restructuring of the MOSE operational base in response to a material reduction in demand for engineering and fabrication services from the mining sector. As a result of this restructure the commercial, engineering, project management, financial and procurement functions have been integrated into single group-wide functions based at Henderson. Matrix will maintain a physical presence at the Malaga location as part of a single organisational structure.

Commercial

Reported earnings in this business were adversely impacted by a number of material, non-recurring expenses such as restructuring costs and bid costs on major projects. MOSE recorded significantly reduced revenue of $17.9 million, down 27 per cent on the prior year (FY13: $24.5 million). This reduction in revenue is primarily attributed to a reduction in demand for fabricated capital equipment for the mining industry. Pleasingly, MOSE recorded improved revenue from its targeted growth areas of offshore service, oil and gas equipment spares, and SURF.

Outlook

As noted earlier, the operations of MOSE have been integrated within the broader Matrix business. The outlook for the key business lines formerly reported as MOSE, such as offshore services, tubular welding, CDE servicing and bespoke engineered products are improving as a results of a record number of offshore rigs (14) operating in Australian waters and a record number of wells (102) forecast to be drilled. Matrix expects growth in revenue from these sectors in FY15.

Support Functions

During FY14 Matrix continued to provide corporate support functions to its two operating divisions in the areas of safety and environmental management, finance, human resources, information technology and public affairs.

Financial Results for the Year

Group Financial Metrics

- Sales revenue of $158.6 million, nine per cent higher than FY2013 of $145.5 million, driven by stronger 2H production and sales.
- EBITDA of $18.6 million, 248 per cent higher than FY2013 EBITDA of $7.5 million.
- Net profit after tax of $3.0 million, compared with FY2013 net loss after tax of $2.9 million.

The table below sets out summary information about the consolidated entity's earnings and movement in shareholder wealth for the five years to 30 June 2014.

		30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Revenue	$	158,580,865	145,487,485	144,811,799	174,640,578	101,108,028
EBITDAF[1]	$	20,044,132	9,639,029	(10,801,872)	45,960,808	25,809,479
EBITDA	$	18,569,036	7,477,215	(13,204,784)	47,821,348	25,932,494
Net profit/(loss) before tax	$	4,703,267	(4,171,282)	(25,675,142)	42,495,062	22,807,693
Net profit/(loss) after tax	$	3,018,004	(2,947,138)	(14,445,748)	30,225,319	16,693,669
Share price at start of year	$	0.78	1.75	7.22	2.68	1.36
Share price at end of year	$	1.18	0.78	1.75	7.22	2.68
Interim dividend[2]	cps	-	-	2.0	3.0	2.0
Final dividend[3]	cps	-	-	-	5.0	2.0
Basic earnings/(loss) per share	cps	3.2	(3.1)	(18.4)	41.4	28.5
Diluted earnings/(loss) per share	cps	3.2	(3.1)	(18.4)	41.4	27.0

[1] EBITDAF represent earnings before interest, taxes, depreciation, amortisation and foreign exchange.
[2] Franked to 100 per cent at 30 per cent corporate income tax rate.
[3] Declared after the end of the reporting period and not reflected in the financial statements.

Earnings

Matrix reported significantly improved EBITDA in FY14, driven by a stronger performance from MCM. Operating margins recovered as plant and labour utilisation improved and materials efficiency initiatives continued to deliver results.

Net profit after tax continues to be challenged by the high level of depreciation resulting from the significant capital expenditure incurred between 2010 and 2012. Matrix's ongoing future capital expenditure is expected to remain constant at approximately 50 per cent of annual depreciation.

Matrix incurred finance charges in FY14 in excess of $2 million which is significant relative to its level of financial debt. This is attributed to a number of factors including the structure of the Company's current banking arrangements, significant bonding arrangements required by shipyard customers and the significant proportion of cash held as USD (which attracts minimal interest).

As noted above, MOSE earnings were adversely impacted by a range of non-recurring expenses and Matrix expects to generate a positive contribution from these product and service lines in the future.

Cash Flow

Cash flow from operations was significantly higher than the previous year and positively impacted by:

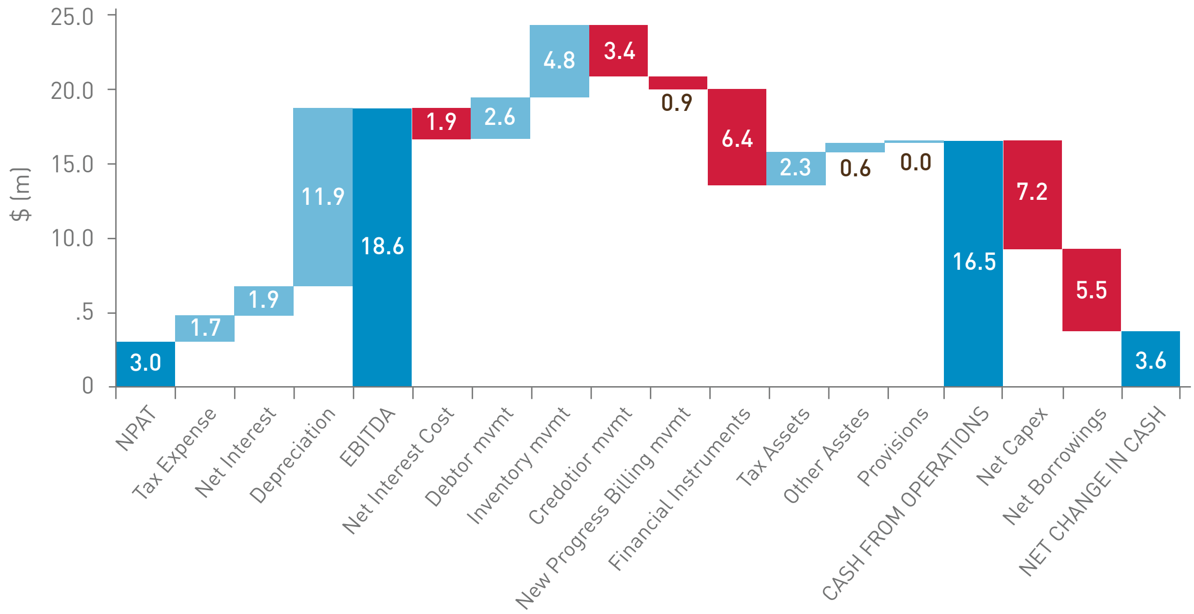
i) Reduced level of bank guarantees for shipyard customers, resulting in less 'restricted' cash to support these guarantees;

ii) Increased operating margins, as described earlier;

iii) Reduced inventory holdings; and

iv) Consistent levels of progress billing, representing work contracted but not yet performed.

Capital expenditure was higher than the previous year, due mainly to tooling requirements to support the higher production levels.



Financial Position

As at the end of the financial year, Matrix was in a sound financial position with a strong working capital position, near new plant and equipment and reducing financial indebtedness. Net debt has reduced from $10.7 million to $6.4 million and Matrix expects to maintain its focus on reducing financial indebtedness over the next six to 12 months.

Business Strategies

Matrix's business strategies are as follows:

i) Build a backlog of contracted work for its Henderson manufacturing facility;

ii) Continue materials and product research to develop improved riser buoyancy systems;

iii) Continue to develop and broaden the SURF product range;

iv) Continue to develop its range of well construction products; and

v) Continue development of its aftermarket servicing and repair capabilities.

Changes in State of Affairs

During the financial year Matrix completed a reorganisation of the MOSE business, as set out elsewhere in this report. Other than this, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

Subsequent Events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future Developments

Having regard to its current balance of contracted work for buoyancy products (including both drilling and SURF products), Matrix anticipates its Henderson manufacturing facility may operate at production rates below the production rate achieved during Q4 FY14 during H1 FY15. The Board is confident that sufficient orders will be obtained to continue operations throughout FY15, and that production rates can be lifted quickly and easily to meet increased demand. The principal risk to Matrix being able to continue operating at the current production rate is its ability to secure contracted work in a timely manner.

Matrix expects that demand for its well construction products will continue to grow, particularly in North America where expenditure in the shale gas market continues to be a significant driver for its products. The principal risks to Matrix achieving growth in this sector is its ability to effectively market its products in this market, continued demand for hydrocarbons in North America and market competitive forces.

Matrix expects ongoing demand for maintenance services to the offshore oil and gas sector in Western Australia will continue to provide market opportunities for inspection, maintenance and repair services. The principal risk to securing revenue in this business is the ongoing competitive nature for delivery of these services in Australia.

Environmental Regulations

The consolidated entity's principal operating site at Henderson, Western Australia is subject to the operation of the Environmental Protection Act 1986 (WA) ("EP Act"). Compliance with the provisions of the EP Act, and reporting of any breaches, is overseen by the Group Occupational Health Safety and Environment department. When breaches occur, they are reported to the Department of Environmental Regulation (DER) as required and actions taken to prevent recurrences.

During the year there were no material breaches of the Act and Matrix has been able to demonstrate continued good environmental performance. This is demonstrated by compliance against the environmental licence in accordance with the Environmental Protection Act, and compliance audits completed by the DER inspectorate. The Henderson site continues to operate as designed, and had no reportable events.

Dividends

In respect of the financial year ended 30 June 2013, as detailed in the Directors' Report for that financial year, no interim or final dividend was paid.

In respect of the financial year ended 30 June 2014, no interim dividend was paid and the directors do not recommend the payment of a final dividend.

Shares Under Option or Issued on Exercise of Options

During the financial year there were no shares issued as a result of exercise of options.

As at the end of the financial year there were no options granted over unissued shares.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above) and all executive officers of the Company and any related body corporate against a liability incurred as such director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such an officer or auditor.

The company was not a party to any such proceedings during the year.

Directors' Meetings

The following table sets out the number of directors meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year nine board meetings, two remuneration committee meetings and two audit and risk committee meetings were held.

	Board of Directors'		Remuneration Committee		Audit & Risk Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
PJ Hood	9	9	2	2	2	2
AP Begley (CEO)	9	9	-	-	-	-
S Cole	3	3	1	1	-	-
CN Duncan	9	8	2	2	2	2
NL Johnson	6	4	1	-	-	-
PR Wright	9	9	-	-	2	2

Proceedings on Behalf of Company

No person has applied for leave of Court under the Corporations Act 2001 to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 5 to the financial statements. The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 5 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 39 of the annual report.

Audited Remuneration Report

This remuneration report, which forms part of the Directors' Report, sets out information about the remuneration of the Company's directors and key management personnel for the financial year ended 30 June 2014. The term 'key management personnel' refers to those persons having authority and responsibility for planning, controlling and directing the activities of the Consolidated Entity, directly or indirectly. The prescribed details for each person covered by this report are detailed below under the following headings:

- Directors
- Key management personnel
- Remuneration policy
- Relationship between the remuneration policy and company performance
- Remuneration of directors and key management personnel
- Key terms of employment contracts

Directors' and Senior Management Details

Directors'

The following persons acted as directors of the Company during or since the end of the financial year:

Mr PJ Hood (Chairperson)

Mr AP Begley (Chief Executive Officer)

Mr S Cole (appointed 2 April 2014)

Mr CN Duncan

Mr NL Johnson (resigned 21 March 2014)

Mr PR Wright

Unless otherwise stated, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Key Management Personnel

The term 'key management personnel' is used in this remuneration report to refer to the above named directors and following persons:

Mr P Tazewell	(Chief Financial Officer/Company Secretary)
Mr A Vincan	(Chief Operating Officer – Matrix Composites & Engineering)
Mr P Riordan	(General Manager – Matrix Offshore Services & Engineering, resigned 13 September 2013)
Mr G Rooke	(General Manager – Matrix Offshore Services & Engineering, appointed 9 September 2013 and resigned 17 July 2014)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Remuneration Policy

Directors'

The remuneration policy aims to attract, retain and motivate talented and highly skilled non-executive directors and to remunerate fairly and responsibly with regards to the following:

- Level of fees paid to non-executive directors are at market rate for comparable companies;
- Size and complexity of the Company's operations; and
- Responsibilities and work requirements of the Board members.

The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought where required. In FY14, this process did not result in any change in non-executive director fees, other than the statutory increase in superannuation.

Non-executive directors are paid fixed annual fees; they do not receive any variable, performance based remuneration. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders (currently $500,000 per annum).

The allocation of fees to non-executive directors within this cap has been determined after consideration of a number of factors including the time commitment of directors, the size and scale of the Company's operations, the skillsets of Board members, the quantum of fees paid to non-executive directors of comparable companies and participation in Board Committee work.

The Chairperson receives an annual fee of $98,325 (2013: $98,100). All other non-executive directors receive an annual base fee of $60,087 (2013: $59,950). All amounts specified in this section are inclusive of superannuation contributions.

Key Management Personnel

The Company's remuneration policy for key management personnel (including executive directors) is to fairly and responsibly reward them having regard to the performance of the Group, the performance of the executive and prevailing remuneration expectations in the market. The Company also seeks to establish remuneration structures which align the interests of its key management personnel with the interests of the Company and its shareholders. The payment of any bonuses to executive directors, key management personnel and other employees is based on the delivery of key Group and individual outcomes and profitability of the Matrix Group. As detailed in the remuneration table, certain key management personnel were paid a bonus for FY13 based on delivery of key non-financial outcomes. Mr A Begley voluntarily forwent his entitlement to a bonus for FY13. Key management personnel were not paid incentives resulting from increases in the Company's share price in FY14.

The amount of compensation for current and future periods for key management personnel is based on consideration of market factors, comparison to peers and reference to the individual's experience and performance. Overall, remuneration policies are subject to the discretion of the Board and can be changed to reflect the competitive market and business conditions when in the interest of the Company and shareholders.

Remuneration Structure

The remuneration structure for key management personnel comprises fixed and variable components which are reviewed annually by the Remuneration Committee.

Total fixed remuneration

Total fixed remuneration (TFR) comprises base salary, employer superannuation contributions and other allowances and non-cash benefits. Each executive's fixed remuneration is reviewed and benchmarked annually in January. In FY14, this process resulted in an increase linked to CPI of each executive's fixed remuneration.

The level of remuneration is set to enable the Company to attract and retain proven performers once they are working within the business.

Variable remuneration

Variable remuneration comprises short term incentives (STIs) linked to Company and individual performance over one year, and long term incentives (LTIs) linked to performance over a period greater than a year.

STI Remuneration

A comprehensive Performance Bonus Policy and Plan (Bonus Plan) was in place for key management personnel for FY14. The Bonus Plan is based on a number of key performance indicators (KPIs) including a subjective performance KPI, safety performance KPI and profitability KPI. The Bonus Plan allows executives and employees to benefit from achieving results that surpass their target KPIs. Conversely, they will only be proportionately rewarded should the KPI targets not be fully achieved.

The following table sets out the proportion of each executive's fixed remuneration which would be payable to the executive under the Bonus Plan if their maximum STI had been achieved in FY14.

Executive	Maximum STI (% of TFR)	Maximum LTI (% of TFR)	Maximum Total Variable Remuneration (% of TFR)
Aaron Begley Managing Director & Chief Executive	15.9	0.0	15.9
Peter Tazewell Chief Financial Officer	14.0	0.0	14.0
Alex Vincan Chief Operating Officer	13.9	0.0	13.9
Paul Riordan[1] General Manager - MOSE	0.0	0.0	0.0
Graeme Rooke General Manager - MOSE	16.7	0.0	16.7

[1] Mr P Riordan did not have STI targets established for FY14. Mr Riordan resigned from Matrix on 13 September 2013.

STI Key Performance Indicators

The STI KPIs comprise a mix of financial and non-financial metrics which are aligned to both the financial success of the Company and its longer term sustainability and are set each year. The KPIs for each executive are tailored to the individual responsibilities for which the executive is responsible but are broadly described in the following categories:

i) Financial: Achievement of predetermined targets for EBITDA and cost management which quantifies the Company's financial performance.

ii) Safety: The Board reviews the Company's safety performance and has established a series of lagging and lead indicators to measure the Company's performance in ensuring a safe workplace. The primary metrics include lost time injuries (LTI), medical treatment injury frequency rate (MTIFR) and hazard reporting, which is a behaviour based lead indicator.

iii) Licence to Operate: Maintaining compliance with the Company's various environmental and quality licences and accreditations is critical to the Company's ongoing success. The Board recognises the role of executives in ensuring compliance with the various regulatory requirements that support the Company's activities.

iv) Stakeholder relations: The Board recognises the importance of engaging with all of the stakeholders with an interest in the business, including shareholders, employees and external communities. Executives have tailored KPIs to support proactive engagement with stakeholders to promote and support the objectives of the organisation.

v) Personal Objectives: The Board recognises each executive contributes to the Company's business strategy differently. Progress of each executive's personal objectives is monitored by the Board and is included in the STI plan to ensure that an appropriate balance is maintained between the Company's short term and long term objectives.

The following table sets out the various KPI categories for the FY14 Bonus Plan and the weightings attributable to each of them. In the Board's view, the KPIs that have been established align the reward of the executives with the interests of shareholders.

KPI	A Begley	P Tazewell	A Vincan	G Rooke
Financial	50.0%	20.0%	22.5%	20.0%
Safety	15.0%	-	15.0%	20.0%
Licence to Operate	5.0%	-	-	20.0%
Stakeholder Relations	15.0%	20.0%	20.0%	10.0%
Specific Objectives	15.0%	60.0%	42.5%	30.0%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**

LTI Remuneration

The Board is considering the introduction of an LTI Plan based on Share Appreciation Rights for key management personnel. Consequently it is expected that each of the named key management personnel will participate in a long term incentive plan to be established by the Company in FY15. Full details of the proposed LTI Plan are anticipated to be presented to shareholders at the 2014 Annual General Meeting.

Options Awarded and Vested during the Year

In FY14 no LTI Plan was in place and consequently no options were issued during the year to the directors or key management personnel, and no options vested during the year (2013: nil). During the year, there were no options exercised or granted to directors or key management personnel as part of their compensation.

There were no other share-based payment arrangements in place as at 30 June 2014.

Relationship between Remuneration and Company Performance

One of the directors remuneration objectives is to align the interests of its key management personnel with the interests of the Company and its shareholders. In FY14 this was achieved through the continuation of the Bonus Plan which placed a material proportion of executives' remuneration at risk, with Bonus Plan KPIs linked to financial performance, safety performance and the achievement of key strategic goals and objectives.

In addition, and as noted elsewhere in this Remuneration Report, the Board plans to introduce an LTI Plan to further align the interests of the Company's key management personnel with its shareholders.

Despite the financial performance of the business being below expectations in FY12 and FY13, cash bonus payments under the Bonus Plan were made to key executives over that period. The Board considers these payments were warranted having regard to the significance of the non-financial objectives that were achieved by the executives in those periods, the relative maturity of the organisation and the material impact on financial performance arising from the construction of the Henderson manufacturing facility. In future the Board anticipates significantly improved alignment between the financial performance of the Company and the rewards conferred on the executives.

Details of Remuneration

Details of the elements comprising the remuneration of the Company's key management personnel are set out in the following table. The table does not include the following components of remuneration because they were not part of the remuneration offered to Executives during FY14:

- Short term cash profit sharing bonuses.
- Payments made to KMP in respect of a period before or after the person held the KMP position.
- Long term incentives distributed in cash.
- Post-employment benefits other than superannuation.
- Share based payments.

Remuneration of Directors' & Key Management Personnel

	Year	Short-term Benefits				Post Employment Benefits	Long Term Benefits	Total	Proportion Performance related
		Salary & fees	Cash bonus[5, 7]	Non-monetary benefits[6]	Total	Super-annuation benefits	Long Service Leave		
		$	$	$	$	$	$	$	%
Executive Director									
AP Begley (MD & CEO)	2014	484,896	71,000	-	555,896	17,775	11,010	584,681	12.1%
	2013	466,666	-	18,112	484,778	16,470	7,778	509,026	-
Non - Executive Directors								-	
PJ Hood	2014	90,000	-	-	90,000	8,325	-	98,325	-
	2013	90,000	-	-	90,000	8,100	-	98,100	-
S Cole[1]	2014	13,750	-	-	13,750	1,272	-	15,022	-
	2013	-	-	-	-	-	-	-	-
CN Duncan	2014	55,000	-	-	55,000	5,088	-	60,088	-
	2013	55,000	-	-	55,000	4,950	-	59,950	-
NL Johnson[2]	2014	21,500	-	-	21,500	15,623	-	37,123	-
	2013	49,500	-	-	49,500	24,938	-	74,438	-
PR Wright	2014	55,000	-	-	55,000	5,088	-	60,088	-
	2013	55,000	-	-	55,000	4,950	-	59,950	-
Executive officers									-
PJ Tazewell (CFO/Company Secretary)	2014	341,979	42,500	-	384,479	16,043		400,522	10.6%
	2013	333,333	48,750	-	382,083	16,470	-	398,553	12.2%
A Vincan (Chief Operating Officer)	2014	361,771	41,875	9,515	413,161	15,962	-	429,122	9.8%
	2013	349,257	35,000	11,387	395,644	16,470	-	412,114	8.5%
P Riordan[3] (General Manager - MOSE)	2014	77,073	-	-	77,073	4,100		81,173	-
	2013	203,251	-	4,468	207,719	16,141	-	223,860	-
G Rooke[4] (General Manager - MOSE)	2014	282,073	-	-	282,073	16,718	-	298,791	-
	2013	-	-	-	-	-	-	-	-
Total	**2014**	**1,783,042**	**155,375**	**9,515**	**1,947,932**	**105,994**	**11,010**	**2,064,936**	**-**
Total	**2013**	**1,602,007**	**83,750**	**33,967**	**1,719,724**	**108,489**	**7,778**	**1,835,991**	**-**

[**]There have been no share based payments to directors and executive officers during the financial year (2013 nil).

1 Mr S Cole was appointed a director on 2 April 2014.

2 Mr NL Johnson resigned as a director on 21 March 2014.

3 Mr P Riordan resigned from the Company on 13 September 2013.

4 Mr G Rooke was appointed to the position of General Manager MOSE on 9 September 2013 and resigned on 17 July 2014.

5 No bonuses pertaining to FY2014 had been paid at the date of this report. The amounts shown above in relation to FY14 have been recommended by the Board and will be paid in the year ending 30 June 2015. The amounts shown above in relation to FY13 were paid in the year ending 30 June 2014

6 Provision of fully maintained Company vehicle.

7 Mr A Begley voluntarily forwent his bonus entitlement in relation to the year ended 30 June 2013.

Key Terms of Employment Contracts

Executive Service Agreements

Name	Commencement date	Term	Notice period
AP Begley Managing Director & CEO	1 September 2012	36 months	3 months
PJ Tazewell CFO & Company Secretary	1 September 2012	36 months	3 months
A Vincan Chief Operating Officer	1 September 2012	36 months	3 months
G Rooke General Manager - MOSE	22 November 2013	n/a	3 months

Key Management Personnel Equity Holdings

The movement during the reporting period in the number of shares in Matrix Composites & Engineering Limited held, directly, indirectly or beneficially, by each key management person, including related parties, is as follow:

2014	Balance at 1 July 2013	Granted as Remuneration	On Exercise of Options	Net Other Change	Balance at 30 June 2014
Directors					
PJ Hood	180,000	-	-	80,000	260,000
AP Begley	3,545,877	-	-	-	3,545,877
S Cole[1]	-	-	-	-	-
CN Duncan	590,429	-	-	-	590,429
NL Johnson[2]	116,176	-	-	n/a*	n/a*
PR Wright	1,343,641	-	-	91,994	1,435,635
Executives					
P Tazewell	-	-	-	-	-
A Vincan	-	-	-	-	-
P Riordan	-	-	-	n/a*	n/a*
G Rooke	-	-	-	15,000	15,000

2013	Balance at 1 July 2012	Granted as Remuneration	On Exercise of Options	Net Other Change	Balance at 30 June 2013
Directors					
PJ Hood	130,000	-	-	50,000	180,000
AP Begley	3,517,763	-	-	28,114	3,545,877
CN Duncan	590,429	-	-	-	590,429
NL Johnson	116,176	-	-	-	116,176
PR Wright	1,343,641	-	-	-	1,343,641
Executives					
P Tazewell	-	-	-	-	-
A Vincan	24,000	-	-	(24,000)	-
P Riordan	20,812	-	-	(20,812)	-

[1] Mr S Cole was appointed as a director on 2 April 2014.

[2] Mr NL Johnson resigned as a director on 21 March 2014.

* These individuals ceased to be key management personnel of the Company by 30 June 2014 and the presentation in this table may not indicate the status of their shareholding.

Introduction

The Board of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") is responsible for the corporate governance of Matrix and its subsidiary companies. The Board determines all matters relating to the strategic direction, corporate governance, policies, practices, management and operations of Matrix with the aim of protecting the interests of its Shareholders and other stakeholders, including employees, customers and suppliers.

The ASX Corporate Governance Council's (Council) "Corporate Governance Principles and Recommendations" (Principles and Recommendations) articulate eight core corporate governance Principles, with commentary about implementation of those Principles in the form of Recommendations.

Under ASX Listing Rule 4.10.3, Matrix is required to provide a statement in its annual report disclosing the extent to which it has followed the Recommendations in the reporting period. Where a Recommendation has not been followed, the fact must be disclosed, together with reasons for departure from the Recommendation. In addition, a number of the Recommendations require the disclosure of specific information in the corporate governance statement of the annual report.

Matrix's corporate governance statement is structured with reference to the Council's second edition of the Principles and Recommendations, which Principles are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision-making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of Shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

Details of Matrix's compliance with the Recommendations for the year ended 30 June 2014 are disclosed in this statement. Unless disclosed below, all Recommendations have applied for the entire financial year ended 30 June 2014.

Statement of Non-Compliance

The Company considers that it has complied with all of the Recommendations other than as set out below:

Recommendation 2.4: The board should establish a Nomination Committee

As at the date of this report, the Board has not established a separate Nomination Committee. The directors consider that the functions of such a committee be reserved for the entire Board at this stage of its public company development.

Recommendation 2.5: The board should disclose the process for evaluating the performance of the board, its committees and individual directors

The process for evaluating the performance of the board, its committees and individual directors involves an internal review of the performance of the board, committees or individual director against its objectives and responsibilities as set out in the relevant committee charter. During the reporting period a formal performance evaluation of each committee has not been conducted.

For further information on the corporate governance policies adopted by Matrix, please refer to the Company's website.

This statement reports on Matrix's key governance principles and practices which were in place throughout the reporting period and as at the date of this report.

Principle 1 - Lay Solid Foundations for Management and Oversight

The Company has established the functions reserved to the Board pursuant to the Board Charter which details the Board's role, powers, duties and functions.

Under the Board Charter, the Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies and practices of the Company, and the establishment of goals for management and the operation of the Company.

Certain functions have been delegated to the executive directors (currently the CEO is the only executive director) under the Board Charter. The executive director's general responsibility is to manage the Company in accordance with the strategy, policies and programs approved by the Board.

The Board has established the following committees to assist in discharging its responsibilities;

i) Audit & Risk Committee

ii) Remuneration Committee

Each committee operates according to its Board approved charter. The responsibilities of each committee are described in more detail elsewhere in this section. Copies of the Board Charter, Code of Conduct, Committee Charters and Corporate Governance Statement are all publicly available on the Company's website.

The process for reviewing the performance of the CEO and other senior executives is disclosed in the Remuneration Report.

Principle 2 - Structure the Board to Add Value

The Board is comprised of three independent, non-executive directors, one non-executive director and one executive director (CEO). The skills, experience and expertise relevant to the position of director held by each director in office at the date of this report are included in the Directors' Report on pages 13 to 15.

The mix of skills, qualifications, experience and expertise which the Board seeks to achieve in its membership includes a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the Company. In assessing the composition of the Board, the Board Charter provides that the directors have regard to the following principles:

i) The Chairperson should be non-executive and independent;

ii) The role of Chairperson and CEO should not be filled by the same person;

iii) Where practical, the majority of the Board should comprise directors who are non-executive and independent; and

iv) The Board should represent an appropriate mix of skills and expertise considered of benefit to the Company having regard to the size and resources available to the Board.

The Company's constitution sets the Board size between three and 10 Directors. The Board considers that collectively, the current five members have the range of skills, knowledge and experience necessary to direct the Company.

Independence of Directors'

A director is considered to be independent where he or she is a non-executive director, is not a member of management and is free of any relationship that could, or could reasonably be perceived to, materially interfere with the independent exercise of their judgment. The existence of the following relationships may affect independent status, if the director:

- Is a substantial shareholder of Matrix or an officer of, or otherwise associated directly with a substantial shareholder of Matrix (as defined in section 9 of the Corporations Act);
- Is employed, or has previously been employed in an executive capacity by the Matrix Group, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- Has, within the last three years, been a principal of a material professional adviser or a material consultant to the Matrix Group, or an employee materially associated with the services provided;
- Is a material supplier or customer of the Matrix Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- Has a material contractual relationship with the Matrix Group other than as a director.

Directors are expected to bring independent views and judgement to the Board's deliberations. The Board Charter requires that at least one half of the directors of Matrix will be non-executive (preferably independent) directors and that the Chair will be an independent, non-executive director.

In the context of directors independence, "materiality" is considered from both the Company and individual directors perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than five per cent of the appropriate base amount, being the monetary value of the transaction or item in question. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 per cent of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it.

In accordance with the definition of independence above, and the materiality thresholds set, the Board reviewed the positions and associations of each of the five directors in office at the date of this statement and considers that three of the directors are independent as follows:

Name	Position
Peter Hood	Non-Executive Chairperson
Steven Cole	Non-Executive Director
Craig Duncan	Non-Executive Director

Accordingly, the majority of Board is independent. To facilitate independent judgement in decision-making, each director has the right to seek independent professional advice at the Company's expense. However, prior approval from the Chair is required, which may not be unreasonably withheld.

The term in office held by each director in office at the date of this statement is as follows:

Name	Term in office
Peter Hood	three years
Aaron Begley	14 years
Steven Cole	four months
Craig Duncan	six years
Paul Wright	seven years

Retirement and Re-election of Directors'

Rule 11.3 of the Constitution requires that at each annual general meeting of the Company, one third (or the number nearest to but not exceeding one third) of the directors and any director who has held office for three years or more must retire from office and no director may retain office for more than three years without submitting himself or herself for re-election. Rule 11.4 of the Constitution provides that a retiring director is eligible for re-election without the necessity of giving any previous notice of his or her intention to submit him or herself for re-election. The Managing Director is not subject to retirement by rotation. The resolution for re-election of a director is included in the Company's notice of annual general meeting and voted upon by Shareholders at that meeting.

Independent Professional Advice

Under the Board Charter, all directors are entitled to obtain independent external professional advice at the Company's expense, subject to prior consultation with the Chairperson.

Director Remuneration

It is Matrix's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating directors fairly and appropriately with reference to relevant market conditions.

For a full discussion of Matrix's remuneration philosophy and framework and the remuneration received by directors in the current period please refer to the remuneration report, which is contained at pages 25 to 30 of the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non- executive directors.

Selection and Appointment of New Directors'

Matrix's policy for the nomination, selection and appointment of new directors is set out in the Board Charter and requires consideration be given to the ability of a potential appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

Any candidate for election as a director, which is not an existing director seeking re-election, must deliver to the Company, at its registered office, written notice consenting to his or her nomination and signifying his or her candidature for the office or the intention of a shareholder to propose them. The consent to act as a director must include all details required by the Corporations Act and Listing Rules.

The Board may also appoint a director to fill a casual vacancy, or as an addition to the existing directors at any time, provided that any such director holds office only until the next annual general meeting, is eligible for re-election at the next general meeting and will not result in the total number of directors exceeding ten.

Board Meetings

During the financial year the Board held nine Board meetings, two Audit and Risk Committee meetings and two Remuneration Committee meetings. Details of the directors attendance at these meetings are set out on page 24 of the Director's Report.

Company Secretary

The appointment and removal of a company secretary is a matter for decision by the Board. The current company secretary is Mr Peter Tazewell.

Nominations Committee

As at the date of this report, the Board has not established a separate Nominations Committee. The directors consider that the functions of such a committee be reserved for the entire Board at this stage of its public company development.

Board and Director Performance Evaluation

In the absence of a formal Nominations Committee, the Chairperson of the Board is responsible for conducting individual performance evaluations of the Board, its committees and individual Directors. In December 2013 the Board participated in a Board Performance Review and Skills Assessment Analysis conducted by Effective Governance Pty Ltd. Based on the findings of this review the Board has identified practices, skills and competencies that can be improved through director development and rotation.

Principle 3 - Promote Ethical & Responsible Decision Making

Codes of Conduct

The Board considers it essential that directors, management and employees of the Group employ sound corporate governance practices in carrying out their duties and responsibilities. In particular, the Board has responsibility for developing and monitoring:

- Expectations with regard to ethical conduct;
- Periods during which Directors may deal in the securities of the Company and procedures for notification of any dealings;
- Procedures to be adopted in respect of potential conflicts of interest; and
- Procedures for prior approval of contracts with directors.

Matrix has established codes of conduct to:

- Provide a framework for decisions and actions in relation to ethical conduct which underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders;
- Articulate the practices necessary to fulfil its legal obligations and the reasonable expectations of its stakeholders; and
- Set out the responsibilities and accountabilities of individuals for reporting and investigating reports of unethical practices.

These codes of conduct, entitled "Board Code of Conduct" and "Corporate Code of Conduct" are publicly available on the Company's website.

Diversity Policy

Matrix recognises that a talented and diverse workforce is a key competitive advantage and that Matrix's success is a reflection of the quality and skills of its people. Specifically, the Company provides equal opportunities in respect to employment and employment conditions and does not discriminate on the basis of a candidate's gender, age, ethical or cultural background. Matrix is committed to promoting a workplace that recognises and embraces the skills, characteristics and experiences that people bring to the Group.

The Board has adopted a Diversity Policy, which is publicly available on the Company's website.

Gender Diversity

Matrix has established a medium term target of 20 per cent of all employees to be female in order to promote gender diversity within the Company.

As at 30 June 2014 all five Board positions (100 per cent) were held by men.

Of seven senior executive positions, six (85.7 per cent) were held by men and one (14.3 per cent) was held by a woman. Of 383 employees, 62 (15.7 per cent) were women and 332 (84.3 per cent) were men. As at 30 June 2014, the proportion of women and men employed by the Matrix Group is set out in the table below:

	Number of Employees				
	Full time	**Part time**	**Casual**	**Total**	**Proportion**
Female	57	3	2	62	15.7
Male	326	2	4	332	84.3
Total	**383**	**5**	**6**	**394**	**100.0**

Principle 4 - Safeguard Integrity in Financial Reporting

Audit & Risk Committee

The purpose of the Audit & Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.

The Board has established an Audit and Risk Committee that operates under a charter approved by the Board. The purpose of the Audit and Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.

The Audit and Risk Committee comprises the following members:

- Craig Duncan (Chair)
- Peter Hood
- Paul Wright

Mr Duncan and Mr Hood are assessed by the Board as independent.

The Company's external auditors, other directors, CEO, CFO/Company Secretary and senior executives may be invited to committee meetings at the discretion of the committee.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, please refer to page 24 of the Directors' Report. For details of the respective experience and qualifications of Committee Members, please refer to page 13 to 15 of the Directors' Report.

The Charter of the Audit and Risk Committee is publicly available on the Company's website.

External Auditor

The Audit and Risk Committee is responsible for recommending the appointment and evaluation of the Company's external auditors on a regular basis, and considers whether it is appropriate to tender the audit as it deems necessary. The current auditors of Matrix were appointed on 10 February 2011. The Audit and Risk Committee has not considered the issue of auditor selection, appointment and rotation in the last 12 months. Matrix expects to implement a formal written policy regarding auditor selection, appointment and rotation over the next 12 months.

The performance of the external auditor is reviewed on an annual basis by the Audit & Risk Committee and recommendations are made to the Board.

Principle 5 - Making Timely and Balanced Disclosure

Continuous Disclosure

To ensure compliance with the ASX Listing Rules disclosure requirements and accountability at a senior management level for that compliance, the Board has established policies and procedures that are incorporated into the Company's corporate governance plan. Matrix has established written policies designed to ensure:

- Compliance with ASX Listing Rule disclosure; and
- Accountability at a senior executive level for that compliance.

The relevant policy, entitled "Continuous Disclosure" is publicly available on the Company's website.

Securities Trading Policies

The Company has established a policy concerning trading in its securities by Directors, senior executives and employees. This policy, entitled "Guidelines for Buying and Selling Securities" is publicly available on the Company's website.

Principle 6 - Respect the Rights of Shareholders

The Company is committed to informing shareholders of all major developments affecting the operations of the Company and the state of its affairs. The Company has adopted a Communications Policy to ensure that the shareholders and other stakeholders are informed of all major developments affecting the Company's state of affairs.

The policy, entitled "Shareholder Communications Strategy", is publicly available on the Company's website.

Principle 7 - Recognise and Manage Risk

Risk Management

Matrix recognises the importance of risk management and has a formal risk management framework, including policies for the oversight and management of material business risks. The Matrix Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Committee responsibility to:

- Oversee the Company's risk management systems, practices and procedures to ensure effective risk identification and management and compliance with internal guidelines and external requirements;
- Assist management to determine the key risks to the businesses and prioritise work to manage those risks; and
- Review reports by management on the efficiency and effectiveness of risk management and associated internal compliance and control procedures.

Management is responsible for identifying and evaluating risks within their area of responsibility, implementing agreed actions to manage risk and for reporting as well as monitoring any activity or circumstance that may give risk to new or changed risks.

The Board has required management to design and implement a risk management and internal control system to manage Matrix's material business risks, and to report to it on whether those risks are being managed effectively.

Matrix maintains a risk register of its identified business risks. During the year Matrix completed an independent review of its risk management processes and is in the process of establishing an enterprise wide risk management framework.

In summary, the Matrix risk management and internal control system comprises:

- Identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- Formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls;
- Monitoring the performance of and improving the effectiveness of risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

The Board receives regular compliance reports from management in relation to principal financial and operational compliance matters and has commissioned an independent review of internal controls from Deloitte Touche Tohmatsu. The Board has received a formal report from management under Recommendation 7.2 as to the effectiveness of Matrix's management of its material business risks with respect to the reporting period. Upon due consideration of Matrix's risk management and internal control system, management formally reported that, as at 30 June 2014, Matrix maintains a risk management and internal control system that is sufficient to manage its material business risks.

In addition, the Board has received a written assurance from the Chief Executive Officer and the Chief Financial Officer that, to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on their evaluation of the Company's system of risk management and internal control and that, as at 30 June 2014, the system is operating effectively in relation to financial reporting risks. The Board understands that these assurances regarding the internal control systems provide a reasonable level of assurance only and do not imply a guarantee against adverse events, or losses, or more volatile outcomes arising in the future and that the design and operation of the internal control systems relating to financial reporting has been assessed primarily through the use of declarations by process owners who are responsible for those systems.

The Group Risk Management Policy is publicly available on the Company's website.

Principle 8 - Remunerate Fairly and Responsibly

Role of the Remuneration Committee

The Board has established a Remuneration Committee that operates under a charter approved by the Board. The purpose of the Remuneration Committee is to provide advice, recommendations and assistance to the Board with respect to remuneration matters. The Remuneration Committee comprises the following members:

- Peter Hood (Chair)
- Craig Duncan
- Steven Cole

Mr Hood, Mr Duncan and Mr Cole are assessed by the Board as independent.

For details of Directors attendance at meetings of the Remuneration Committee, please refer to page 24 of the Directors' Report. For details of the respective experience and qualifications of Committee Members, please refer to page 13 to 15 of the Directors' Report.

The Remuneration Committee is responsible for:

- Reviewing and approving the executive remuneration policy;
- Ensuring the executive remuneration policy demonstrates a clear relationship between executive performance and remuneration;
- Recommending to the Board the remuneration of executive directors;
- Fairly and responsibly rewarding executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectation in the market;
- Reviewing the Company's recruitment, retention and termination policies;
- Reviewing and approving the remuneration of direct reports to the Chief Executive Officer, and as appropriate other senior executives; and
- Reviewing and approving any equity based plans and other incentive schemes.

The Charter of the Remuneration Committee is publicly available on the Company's website.

The Company clearly distinguishes the structure of non-executive director remuneration from that of executive directors and senior executives. Non-executive directors are paid fixed fees in the form of cash benefits and superannuation contributions; they do not receive any variable, performance based remuneration.

Evaluation of the Performance of Management

The performance of key executives is reviewed internally on an annual basis pursuant to a Group wide performance planning and review process. The outcome of the review then provides the basis for a professional development plan for the key executives. The performance of all senior executives with greater than 12 months' service has been evaluated during the reporting period in accordance with this process.

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Aaron P Begley
Managing Director and Chief Executive Officer
Perth, 13 August 2014

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

Tel: +61 (0) 8 9365 7000
Fax: +61 (8) 9365 7001
www.deloitte.com.au

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

13 August 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 audit of the financial statements of Matrix Composites & Engineering Ltd for the financial year ended 30 June 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 audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants

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Consolidated Statement of Profit or Loss
For the Year Ended 30 June 2014

	Note	2014	2013
		$	$
Continuing operations			
Revenue	3	158,580,865	145,487,485
Cost of sales		(136,924,976)	(131,004,843)
Gross profit		**21,655,889**	**14,482,642**
Other income	3	664,381	846,931
Other losses	3	(1,524,980)	(4,278,237)
Administration expenses		(7,945,639)	(7,439,672)
Finance costs		(2,002,513)	(1,583,887)
Marketing expenses		(5,742,678)	(5,658,697)
Research expenses		(401,193)	(540,362)
Profit/(loss) before income tax	4	**4,703,267**	**(4,171,282)**
Income tax (expense)/benefit	6	(1,685,263)	1,224,144
Profit/(loss) for the year from continuing operations		**3,018,004**	**(2,947,138)**
Profit/(loss) attributable to :			
Owners of the Company		3,018,004	(2,947,138)
Non-controlling interest		-	-
		3,018,004	**(2,947,138)**
Profit/(loss) per share			
Basic profit/(loss) per share (cents)	29	3.2	(3.1)
Diluted profit/(loss) per share (cents)	29	3.2	(3.1)

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

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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 30 June 2014

	2014	2013
	$	$
Profit/(loss) for the year	3,018,004	(2,947,138)
Other comprehensive income		
Items that may be reclassified subsequent to profit or loss:		
Net foreign currency translation differences	74,543	26,220
	74,543	**26,220**
Change in fair value of cash flow hedges	2,042,543	(2,137,637)
Income tax (expense)/benefit	(612,763)	641,291
	1,429,780	**(1,496,346)**
Other comprehensive income/(loss) for the year net of tax	1,504,323	(1,470,126)
Total comprehensive income/(loss) for the year	**4,522,327**	**(4,417,264)**
Total comprehensive income/(loss) attributable to:		
Owners of the parent entity	4,522,327	(4,417,264)
Non-controlling interest	-	-
Total comprehensive income/(loss) for the year	**4,522,327**	**(4,417,264)**

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

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Consolidated Statement of Financial Position
As at 30 June 2014

	Note	2014	2013
		$	$
CURRENT ASSETS			
Cash and cash equivalents	7	19,546,289	15,960,631
Trade and other receivables	8	33,484,070	26,813,423
Inventory	9	18,758,132	23,597,244
Other current assets	10	555,300	1,323,046
Financial assets	12	322,947	-
Income tax assets	17	-	4,571
TOTAL CURRENT ASSETS		**72,666,738**	**67,698,915**
NON CURRENT ASSETS			
Trade and other receivables	8	-	9,315,364
Property, plant and equipment	11	99,851,691	104,584,765
Intangible assets	13	8,470,860	8,306,773
Deferred tax assets	6	11,053,809	13,613,322
TOTAL NON CURRENT ASSETS		**119,376,360**	**135,820,224**
TOTAL ASSETS		**192,043,098**	**203,519,139**
CURRENT LIABILITIES			
Trade and other payables	14	19,983,602	23,404,957
Progress claims and deposits	15	16,681,890	17,560,890
Financial liabilities	16	13,354,189	11,680,094
Provisions	18	1,513,932	1,399,137
TOTAL CURRENT LIABILITIES		**51,533,613**	**54,045,078**
NON CURRENT LIABILITIES			
Financial liabilities	16	-	13,137,140
Deferred tax liabilities	6	3,330,619	3,602,360
Provisions	18	366,831	444,853
TOTAL NON CURRENT LIABILITIES		**3,697,450**	**17,184,353**
TOTAL LIABILITIES		**55,231,063**	**71,229,431**
NET ASSETS		**136,812,035**	**132,289,708**
EQUITY			
Issued capital	19	111,784,863	111,784,863
Reserves	20	1,190,332	(313,991)
Retained earnings		23,847,043	20,829,039
Equity attributable to owners of the Company		136,822,238	132,299,911
Non-controlling interest		(10,203)	(10,203)
TOTAL EQUITY		**136,812,035**	**132,289,708**

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

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Consolidated Statement of Cash Flow
For the Year Ended 30 June 2014

	Note	2014	2013
		$	$
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Receipts from customers		174,009,018	135,676,726
Payments to suppliers and employees		(155,987,132)	(136,864,384)
Interest received		60,964	191,526
Finance costs paid		(2,002,513)	(1,608,473)
Net receipt from tax		381,550	415,580
Net cash from/(used in) operating activities	21 (b)	**16,461,887**	**(2,189,025)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		17,005	30,051
Payments for property, plant and equipment		(7,244,786)	(4,911,512)
Payments for capitalised development costs		(173,265)	(727,375)
Net cash used in investing activities		**(7,401,046)**	**(5,608,836)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from issue of share capital and exercise of options (net of capital raising costs)		-	(39,798)
Repayment of borrowings		(5,475,183)	(6,123,042)
Net cash used in financing activities		**(5,475,183)**	**(6,162,840)**
Net increase/(decrease) in cash and cash equivalents		**3,585,658**	**(13,960,701)**
Cash and cash equivalents at 1 July		15,960,631	29,921,332
Cash and cash equivalents at 30 June	21(a)	**19,546,289**	**15,960,631**

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

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Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2014

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedge 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 year	-	3,018,004	-	-	-	-	3,018,004	-	3,018,004
Other comprehensive income									
Foreign currency translation	-	-	-	-	-	74,543	74,543	-	74,543
Change in fair value of cash flow hedges net of tax	-	-	-	-	1,429,780	-	1,429,780	-	1,429,780
Revaluation of freehold property net of tax	-	-	-	-	-	-	-	-	-
	-	**3,018,004**	**-**	**-**	**1,429,780**	**74,543**	**4,522,327**	**-**	**4,522,327**
Transactions with owners, recorded directly in equity									
Issue of shares net of costs and tax	-	-	-	-	-	-	-	-	-
Dividends paid to equity holders	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Balance at 30 June 2014	**111,784,863**	**23,847,043**	**273,000**	**787,664**	**(17,220)**	**146,888**	**136,822,238**	**(10,203)**	**136,812,035**

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

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Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2014

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedge 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									
Loss for the year	-	(2,947,138)	-	-	-	-	(2,947,138)	-	(2,947,138)
Other comprehensive income									
Foreign currency translation	-	-	-	-	-	26,220	26,220	-	26,220
Change in fair value of cash flow hedges net of tax	-	-	-	-	(1,496,346)	-	(1,496,346)	-	(1,496,346)
Revaluation of freehold property net of tax	-	-	-	-	-	-	-	-	-
	-	**(2,947,138)**	**-**	**-**	**(1,496,346)**	**26,220**	**(4,417,264)**	**-**	**(4,417,264)**
Transactions with owners, recorded directly in equity									
Issue of shares net of costs and tax	(27,859)	-	-	-	-	-	(27,859)	-	(27,859)
Dividends paid to equity holders	-	-	-	-	-	-	-	-	-
	(27,859)	**-**	**-**	**-**	**-**	**-**	**(27,859)**	**-**	**(27,859)**
Balance at 30 June 2013	**111,784,863**	**20,829,039**	**273,000**	**787,664**	**(1,447,000)**	**72,345**	**132,299,911**	**(10,203)**	**132,289,708**

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

Matrix Composites & Engineering Ltd (the Company) is a limited liability company incorporated in Australia. The addresses of its registered office and principal places of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in Note 2.

Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 13 August 2014.

Basis of Preparation

The consolidated financial statements have 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.

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 (the AASB) that are relevant to their operations and effective for the current reporting period.

In the current year, the Group has applied for the first time AASB 10, AASB 12, AASB 13, AASB 119 together with the amendments to AASB 10 and AASB 12 regarding the transitional guidance. AASB11, AASB 127 (as revised in 2011) and AASB 128 (as revised in 2011) are not applicable to the Group as they deal only with separate financial statements.

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

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

Standard/Interpretation	Comments
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	Requirements for consolidated financial statements. Defines the principles of control.
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
AASB 13 'Fair Value Measurement' and related AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	The AASB defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value.
AASB 119 'Employee Benefits (2011)' and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	An amended version of AASB 119 'Employee Benefits' with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	Early adoption is not allowed. Amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs.
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	Amends AASB 7 'Financial Instruments: Disclosures' to require an entity to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	Amend a number of pronouncements as a result of 2009-2011 annual improvements cycle. The amendments to each standard may be adopted separately.
AASB 2012-9 'Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039'	The objective of this Standard is to make an amendment to AASB 1048 Interpretation of Standards as a consequence of the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia.
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]	The transition guidance amendments to AASB 10 'Consolidated Financial Statements' and related Standards and interpretations clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

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 for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
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	30 June 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	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non- Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
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 2015	30 June 2015 30 June 2016
AASB 2014-1 Amendments to Australian Accounting Standards	PART A Annual Improvements 2010-2012 and 2011-2013 Cycles 1 July 2014 PART B – Defined Benefit Plans: Employee Contributions (Amendments to AASB 119) 1 July 2014 PART C – Materiality 1 July 2014 PART D – Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts 1 January 2016 PART E – Financial Instruments 1 January 2015	30 June 2015 30 June 2015 30 June 2015 30 June 2017 30 June 2016

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued. No significant impact expected on the accounting policies.

Affected Standards and Interpretations	Application date (reporting period commences on or after)	Application date for Group
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	30 June 2017
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	30 June 2017
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(a) Basis of Consolidation

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including those relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the chief operating decision makers (being the Board of Directors) for which discrete financial information is available.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year end adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the end of the reporting period.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Current and deferred tax is recognised in the profit or loss except where it relates to items that may be recognised directly in equity or in other comprehensive income.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and where they relate to income taxes levied by the same tax authority on the same or different tax entities that intend to settle current tax liabilities and assets on a net basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Matrix Composites & Engineering Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

(c) Income Tax

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Matrix Composites & Engineering Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

(d) Inventories

Inventories include raw materials, work in progress and finished goods, and are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate share of manufacturing overheads. Costs are assigned on the basis of weighted average costs.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Upon revaluation of land and buildings, any revaluation increment is credited to the asset revaluation reserve recognised in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and Equipment

Plant and equipment is measured at cost basis less accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs (where such assets are qualifying assets) and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

(e) Property, Plant and Equipment

Depreciation

The depreciable amount of all non current assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate (%)
Buildings	2.5
Plant and equipment	7.5 – 30.0
Motor vehicles	22.5
Office equipment	11.25 – 25.0
Computer equipment	37.50 – 50.0

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Software is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful life of three to five years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or Groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(g) Leases

Leases of non-current assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the consolidated Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset, or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(h) Financial Instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial Assets at Fair Value through Profit and Loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in profit or loss in the period in which they arise.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Held-to-Maturity Investments

These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial Liabilities

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method.

(h) Financial Instruments

Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments (including forward exchange contracts, currency options, call/put options and interest rate swaps) to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently measured at fair value.

Derivative financial instruments that do not qualify for hedge accounting are remeasured to fair value with changes in fair value recognised immediately in the income statement.

The Group has entered into various put and call currency option transactions as part of its overall hedging strategy. Details of call options outstanding at 30 June 2014 are included in Note 22. There were no put option positions at 30 June 2014. Movements in the value of these derivative instruments are recognised immediately in profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges, if expected to be highly effective in achieving offsetting changes in the fair value or cash flows, are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash Flow Hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction and that could affect profit and loss. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income and accumulated in equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, amounts recognised in equity are transferred immediately to profit or loss.

The Group tests each of the designated cash flow hedges for effectiveness at the inception of the hedge and then at each reporting date both prospectively and retrospectively.

For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is taken immediately to profit or loss.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of Financial Assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset not carried at fair value through profit or loss has been impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred, and where the decline in fair value is considered significant or prolonged. Impairment losses are recognised in profit or loss.

(i) Impairment of Non-Financial Assets other than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

(i) Impairment of Non-Financial Assets other than Goodwill

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. The Group assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and service delivery performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

The carrying amounts of all assets, other than inventory, financial assets and deferred tax assets, are reviewed half-yearly to determine whether there is indication of an impairment loss. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(j) Foreign Currency Transactions and Balances

Transaction and Balances

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Australian dollars ('$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the translation of monetary and non-monetary items are recognised in profit or loss, except where recognised in other comprehensive income as a qualifying cash flow or net investment hedge.

(k) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Short-term employee benefits have been measured at nominal value, plus related on-costs. Long-term employee benefits have been measured at the present value of the estimated future cash outflows to be made for those benefits. Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to contributions.

(l) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(n) Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Risks and rewards are assessed in relation to the:

i) Delivery of the goods to the customers;

ii) Receipt of payment from the customer;

iii) Achieving a relevant invoicing milestone under a contract with the customer; or

iv) Contractual terms.

Ex-Works Revenue

Revenue in relation to ex-works contracts are recognised when the goods are produced and contract terms are fulfilled.

Contract Revenue

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be relied upon or estimated. Where it is probable that a loss will arise from a contract, the excess of total expected contract costs over total expected contract revenue is recognised as an expense immediately. Where the contract outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are likely to be recoverable.

Rendering ofC

Revenue from consulting services is recognised when the services have been provided and where the amount can be reliably estimated and is considered recoverable.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(o) Cost of Sales

The cost of manufactured products includes direct materials, direct labour and manufacturing overheads.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Earnings per Share

Basic earnings per share is calculated as net profit or loss attributable to members of the company divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to members of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(r) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year

(s) Significant Accounting Estimates and Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements.

The following critical accounting policies were identified as requiring significant judgements, estimates and assumptions.

i. Determination of Percentage of Completion of Contracts

Contract revenue is recognised as revenue in profit or loss using the percentage of completion method in the reporting periods in which the work is performed. The percentage complete is calculated based on:

- Actual costs over the sum of actual plus projected costs to complete the contract, or
- In the case where the Group participates in joint contracts and the Group's costs are not representative of overall contract costs, based on the percentage of the Group's costs to the total estimated cost for the Group associated with that project, or
- In the case where there is an independent assessment of the percentage complete, based on the independent assessment.

Contract costs are recognised as an expense in profit or loss in the reporting periods in which the work to which they relate is performed. Any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately.

ii. Impairment of goodwill (Refer to Note 13)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

iii. Valuation of financial instruments

As described in note 22, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 22 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(s) Significant Accounting Estimates and Judgements

iv. Taxes (Refer to Note 6)

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2. OPERATING SEGMENTS

In conjunction 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

Up to 30 June 2014, 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.

Following a reorganisation on 1 July 2014, the functions of the MOSE business unit have been integrated with MCM. Effective 1 July 2014, MOSE is no longer monitored as a separate business unit.

2. OPERATING SEGMENTS

Segment Revenues and Results

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

	Year ended 30 June 2014			
	MCM	MOSE	Group Eliminations	MCE Group
	$	$	$	$
Revenue	140,684,959	17,895,906	-	158,580,865
EBITDAF[1]	21,501,652	(1,457,520)	-	20,044,132
Foreign exchange	(1,388,510)	(86,586)	-	(1,475,096)
EBITDA[2]	20,113,142	(1,544,106)	-	18,569,036
Depreciation and amortisation	(10,950,628)	(973,592)	-	(11,924,220)
EBIT	9,162,514	(2,517,698)	-	6,644,816
Net finance costs	(1,854,572)	(86,977)	-	(1,941,549)
Profit/(loss) before tax (continuing operations)	**7,307,942**	**(2,604,675)**	**-**	**4,703,267**

	30 June 2014			
Total assets	185,128,464	13,438,120	(6,523,486)	192,043,098
Total liabilities	49,902,270	5,329,092	(299)	55,231,063

	Year ended 30 June 2013			
	MCM	MOSE	Group Eliminations	MCE Group
	$	$	$	$
Revenue	120,965,233	24,522,252	-	145,487,485
EBITDAF[1]	8,556,119	1,082,910	-	9,639,029
Foreign exchange	(2,093,784)	(68,030)	-	(2,161,814)
EBITDA[2]	6,462,335	1,014,880	-	7,477,215
Depreciation and amortisation	(9,357,499)	(898,637)	-	(10,256,136)
EBIT	(2,895,164)	116,243		(2,778,921)
Net finance costs	(1,273,164)	(119,197)	-	(1,392,361)
Loss before tax (continuing operations)	**(4,168,328)**	**(2,954)**	**-**	**(4,171,282)**

	30 June 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 represents earnings before interest, taxes, depreciation, amortisation and foreign exchange.
[2] EBITDA represents earnings before interest, taxes, depreciation and amortisation.

3. REVENUE

	2014	2013
	$	$
Manufacturing revenue	140,684,959	120,965,233
Contract revenue	17,895,906	24,522,252
	158,580,865	**145,487,485**
Other Income		
Interest received	60,964	191,526
Sundry income	99,120	462,598
Import duties recovery	297,626	-
Financial instrument revaluation gain	206,671	192,807
	664,381	**846,931**
Other losses		
Foreign exchange loss	(1,475,096)	(2,161,814)
Fixed assets disposals/write off	(44,258)	(553)
Superannuation penalties	-	(2,000,000)
Other expenses	(5,626)	(115,870)
Total other expenses	**(1,524,980)**	**(4,278,237)**

The Group generates revenue in foreign currencies. As part of its risk management practices Matrix hedges a portion of this revenue.

4. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is stated after charging the following expenses:

	2014	2013
	$	$
Depreciation and amortisation	11,924,220	10,256,136
Employee benefits expense	39,989,887	37,716,203
Finance costs	2,002,513	1,583,887

5. AUDITOR'S REMUNERATION

	2014	2013
	$	$
Auditor of the parent entity (Deloitte Touche Tohmatsu)		
Audit and review fees for the year	128,770	158,150
Taxation and other advisory services	18,375	31,248
Internal controls review	34,181	-
	181,326	**189,398**

6. INCOME TAX EXPENSE/(BENEFIT)

	2014	2013
The components of tax expense/(benefit) comprise:	$	$
Current tax	538,919	124,894
Deferred tax	516,459	(1,349,038)
De-recognition of deferred tax asset	629,885	-
	1,685,263	**(1,224,144)**

The prima facie tax payable/(receivable) on the operating profit/(loss) is reconciled to the income tax provided in the account as follows:	2014	2013
	$	$
Prima facie tax payable/(receivable) on operating profit/(loss) before income tax at 30% (2013: 30%)	1,410,980	(1,251,384)
Non allowable Items	(162,508)	1,219,688
Research & development tax concession	(226,892)	(348,000)
Under/(over) provision prior year	33,798	(844,448)
De-recognition of deferred tax asset	629,885	-
Income tax expense/(benefit)	**1,685,263**	**(1,224,144)**
Average weighted tax rate	35.9%	29.3%

Reconciliations

i. Net movements	2014	2013
The overall movement in the deferred tax account is as follows:	$	$
Balance at 1 July	10,010,962	8,041,781
Recognised in other comprehensive income	(612,763)	620,143
Recognised in income statement	(1,045,124)	1,349,038
De-recognition of deferred tax asset	(629,885)	-
Balance at 30 June	**7,723,190**	**10,010,962**

ii. Deferred tax liability

The movement in deferred tax liability for each temporary difference during the year is as follows:	2014	2013
	$	$
Reserves		
Balance as at 1 July	814,497	814,497
Recognised in other comprehensive income	-	-
Balance as at 30 June	814,497	814,497
Other		
Balance at 1 July	2,787,863	2,197,272
Recognised in income statement	(271,741)	590,591
Balance at 30 June	2,516,122	2,787,863
Total	**3,330,619**	**3,602,360**

6. INCOME TAX BENEFIT

Reconciliations

iii. Deferred tax assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

	2014	2013
	$	$
Balance at 1 July	13,613,322	11,053,550
Recognised in income statement	(1,316,865)	1,939,629
Recognised in other comprehensive income	(612,763)	620,143
De-recognition of deferred tax asset	(629,885)	-
Balance at 30 June	**11,053,809**	**13,613,322**

The tax benefit of the above deferred tax assets will only be obtained if:

- The Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised.
- The Company continues to comply with conditions for deductibility imposed by law; and
- No changes in income tax legislation adversely affect the Company in utilising the benefits.

Relevance of Tax Consolidation to the Group

The Company and its wholly-owned Australian resident entities formed a tax-consolidated Group as at 1 July 2010. From this date the Group has been taxed as a single entity. The head entity within the tax-consolidated Group is Matrix Composites & Engineering Ltd. As a result of entering into a tax consolidation Group, the Company has reset its tax base of assets and liabilities resulting in an unrecognised deferred tax asset of $1.4 million.

7. CASH AND CASH EQUIVALENTS

	2014	2013
	$	$
Cash on hand	4,443	2,178
Cash management accounts	5,738,574	4,841,186
Short-Term Bank Deposits	-	1,242,049
US Dollar Account	13,803,272	9,874,489
Other	-	729
	19,546,289	**15,960,631**

The effective interest rate on short-term bank deposits was 0.02% (2013: 0.02%). The effective interest rate is adversely impacted by the high level of USD holdings.

8. TRADE AND OTHER RECEIVABLES

	2014	2013
CURRENT	**$**	**$**
Trade receivables (i)	19,989,657	17,220,357
Other receivables – Trade (ii)	8,974,191	8,978,253
Other receivables – Restricted cash (iii)	3,662,420	-
GST refundable	857,802	614,813
	33,484,070	**26,813,423**
NON-CURRENT		
Other receivables – Restricted cash (iii)	-	9,315,364

(i) The trade receivable's standard terms and conditions require customers to pay 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 which may be subjected to interest charges at management's discretion.

(ii) Other current receivables – Trade relate to products completed which are yet to be invoiced, pending customer's approval under existing commercial arrangements.

(iii) Other current receivables – Restricted cash include cash backing deposits associated with the issue of performance bonds to a major customer.

9. INVENTORY

	2014	2013
	$	**$**
Raw Materials at cost	9,493,052	14,801,690
Work in progress at cost	3,410,894	2,635,092
Finished goods at cost	5,854,186	6,160,462
	18,758,132	**23,597,244**

10. OTHER CURRENT ASSETS

	2014	2013
	$	**$**
Prepayments	555,300	1,323,046

11. PROPERTY, PLANT AND EQUIPMENT

	2014	2013
	$	$
Land and Building/Leasehold improvements:		
Land at independent valuation[1]	3,406,700	3,406,700
Building at independent valuation[1]	1,243,300	1,243,300
Buildings[2]	34,817,462	34,817,462
Other leasehold improvements[3]	701,772	691,556
Less: accumulated depreciation	(3,133,593)	(2,048,441)
	37,035,641	**38,110,577**
Plant and Equipment:		
Plant and equipment at cost	96,451,954	91,312,774
Less: accumulated depreciation	(36,156,850)	(25,747,517)
	60,295,104	**65,565,257**
Motor Vehicles:		
Motor vehicles at cost	136,233	166,209
Less: accumulated depreciation	(104,753)	(114,118)
	31,480	**52,091**
Office Equipment:		
Office equipment at cost	456,885	473,881
Less: accumulated depreciation	(261,921)	(207,445)
	194,964	**266,436**
Computer Equipment:		
Computer equipment at cost	2,228,630	2,120,054
Less: accumulated depreciation	(1,973,753)	(1,635,137)
	254,877	**484,917**
Assets under construction:		
Plant and equipment in progress at cost	2,039,625	105,487
	2,039,625	105,487
	99,851,691	**104,584,765**

[1] The land and buildings located at 185 Camboon Road, Malaga were independently valued by Knight Frank in June 2014.
[2] Relates to the Group's Henderson manufacturing and office complex.
[3] Leasehold improvements located at 42 Truganina Road, Malaga.

Land and Building Valuation

The Group's land and buildings located at 185 Camboon Road, Malaga are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 30 June 2014 and 30 June 2013 were performed by Knight Frank Australia Pty Ltd, independent valuers not related to the Group. Knight Frank Australia Pty Ltd are members of the Institute of Valuers of Australia, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

11. PROPERTY, PLANT AND EQUIPMENT

Land and Building Valuation

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. There has been no change to the valuation technique during the year.

Within the fair value hierarchy these assets are Level 2. There were no transfers between hierarchy levels during the period.

Assets Pledged as Security

Land and buildings with a carrying amount of approximately $37,035,641 (2013: $38,110,577) have been pledged to secure borrowings of the Group (see note 16). The land and buildings have been pledged as security for bank facilities under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. In addition, the Group's obligations under finance leases (see note 16) are secured by the lessors' title to the leased assets, which have a carrying amount of $6,857,384 (2013: $10,612,567).

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Land and building/ Leasehold improvement	Plant and equipment	Motor vehicles	Office equipment	Computer equipment	Assets construction	Total
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Carrying amount at 1 July 2013	38,110,577	65,565,257	52,091	266,436	484,917	105,487	104,584,765
Additions	12,235	5,178,755	-	4,476	113,627	1,934,138	7,243,231
Disposals/write-offs	(479)	(34,385)	(7,233)	(18,426)	(740)	-	(61,263)
Depreciation/amortisation expenses	(1,086,692)	(10,414,523)	(13,378)	(57,522)	(342,927)	-	(11,915,042)
Carrying amount at 30 June 2014	**37,035,641**	**60,295,104**	**31,480**	**194,964**	**254,877**	**2,039,625**	**99,851,691**
Carrying amount at 1 July 2012	38,890,840	69,907,070	121,474	298,436	732,929	-	109,950,749
Additions	294,084	4,357,303	-	20,992	142,890	105,487	4,920,756
Disposals/write-offs	-	-	(30,604)	-	-	-	(30,604)
Depreciation/amortisation expenses	(1,074,347)	(8,699,116)	(38,779)	(52,992)	(390,902)	-	(10,256,136)
Carrying amount at 30 June 2013	**38,110,577**	**65,565,257**	**52,091**	**266,436**	**484,917**	**105,487**	**104,584,765**

12. FINANCIAL ASSETS AND OTHER FINANCIAL ASSETS

	2014	2013
	$	**$**
Forward exchange contracts (hedge-accounted)	169,755	-
Foreign currency options	153,192	-
	322,947	**-**

The Group had a net hedge position of $322,947 (2013: net hedge liability position of $5,781,181) reflecting the positive mark-to-market value of foreign exchange contracts and call/put options. Refer to note 22, financial instruments for further details on the instruments.

13. INTANGIBLE ASSETS

	2014	2013
	$	**$**
Development costs net of amortisation [i]	2,064,823	1,891,558
Amortisation expense	(9,178)	-
Goodwill on acquisition of Specialist Engineering Services (Aust) Ltd [ii]	6,415,215	6,415,215
	8,470,860	**8,306,773**

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

(ii) On 31 January 2008 Matrix acquired 100 per cent of the issued share capital of Specialist Engineering Services (Aust) Ltd (MOSE). The resulting goodwill has been tested at MOSE's level for impairment. The recoverable amount of this cash generating unit is determined on a value in use calculation which uses cash flow projections based on the FY15 financial budget approved by the directors and forecasts prepared by management for the three years ending 30 June 2018, and a pre-tax discount rate of 12 per cent per annum (2013: 12%).

The key assumptions used in the value in use calculations for the MOSE cash-generating unit is as follows.

- Discount rate consistent with previous year, the discount rate of 12% has been applied. The directors believe this is a conservative discount rate to apply to the MOSE business.
- Revenue has been identified from market sectors serviced by MOSE and is consistent with previous years. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
- Budgeted gross margin is consistent with average gross margins achieved in previous periods and reflects past experience. The directors expect these margins to be reasonably achievable.
- Labour utilisation is consistent with labour utilisation achieved in previous periods and reflects past experience. The directors expect these utilisation rates to be reasonably achievable.
- Working capital management the forecast assumes certain capital management initiatives which will reduce the capital employed in the business. The directors expect these initiatives to be reasonably achievable.

13. INTANGIBLE ASSETS

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

Assumption	Variance	Negative Impact	Positive Impact
Discount Rate	± 2%	$2.8 million	$1.8 million
Revenue	± 10%	$4.0 million	$4.1 million
Gross Margin	± 2%	$2.3 million	$2.4 million
Labour utilisation	± 5%	$1.6 million	$1.5 million
Working capital	± 100%	$2.4 million	n/a

The directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

14. TRADE AND OTHER PAYABLES

	2014	2013
	$	$
Trade payables	16,213,558	17,109,576
Other creditors and accruals	3,079,706	5,466,482
GST payable	690,338	828,899
	19,983,602	**23,404,957**

Trade and other payables are generally paid within 30 to 45 days. No security is provided for these liabilities and no interest has been charged.

15. PROGRESS CLAIMS AND DEPOSITS

	2014	2013
	$	$
Progress claims and deposits	**16,681,890**	**17,560,890**

Progress claims and deposits represents cash deposits received for products that have not been produced, or not reached the relevant invoicing milestone under a contract with the customer.

16. FINANCIAL LIABILITIES

	2014	2013
CURRENT	**$**	**$**
Bank bill – secured	6,089,878	1,720,000
Interest rate swap option [i]	406,927	613,608
Finance lease liability	6,857,384	3,755,183
Forward exchange contracts liability (hedge accounted)[ii]	-	5,591,303
	13,354,189	**11,680,094**
NON CURRENT		
Bank bill – secured	-	6,089,878
Finance lease liability	-	6,857,384
Derivatives – call/put options (hedge accounted) [ii]	-	189,878
	-	**13,137,140**

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

(ii) Group had a net hedge asset position of $322,947 (2013: net hedge liability position of $5,781,181) reflecting the positive mark-to-market value of foreign exchange contracts and call/put options. Refer to note 22, financial instruments for further details on the instruments.

TOTAL CURRENT AND NON CURRENT INTEREST BEARING LOAN LIABILITIES:

	2014	2013
	$	**$**
Bank bill	6,089,878	7,809,878
Finance lease liabilities	6,857,384	10,612,567
	12,947,262	**18,422,445**

Finance lease liabilities	**Minimum lease payments**		**Present value of minimum lease payments**	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Not later than one year	7,326,475	4,368,653	6,857,384	3,755,183
Later than one year and not later than five years	-	7,326,474	-	6,857,384
	7,326,475	11,695,127	6,857,384	10,612,567
Less future finance charges	(469,091)	(1,082,560)	-	-
Present value of minimum lease payments	**6,857,384**	**10,612,567**	**6,857,384**	**10,612,567**

16. FINANCIAL LIABILITIES

Included in the consolidated financial statements as:

	2014	2013
	$	$
Current borrowings	6,857,384	3,755,183
Non-current borrowings	-	6,857,384
	6,857,384	**10,612,567**

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Approved Facilities	Amount Drawn	Available Facilities
OVERDRAFT & LOAN FACILITIES		%	$	$	$
Bill Acceptance Facility	AUD	2.5	690,000	690,000	-
Revolving Lease Limit	AUD	6.05 - 8.95	448,519	448,519	-
Bill Construction Loan	AUD	4.15	5,400,000	5,400,000	-
Equipment Loan Facility	AUD	6.39	6,862,968	6,862,968	-
Foreign Currency Overdraft Facility (i) & (ii)	USD	0.03	10,615,711	-	10,615,711
			24,017,198	**13,401,487**	**10,615,711**

	Currency	Nominal interest	Approved Facilities	Amount Drawn	Available Facilities
CREDIT CARD & BANK GUARANTEE FACILITIES		%	$	$	$
Business Card Facility	AUD	13.70	90,000	49,584	40,416
Bank Guarantee Facility	AUD	2.50	1,060,644	741,500	319,144
Multi-option Bank Guarantee (i)	USD	2.25	25,732,484	15,567,529	10,164,955
			26,883,128	**16,358,613**	**10,524,515**

(i) Foreign denominated facilities are converted at Australian dollar equivalent based on balance date rate.

(ii) Upon draw down of facility, interest payable will be based on base interest rate + 2.5% margin.

The Group has total credit facilities available from its bankers of $50,900,326 (2013:$56,446,979). This excludes financial derivatives.

The credit facilities are secured on the following:

- A registered first mortgage over the freehold properties of the consolidated entity;
- Fixed and floating charge over the whole of the assets of the consolidated entity;
- Guarantee and Indemnity; and
- Lease documentation.

The Group is subjected to financial covenants 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 2013 which has since been met, on a cumulative basis, at 31 December 2013 and all subsequent quarters.

17. INCOME TAX ASSET

	2014	2013
	$	$
CURRENT TAX ASSET		
Income tax asset	-	4,571

18. PROVISIONS

	2014	2013
CURRENT	$	$
Employee Entitlements	1,513,932	1,399,137
	1,513,932	**1,399,137**
NON-CURRENT		
Employee Entitlements	366,831	444,853

19. ISSUED CAPITAL

	2014	2013
	$	$
Issued and paid up capital 94,555,428 (2013: 94,555,428) fully paid ordinary shares	111,784,863	115,398,522
Less: capital issue costs net of tax	-	(3,613,659)
	111,784,863	**111,784,863**

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

Movements in Ordinary Share Capital

Date	Details	Number of shares	$
Balance 1 July 2012		94,555,428	111,812,722
Less: capital issue costs net of tax		-	(27,859)
Balance 30 June 2013		94,555,428	111,784,863
Less: capital issue costs net of tax		-	-
Balance 30 June 2014		**94,555,428**	**111,784,863**

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

19. ISSUED CAPITAL

Capital Management

The directors main objective is to ensure that the Group continues as a going concern and generates a return for shareholders better than the industry average benchmark. Management also seeks to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The directors are constantly reviewing the capital structure to ensure they can minimise the cost of capital. As the market is constantly changing, the directors may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group targets a gearing ratio in the range of 10 to 20 per cent determined as a proportion of adjusted net debt to equity. Adjusted net debt is determined by treating any cash held in support of bonding facilities as cash and by treating the value of any progress claims and deposits received in advance of work commencing as debt. The gearing ratio at 30 June 2014 of 4.7 per cent (2013: 8.1 per cent) is below the lower end of the target range.

	2014	2013
	$	$
Debt[1]	12,947,262	18,422,445
Progress claims and deposits	16,681,890	17,560,890
Cash and cash equivalents	(19,546,289)	(15,960,631)
Other receivables[2]	(3,662,420)	(9,315,364)
Adjusted net debt	6,420,443	10,707,340
Equity[3]	136,812,035	132,299,911
Net debt to equity ratio at 30 June	**4.7%**	**8.1%**

[1] Debt is defined as long-term and short-term borrowings (excluding derivatives and financial guarantee contracts). Refer to note 16.

[2] Other receivables in this year include cash backing deposits associated with issue of performance bonds to a major customer. Refer to note 8.

[3] Equity includes all capital and reserves of the Group that are managed as capital.

20. RESERVES (NET OF INCOME TAX)

	Option premium reserve	Properties revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
	$	$	$	$	$
Balance at 1 July 2012	273,000	787,664	49,346	46,125	1,156,135
Foreign currency translation difference	-	-	-	26,220	26,220
Changes in fair value of cash flow hedges net of tax	-	-	(1,496,346)	-	(1,496,346)
Revaluation of freehold property net of tax	-	-	-	-	-
Balance at 30 June 2013	273,000	787,664	(1,447,000)	72,345	(313,991)
Foreign currency translation difference	-	-	-	74,543	74,543
Changes in fair value of cash flow hedges net of tax	-	-	1,429,780	-	1,429,780
Revaluation of freehold property net of tax	-	-	-	-	-
Balance at 30 June 2014	**273,000**	**787,664**	**(17,220)**	**146,888**	**1,190,332**

20. RESERVES (NET OF INCOME TAX)

Option Premium Reserve

The option premium reserve comprises option premium received on issue of shares.

	2014	2013
	$	$
Option Premium Reserve		
Balance at beginning of year	273,000	273,000
Arising on share-based payments	-	-
Balance at end of year	**273,000**	**273,000**

The above option premium reserve relates to share options granted by the Company to some of its directors under a share option plan. Further information about share-based payments is set out in note 25.

Properties Revaluation Reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.

	2014	2013
	$	$
Properties Revaluation Reserve		
Balance at beginning of year	787,664	787,664
Decrease arising on revaluation of properties	-	-
Deferred tax asset arising from revaluation	-	-
Balance at end of year	**787,664**	**787,664**

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset will be transferred directly to retained earnings.

Cash Flow Hedge Reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

	2014	2013
	$	$
Cash Flow Hedge Reserve		
Balance at beginning of year	(1,447,000)	49,346
Income/(loss) arising on changes in fair value of hedging instruments	2,042,543	(2,137,637)
– forward foreign exchange contracts		
Income tax related to profit/(loss) recognised in other comprehensive income	(612,763)	641,291
Balance at end of year	**(17,220)**	**(1,447,000)**

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising in changes in fair value of the hedging instruments that are recognised and accumulated under the cash flow hedge reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

20. RESERVES (NET OF INCOME TAX)

Foreign Currency Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

	2014	2013
	$	$
Foreign Currency Translation Reserve		
Balance at beginning of year	72,345	46,125
Exchange differences arising on translating the foreign operations	74,543	26,220
Balance at end of year	**146,888**	**72,345**

21. NOTES TO THE STATEMENT OF CASH FLOWS

	2014	2013
	$	$
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	19,546,289	15,960,631
(b) Reconciliation of cash flow from/(used in) operations with profit/(loss) after income tax		
Profit/(loss) after income tax	3,018,004	(2,947,138)
Adjustment for non-cash items		
- Net movement in derivative instruments	(4,804,931)	4,394,838
- Depreciation of property, plant & equipment	11,915,042	10,256,136
- Amortisation of intangibles	9,178	-
- Loss on disposal of property, plant & equipment	44,258	553
Changes in assets & liabilities		
- Decrease/(increase) in trade and other receivables	2,644,717	(22,585,942)
- Decrease/(increase) in other assets	767,746	(321,707)
- Decrease in inventories	4,839,112	10,963,886
- Decrease in trade & other payables, progress claims & deposits	(4,300,355)	(854,252)
- Increase/(decrease) in employee provisions	36,773	(220,355)
- Decrease in provision for tax assets	4,571	1,094,137
- Decrease/(increase) in deferred tax asset	2,559,513	(2,559,772)
- (Decrease)/Increase in deferred tax liability	(271,741)	590,591
Net cash flows from/(used in) operating activities	**16,461,887**	**(2,189,025)**

22. 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 30 June 2014, 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:

	2014	2013
	$	$
Change in profit		
Increase in interest rate by 2% (200 basis point)	56,688	42,679
Decrease in interest rate by 2% (200 basis point)	(56,688)	(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.

22. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing	
					Within 1 Year		Over 1 Year			
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	%	%	$	$	$	$	$	$	$	$
Cash and Cash Equivalents	0.02	0.02	-	-	-	1,242,049	-	-	19,546,289	14,718,582
Trade and Other Receivables	-	-	-	-	3,662,420	-	-	9,315,364	28,963,848	26,198,610
Other Financial Assets	-	-	-	-	-	-	-	-	322,947	-
Total Financial Assets			**-**	**-**	**3,662,420**	**1,242,049**	**-**	**9,315,364**	**48,833,084**	**40,917,192**

FINANCIAL LIABILITIES

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non-Interest Bearing	
					Within 1 Year		Over 1 Year			
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	%	%	$	$	$	$	$	$	$	$
Trade and Other Payables	-	-	-	-	-	-	-	-	19,293,265	22,576,058
Bank Loan	-	-	-	-	-	-	-	-	-	-
Finance Leases	6.5	6.5	-	-	6,857,384	3,755,183	-	6,857,384	-	-
Interest Rate Swaps	2.8	2.8	406,927	613,608	-	-	-	-	-	-
Bank bills	4.0	4.0	6,089,878	7,809,878	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-	-	-	-	-	5,781,181
Total Financial Liabilities			**6,496,805**	**8,423,486**	**6,857,384**	**3,755,183**	**-**	**6,857,384**	**19,293,265**	**28,357,239**

22. FINANCIAL INSTRUMENTS

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 30 June 2014.

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:

	2014	2013
	$	$
Trade receivables	19,989,657	17,220,357

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

Days		
0-30	19,378,987	16,646,835
31-60	185,717	264,254
61-90	126,286	299,748
90+	298,667	9,520
	19,989,657	17,220,357

Trade receivables of $424,953 (2013: $309,268) were past due at 30 June, of which $364,812 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 30 June 2014.

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

	Liabilities		Assets	
	2014	2013	2014	2013
	$	$	$	$
US Dollars	23,588,756	22,720,626	37,185,525	28,874,875

22. FINANCIAL INSTRUMENTS

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 Increase/(Decrease)		Other Comprehensive Income Increase/(Decrease)	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
A$ vs US$	+10%	(1,312)	(603)	656	4,597
A$ vs US$	-10%	1,443	664	(722)	(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	
	2014 $	2013 $	2014 US$000	2013 US$000	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Cash flow hedges								
Sell US Dollar								
Less than 3 months	0.9200	1.0250	6,800	12,100	7,391	11,804	170	(1,456)
3 to 6 months		1.0192		5,800		5,691		(699)
6 months to 1 year		1.0078		29,000		28,775		(3,436)
							170	**(5,591)**

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 30 June 2014, 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 is a loss of $17,220 (2013: loss $1,447,000). It is anticipated that the sales will take place during the next 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.

22. FINANCIAL INSTRUMENTS

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 30 June 2014 was US$8.7 million.

At 30 June 2014, the aggregate amount of profit recognised under call/put option in profit or loss is profit of $153,192 (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.

	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 2014							
Cash and other equivalents	0.02	19,546,289	-	-	-	-	19,546,289
Trade and other receivables	-	20,833,193	-	11,793,075	-	-	32,626,268
Foreign Exchange Contracts	-	-	169,755	-	-	-	169,755
Call/Put Options	-	-	-	153,192	-	-	153,192
Trade and other payables	-	(3,036,098)	(15,827,039)	(430,127)	-	-	(19,293,264)
Borrowing and Finance leases	5.5	(68,308)	(1,554,894)	(12,035,725)	-	-	(13,658,927)
Interest Rate Swap Option	2.8	-	-	(406,927)	-	-	(406,927)
		37,275,076	**(17,212,178)**	**(926,512)**	**-**	**-**	**19,136,386**
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 is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

22. FINANCIAL INSTRUMENTS

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.

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.

The fair value of the Group's financial assets and liabilities are determined on the following basis.

Financial Assets and Financial Liabilities that are Measured at Fair Value on a Recurring Basis

Subsequent to initial recognition, at fair value financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets of liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with 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).

The Group has derivative financial assets and liabilities which are classified as level 2 fair value measurements. There were no transfers between level 1 and 2 in the current or prior period.

These level 2 financial assets and liabilities include:

- Foreign exchange derivative assets of $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.
- Interest rate swap liabilities of $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
30 June 2014	**$**	**$**	**$**	**$**
Derivative financial assets	-	322,947	-	322,947
Derivative financial liabilities	-	(406,927)	-	(406,927)
Total	**-**	**(83,980)**	**-**	**(83,980)**
30 June 2013				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	(6,394,789)	-	(6,394,789)
Total	**-**	**(6,394,789)**	**-**	**(6,394,789)**

22. FINANCIAL INSTRUMENTS

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

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

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

23. OPERATING LEASE COMMITMENTS

	2014	2013
	$	$
Not later than 1 year	1,377,367	1,326,224
Later than 1 year but not later than 5 years	4,471,614	4,819,710
Later than 5 years	29,386,388	30,333,955

The lease commitment is for rental of land and buildings.

24. FRANKING ACCOUNT

	2014	2013
	$	$
Franking account balance at 1 July	16,687,218	13,818,161
Tax paid in relation to prior years	-	2,869,057
Franking credits that will arise from the payment of income tax payable as at the reporting date	-	
Franking debits that will arise from the payment of dividends	-	
Franking account balance at 30 June	16,687,218	16,687,218
Franking credits that will arise from the payment of income tax payable as at the reporting date	-	-
Franking debits that will arise from the payment of dividends	-	-
Net franking credits available	**16,687,218**	**16,687,218**

25. SHARE-BASED PAYMENTS

There have been no share options brought forward, issued or exercised during the year (2013: nil).

26. RELATED PARTY DISCLOSURES

(a) Key Management Personnel Compensation

	2014	2013
	$	$
Short term employment benefits	1,947,932	1,719,724
Post-employment benefits	117,004	116,267
	2,064,936	**1,835,991**

26. RELATED PARTY DISCLOSURES

(b) Parent Entity

The ultimate parent entity within the Group is Matrix Composites & Engineering Ltd.

(c) Related Party Transactions

Transactions between related parties are at arms-length terms.

	2014	2013
	$	$
The premises at 42 Truganina Road is leased from Kanu Pty Ltd, a company of which Maxwell Begley is a substantial shareholder. Mr Begley and his associated parties have a substantial shareholding in Matrix.	407,117	403,995

(d) Option Holdings of Key Management Personnel

There have been no movements during the reporting period (2013: nil movement) in the number of options over ordinary shares in Matrix Composites & Engineering Ltd held, directly, indirectly or beneficially, by each key management person, including related parties.

(e) Key Management Personnel

- There were no loans to key management personnel during the year or outstanding at the end of the year (2013: nil).
- No options have been issued to key management personnel during the year (2013: nil).

(f) Other Transactions and Balances with Key Management Personnel

There were no other transactions with key management personnel at the end of the year (2013: nil).

27. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Name	Incorporation	Shares	Equity Holding %	
			2014	2013
Specialist Engineering Services (Aust) Ltd	Australia	Ordinary	100	100
Drilling Solutions Pty Ltd[1]	Australia	Ordinary	99	99
Torque Engineering Australia Pty Ltd	Australia	Ordinary	100	100
MC&E (Asia) Pte Ltd	Singapore	Ordinary	100	100
Matrix Henderson Property Pty Ltd	Australia	Ordinary	100	100
MC&E (Europe) Limited	UK	Ordinary	100	100
Matrix Composites & Engineering (US) Inc.	USA	Ordinary	100	100
Matrix Composites Brasil Comersio Manutencao de Equipamentos Petroliferos Ltda[2]	Brazil	Ordinary	-	100

[1] This entity is owned by Specialist Engineering Services (Aust) Ltd.
[2] This entity was deregistered on 11 June 2014.

28. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Group.

Financial position

	2014	2013
	$	$
Assets		
Current assets	71,987,628	61,357,230
Non-current assets	115,431,782	128,650,367
Total assets	**187,419,410**	**190,007,597**
Liabilities		
Current liabilities	47,270,041	45,740,495
Non-current liabilities	2,654,758	9,813,151
Total liabilities	49,924,799	55,553,646
Net assets	**137,494,611**	**134,453,951**
Equity		
Issued capital	111,784,863	111,784,863
Retained earnings	25,453,968	23,843,088
Option premium reserve	273,000	273,000
Cash flow hedge reserve	(17,220)	(1,447,000)
Total equity	**137,494,611**	**134,453,951**
Financial Performance		
Profit/(loss) for the year	1,610,880	(1,421,355)
Other comprehensive income/(loss)	1,429,780	(1,496,346)
Total comprehensive income/(loss)	**3,040,660**	**(2,917,701)**
Commitments for the acquisition of property, plant and equipment by the parent entity		
No longer than 1 year	942,941	368,224
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	942,941	**368,224**

29. EARNINGS PER SHARE

	2014	2013
Profit/(loss) attributable to members of parent entity ($)	3,018,004	(2,947,138)
Weighted average number of shares on issue (number)	94,555,428	94,555,428
Weighted average number of shares adjusted for dilution (number)	94,555,428	94,555,428
Basic profit/(loss) per share (cents)	3.2	(3.1)
Diluted profit/(loss) per share (cents)	3.2	(3.1)

30. DIVIDENDS PAID AND PROPOSED

	2014	2013
	$	$
Dividends paid and proposed		
(a) Dividends paid during the year		
Fully franked final dividend		
Dividends paid (2014:Nil; 2013:Nil)	-	-
Fully franked interim dividend		
Dividends paid (2014: Nil; 2013:Nil)	-	-
	-	-
(b) Dividends declared (not recorded as a liability)		
Fully franked final dividend		
Dividends declared (2014: Nil declared; 2013: Nil declared)	-	-
Dividends per share paid during the financial year	-	-

31. CAPITAL AND OTHER COMMITMENTS

The Group has entered into capital commitments of $942,941 for plant & equipment at 30 June 2014 (2013: $368,224).

32. COMPANY DETAILS

The registered office and principal place of business of the company is 150 Quill Way, Henderson, Western Australia.

33. CONTINGENT LIABILITIES AND ASSETS

There were no contingent liabilities or assets at 30 June 2014.

34. EVENTS AFTER THE REPORTING DATE

There are no other events of a material nature that have occurred subsequent to the reporting date other than the matters disclosed in directors' report.

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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;

(b) In the directors opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;

(c) 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; and

(d) The directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors:

Aaron P Begley

Managing Director and Chief Executive Officer

Dated 13 August 2014

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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

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

Report on the Financial Report

We have audited the accompanying financial report of Matrix Composites & Engineering Ltd, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 40 to 84.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, 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 report.

Deloitte.

Opinion

In our opinion:

(a) the financial report of Matrix Composites & Engineering Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 30 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Matrix Composites & Engineering Ltd for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants
Perth, 13 August 2014

As at 9 September 2014

Ordinary Share Capital

94,555,428 fully paid ordinary shares are held by 3,126 individual shareholders. All issued ordinary shares carry one vote per share and are entitled to dividends.

Distribution of Holders of Equity Securities

Range	Fully paid ordinary shares	Number of Holders	% of Issued Capital
1-1,000	585,942	1,168	0.62
1,001-5,000	3,172,188	1,206	3.35
5,001 – 10,000	2,619,362	343	2.77
10,001 – 100,000	9,826,368	356	10.39
> 100,001	78,351,568	53	82.86
Total	**94,555,428**	**3,126**	**100.00**
Holding less than a marketable parcel	105,135	538	0.11

Twenty (20) largest holders of Quoted Equity Securities

	Fully paid ordinary shares	
Name	**Number**	**Percentage**
Milto Pty Ltd	16,729,702	17.69
J P Morgan Nominees Australia Limited	15,602,046	16.50
National Nominees Limited	9,051,719	9.57
Citicorp Nominees Pty Ltd	7,325,044	7.75
HSBC Custody Nominees (Australia) Limited	5,863,626	6.20
BNP Paribas Nominees Pty Ltd (DRP)	3,379,444	3.57
Mr Aaron Paul Begley	3,062,763	3.24
Mr Maxwell Graham Begley	1,610,308	1.70
Milto Pty Ltd (Begley Family A/C)	1,553,295	1.64
Ms Linda Sampey & Mr Bruce Sampey (Sampey Super Fund A/C)	1,200,000	1.27
Citicorp Nominees Pty Ltd (Colonial First State Inv A/C)	1,034,463	1.09
Mr Paul Richard Wright	960,000	1.02
RBC Investor Services Australia Nominees Pty Limited	886,908	0.94
Mr Todd Justin Begley	858,006	0.91
Begley Superannuation Co Pty Ltd (Begley Engineering S/F A/C)	844,584	0.89
Vector Nominees Pty Limited (Vector Super Fund A/C)	838,608	0.89
Mr Craig Neil Duncan	535,214	0.57
Mr Peter Lindsay Wright	495,859	0.52
Acres Holdings Pty Ltd (Noel Edward Kagi Family A/C)	365,000	0.39
Mr Paul Wright & Mrs Karen Wright (The Paul Wright S/F A/C)	320,000	0.34
Total	**72,516,589**	**76.69**

Substantial Shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Fully paid ordinary shares	
Ordinary Shareholders	**Number**	**%**
M.G. Begley & Associates	24,753,014	26.18
Allan Gray Australia Pty Ltd	18,338,208	19.39
IOOF Holdings Limited	11,268,877	11.92
Northcape Capital Pty Ltd	4,965,853	5.25

Company Secretary

Mr Peter Tazewell

Registered and Principal Administration Office

150 Quill Way

Henderson WA 6166

Phone: +61 8 9412 1200

Share Registry

Link Market Services Ltd

Level 4, Central Park

152-158 St Georges Terrace

Perth WA 6000

Phone: + 61 8 9211 6670

On-Market Share Buy-Back

The Company has no current on-market buy back scheme.

Restricted Securities

As at the date of the Annual Report there are no securities subject to any voluntary escrow or any transfer restrictions.

Annual Report 2014

Corporate Directory

DIRECTORS'

Mr P J Hood (Chairperson)
Mr A P Begley (CEO)
Dr D P Clegg
Mr S Cole
Mr C N Duncan
Mr P R Wright

COMPANY SECRETARY

Mr P Tazewell

HEAD OFFICE

Matrix Composites & Engineering Ltd
150 Quill Way
Henderson WA 6166
Telephone: +61 8 9412 1200
E-mail: matrix@matrixengineered.com

OVERSEAS OFFICES

Matrix Composites & Engineering (US), Inc
4541 Brittmoore Rd.
Houston, TX 77041 U.S.A
Telephone: +1 713 461 0552
Email: us@matrixengineered.com

MC&E (Europe) Limited
Unit 12, Linnet Court
Cawledge Business Park
Hawfinch Road
Alnwick, Northumberland
NE66 2GD UK
Email: uk@matrixengineered.com

BANKER

National Australia Bank
100 St Georges Terrace
PERTH WA 6000

LAWYERS

Lavan Legal
1 William Street
PERTH WA 6000

Ashurst
32/2 The Esplanade
PERTH WA 6000

AUDITOR

Deloitte Touche Tohmatsu
Level 14
240 St Georges Terrace
PERTH WA 6000

SHARE REGISTRY

Link Market Services Ltd
Level 4 Central Park
152-158 St Georges Terrace
PERTH WA 6000

MATRIX COMPOSITES & ENGINEERING LTD AND CONTROLLED ENTITIES

ABN: 54 009 435 250

Matrix
Composites & Engineering