Quickstep Holdings Limited
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Quickstep Automotive - DDMC
Building LA, 75 Pigdons Road, Waurn Ponds, VIC, 3216

21 February 2019

Companies Announcements Office
Australian Securities Exchange Limited
Level 4, 20 Bridge Street
Sydney, NSW, 2000

Dear Sir/Madam,

Please find attached the Company's results for the six months ended 31 December 2018, for immediate release to the market.

Included in this announcement are ASX Appendix 4D and the Interim Financial Report for the half year ended 31 December 2018 as required by ASX listing rule 4.2A. This information should be read in conjunction with the annual financial statements for the year ended 30 June 2018.

Yours Faithfully,

**Jaime Pinto**
**Company Secretary**

## QUICKSTEP HOLDINGS LTD

### Appendix 4D

### Half Year Report Period Ended 31 December 2018 (Corresponding Period 31 December 2017)

### Results for announcement to the Market

| | Percentage Change | | Dec 2018 | Dec 2017 |
|---|---|---|---|---|
| Revenue from ordinary activities | 21.5% up | to | **$33,849,000** | $27,856,000 |
| EBIT | n/a | to | **$1,956,000** | ($2,226,000) |
| Profit/(Loss) from ordinary activities after tax attributable to members | n/a | To | **$886,000** | ($2,929,000) |
| Net Profit/(Loss) for the period attributable to members | n/a | To | **$886,000** | ($2,929,000) |

The Net Profit for the half year of $886,000 is a $3,815,000 improvement on the net loss after tax of $2,929,000 for the six month period ended 31 December 2017. This can be attributed to an increase in volumes on the JSF program, the impact of the lean manufacturing program, an ongoing focus on cost control, non-recurring restructure costs incurred during the first half of FY18 and a $430,000 non-cash benefit from the revision of asset useful lives in H1 of FY19.

For more details around these activities please refer to the Directors Report which forms part of the Half Year Interim Financial Report also released today.

| **Dividends** | Amount per security | Percentage Franked |
|---|---|---|
| **Current period:** | | |
| Interim Dividend | Nil | N/A |
| Date the Dividend is Payable: | | N/A |
| Record Date for determining entitlements to the Dividend: | | N/A |
| **Prior corresponding period:** | | |
| Interim Dividend | Nil | N/A |

**Net Tangible Assets per Security**

| | |
|---|---|
| As at 31 December 2018 | $0.015 |
| As at 31 December 2017 | $0.010 |

# Quickstep Holdings Limited

## Interim Financial Report
## for the half year ended 31 December 2018

# Interim Financial Report

## For the half-year ended 31 December 2018

# Contents

# Directors' Report

The Directors present their report on the consolidated entity consisting of Quickstep Holdings Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2018. Throughout the report, the consolidated entity is referred to as the "Group" or "Quickstep".

**Directors**

The following persons were Directors of Quickstep Holdings Limited during the whole of the half year and up to the date of this report:

Mr. T H J Quick
Mr. M H Burgess
Mr. J C Douglas
Mr. B A Griffiths

Ms. L Heywood was appointed a Director on 21 February, 2019.

**Review of Operations**

Total sales for the half year ended 31 December 2018 were $33.8 million (H1 FY18 $27.9 million) representing a 21.5% increase over the prior comparative period ("pcp"). The increase is primarily attributable to volume growth in the Joint Strike Fighter (JSF) program and is consistent with the continuing ramp up of the program towards full production. Total JSF revenue was $24.0 million (H1 FY18 $17.6 million) being a 36% lift on pcp. JSF revenue for H1 FY19 was slightly behind plan due to the unforeseen and extended outage of a key machine during Q2.

The $2.0 million operating profit for the first half of FY19 represents an improvement of $4.2 million on the pcp including gross profit improvement of $4.3 million delivering a 22.8% gross profit margin (H1 FY18 12.3%). The increase in gross margin includes a $0.3 million benefit from adopting AASB15 in FY19 and $0.4 million non-cash benefit from the revision of asset useful lives. A reduction in spend on research and development of $0.9 million was offset by $0.6 million incremental investment in business development spend that has resulted in a healthy pipeline of new business. This strong first half FY19 result following the $0.9 million operating profit generated in H2 FY18 reflects the good progress being made in growing revenue, improving margins, and driving efficiencies to deliver sustainable profitability.

The H1 FY19 $0.9million net profit is an improvement of $3.8 million on the prior year comprising the $4.2 million operating profit increase noted above partially offset by a $0.4 million increase in net finance costs.

Cash from operating activities for H1 FY19 was $0.9 million negative, compared to $4.3 million negative operating cash flow in the pcp, an improvement of $3.4 million. The $3.8 million first half EBITDA improvement year on year is the key driver of improved cash flows, offset by a lift in working capital, as detailed below

Total loans outstanding as at 31 December 2018 are $15.5 million, an increase of $1.9 million from June 2018 funding the working capital requirements of the lift in JSF volumes and a build-up of raw materials, attributable to the extended key machine outage, that will be consumed in the second half.

## Subsequent events

On 12 February 2019, Quickstep announced a small shareholding sales facility in accordance with ASX Listing Rules and the Company's Constitution. This affects shareholders with parcels of ordinary shares with a market value of less than $500 as at 29 March 2019. These shareholders need to elect to retain their shares by that date or the shareholdings will be sold with the transaction costs being covered by Quickstep and the proceeds returned to the shareholder.

There have been no other matters or circumstances that have arisen since 31 December 2018 up to the date of this report that would significantly affect:

- the operations of the Consolidated Entity;
- the results of those operations; and
- the state of affairs of the Consolidated Entity.

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

## Rounding of Amounts

The Company is a kind referred to in ASIC Legislative Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' report and financial statements. Amounts in the Directors' report and financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors on 21 February 2019.

**M H Burgess**
Director
Sydney, New South Wales

KPMG

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Quickstep Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Quickstep Holdings Limited for the half-year ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Charmaine Hopkins
Partner

Sydney
21 February 2019

KPMG

# Independent Auditor's Review Report

## To the shareholders of Quickstep Holdings Limited

### Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Quickstep Holdings Limited (the Company).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Quickstep Holdings Limited (the Company) is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the ***Half-year Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed consolidated balance sheet as at 31 December 2018
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date
- Notes A to E comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Quickstep Holdings Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

### Material uncertainty related to going concern – emphasis of matter

We draw attention to Note A.2, "Going Concern" in the Interim Financial Report. The conditions disclosed in Note A.2, indicate a material uncertainty exists that may cast significant doubt on the Company or Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.

KPMG

## Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Quickstep Holdings Limited (the Company), *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Charmaine Hopkins
Partner

Sydney
21 February 2019

# Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

### for the half-year ended 31 December 2018

| | Notes | 31 Dec 2018 $000 | 31 Dec 2017 $000 |
|---|---|---|---|
| Revenue | B.1 | **33,849** | 27,856 |
| Cost of sales of goods | | **(26,134)** | (24,420) |
| Gross profit | | **7,715** | 3,436 |
| Other income | | **122** | 251 |
| Research and development expenses | | **(1,163)** | (2,058) |
| Business development expenses | | **(894)** | (337) |
| Corporate and administrative expenses | | **(3,824)** | (3,518) |
| **Profit / (loss) from operating activities** | | **1,956** | (2,226) |
| Finance income | C.4 | **14** | 111 |
| Finance expenses | C.4 | **(1,084)** | (814) |
| **Net finance costs** | | **(1,070)** | (703) |
| Profit / (loss) before income tax | | **886** | (2,929) |
| Income tax benefit | | **-** | - |
| **Profit / (loss) for the half year** | | **886** | (2,929) |
| **Other comprehensive income net of income tax** | | | |
| Item that may be reclassified to profit or loss | | | |
| Cash flow hedges | | **306** | - |
| Exchange difference on translation of a foreign operation | | **23** | 9 |
| Other comprehensive income for the period, net of income tax | | **329** | 9 |
| **Total comprehensive income / (loss) for the half year** | | **1,215** | (2,920) |
| **Profit / (loss) per share:** | | **Cents** | Cents |
| Basic profit / (loss) per share | | **0.15** | (0.52) |
| Diluted profit / (loss) per share | | **0.15** | (0.52) |

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

# Condensed Consolidated Balance Sheet

## as at 31 December 2018

| | Notes | Dec 2018 $000 | Jun 2018 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **3,171** | 2,862 |
| Derivative financial instruments | C.2 | **545** | 239 |
| Term deposits | | **810** | 810 |
| Trade and other receivables | D.1 | **5,962** | 4,451 |
| Prepayment and other assets | | **493** | 556 |
| Contract revenue assets | | **6,744** | - |
| Inventories | D.2 | **9,175** | 10,015 |
| **Total current assets** | | **26,900** | 18,933 |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | D.4 | **12,704** | 13,237 |
| Intangibles | | **13** | 20 |
| **Total non-current assets** | | **12,717** | 13,257 |
| **Total assets** | | **39,617** | 32,190 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **10,829** | 8,963 |
| Loans and borrowings | C.1 | **9,149** | 5,658 |
| Contract liability | D.3 | **3,254** | 2,394 |
| Employee benefit obligations | | **1,266** | 1,179 |
| **Total current liabilities** | | **24,498** | 18,194 |
| | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | C.1 | **6,355** | 7,900 |
| Employee benefit obligations | | **359** | 310 |
| **Total non-current liabilities** | | **6,714** | 8,210 |
| **Total liabilities** | | **31,212** | 26,404 |
| **Net assets** | | **8,405** | 5,786 |
| | | | |
| **EQUITY** | | | |
| Share capital | C 5 | **109,118** | 109,118 |
| Reserves | | **5,159** | 4,573 |
| Accumulated losses | | **(105,872)** | (107,905) |
| **Total equity** | | **8,405** | 5,786 |

The condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

# Condensed Consolidated Statement of Changes in Equity

## for the half-year ended 31 December 2018

| | Share capital $000 | Foreign currency translation reserve $000 | Cash flow hedges reserve $000 | Share based payments $000 | Accumulated losses $000 | Total equity $000 |
|---|---|---|---|---|---|---|
| **Dec 2018** | | | | | | |
| **Balance at 1 July 2018** | **109,118** | **(271)** | **239** | **4,605** | **(107,905)** | **5,786** |
| Adjustment on initial application of AASB 15 (net of tax) (Refer Note E.2) | **-** | **-** | **-** | **-** | **1,147** | **1,147** |
| Adjusted balance at 1 July 2018 | **109,118** | **(271)** | **239** | **4,605** | **(106,758)** | **6,933** |
| Profit for the half year | **-** | **-** | **-** | **-** | **886** | **886** |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation difference for foreign operations | **-** | **23** | **-** | **-** | **-** | **23** |
| Effective portion of changes in fair value of cash flow hedges, net of tax | **-** | **-** | **306** | **-** | **-** | **306** |
| **Total comprehensive income for the half year** | **-** | **23** | **306** | **-** | **886** | **1,215** |
| Transactions with owners of the company: | | | | | | |
| Share based payments expenses | **-** | **-** | **-** | **257** | **-** | **257** |
| **Balance at 31 December 2018** | **109,118** | **(248)** | **545** | **4,862** | **(105,872)** | **8,405** |
| **Dec 2017** | | | | | | |
| **Balance at 1 July 2017** | 109,118 | (235) | - | 4,312 | (105,014) | 8,181 |
| Loss for the half year | - | - | - | - | (2,929) | (2,929) |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation difference for foreign operations | - | 9 | - | - | - | 9 |
| Effective portion of changes in fair value of cash flow hedges, net of tax | - | - | - | - | - | - |
| **Total comprehensive (loss)/ income for the half year** | - | 9 | - | - | (2,929) | (2,920) |
| Transactions with owners of the company: | | | | | | |
| Share based payments expenses | - | - | - | 235 | - | 235 |
| **Balance at 31 December 2017** | 109,118 | (226) | - | 4,547 | (107,943) | 5,496 |

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

# Condensed Consolidated Statement of Cash Flows

## for the half-year ended 31 December 2018

| | Dec 2018 $000 | Dec 2017 $000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts in course of operations | **33,604** | 28,076 |
| Interest received | **14** | 11 |
| Interest paid | **(177)** | (220) |
| Government and industry grants | **-** | 262 |
| Cash payments in the course of operations | **(34,387)** | (32,427) |
| **Net cash (used in) operating activities** | **(946)** | (4,298) |
| **Cash flows from investing activities** | | |
| Acquisition costs of plant and equipment and intangible assets | **(2,253)** | (385) |
| Proceeds from customer funding of capital works | **1,855** | - |
| **Net cash (used in) investing activities** | **(398)** | (385) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | **3,250** | 3,500 |
| Repayment of borrowings | **(1,500)** | (43) |
| Payment of borrowing costs | **(157)** | (155) |
| Net cash from financing activities | **1,593** | 3,302 |
| **Net Increase / (decrease) in cash and cash equivalents** | **249** | (1,381) |
| Cash and cash equivalents at the beginning of the financial year | **2,862** | 3,722 |
| Effects of exchange rate changes on cash and cash equivalents | **60** | (24) |
| **Cash and cash equivalents at end of half year** | **3,171** | 2,317 |

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

# Notes to the Condensed Consolidated Financial Statements

**for the half-year ended 31 December 2018**

## A. About this Report

This section provides information relating to the Group's accounting policies.

**A.1 General Accounting Principles**

**A.2 Accounting Estimates and Judgements**

## A.1 General Accounting Principles

This interim half-year financial report (Financial Report) represents the consolidated results of Quickstep Holdings Limited (the "Company") and its controlled entities (the "Group"). The Financial Report comprises general purpose financial statements which have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*.

The Financial Report does not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2018.

This is the first set of the Group's financial statements where AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments*, have been applied. Changes to significant accounting policies are described in Note E.2.

These interim financial statements were authorised for issue by the Board of Directors on 21 February 2019.

The Company is domiciled in Australia and the Group is a for-profit entity. The Group is at the forefront of advanced composites manufacturing and technology development and is the largest independent aerospace-grade advanced composite manufacturer in Australia, currently partnering with some of the world's largest aerospace/defence organisations.

### Materiality

Information is only included in the financial report to the extent that it has been considered material and relevant to the understanding of the financial statements. Factors that influence if a disclosure is material and relevant, include whether:

- the dollar amount is significant in size (quantitative factor)
- the dollar amount is significant by nature (qualitative factor)
- the Group's results cannot be understood without the specific disclosure (qualitative factor)
- it is critical to allow a user to understand the impact of significant changes in the Group's business during the period; and
- it relates to an aspect of the Group's operations that is important to its future performance.

### Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations *(Rounding in Financial/Directors' Reports) Instrument* 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have therefore been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## A. About this Report

### A.2 Accounting Estimates and Judgements

The preparation of these interim consolidated financial statements are in conformity with AASBs which requires management to make judgements, estimates and assumptions about future events. Actual results may differ from these estimates.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described below:

***Assessment of Useful Life of Fixed Assets- Plant and Machinery***

During the six months ended 31 December 2018 the Group carried out an assessment on the remaining useful life of the Group's plant and equipment. The Board took into account engineering input and have determined that the useful life remaining of plant and equipment be extended, resulting in reduced annual depreciation charges. The impact of the revision of useful life is an increase in profit for the half year ended 31 December 2018 of $430,000

***Going Concern***

The Group has generated a profit after tax for the half year ended 31 December 2018 of $886,000, (H1 FY18 loss $2,929,000). The Group has net assets of $8,405,000 (FY18 $5,786,000) and net current assets of $2,402,000 (FY18 $739,000). Current loans and borrowings are $9,149,000 (FY18 $5,658,000). The net operating cash outflow for the half year ended 31 December 2018 was $946,000 including R&D investment of $1,163,000.

The profit for the half year of $886,000 is a further improvement on the net profit after tax of $38,000 for the six month period ended 30 June 2018. This can be attributed to the impact of the lean manufacturing program, an ongoing focus on cost control, an increase in volumes on the JSF program and a $430,000 non-cash benefit from the revision of asset useful lives (refer above). Operating cash outflow for the half year of $946,000 includes EBITDA of $2,861,000 and a working capital increase of $3,807,000 with increases in trade debtors and inventory offset by a normalisation of the trade payables balance. Cash generation is forecast to improve in the second half of FY19.

Additional working capital funding was secured with Efic in June 2018 to support further JSF volume growth in FY19 resulting in an increase in the short term facility (repayable 10 months from drawdown date) from A$3,000,000 to A$7,000,000.

The existing Group cash and current borrowing position, the requirement to achieve or have Efic agree to waive quarterly debt covenants, the need for further funding to support growth requirements, uncertainty associated with foreign exchange rate fluctuations on US$ denominated sales, which has been partially mitigated by the recent implementation of forward contracts, and commercialisation of new technology results in future cash flow of the Group being partially dependent on a combination of the following solutions:

- ongoing cost control;
- delivering further manufacturing efficiencies for existing programs; and
- extension of the Efic short term working capital facility after 30 June 2019 or securing alternative sources of longer term debt funding.

The going concern basis presumes that the above operational and funding solutions, as deemed appropriate by the Directors, will be achieved and that the realisation of assets and settlement of liabilities will occur in the normal course of business. Notwithstanding the confidence of the Directors, if the combined effect of the above solutions should not be wholly successful there is a material uncertainty as to whether the Group would continue as a going concern.

The Directors consider that there is a basis to expect the Group will be able to meet its commitments due to the above measures, the improved financial performance during FY19 and additional working capital funding available and accordingly, the financial report has been prepared on the basis of a going concern.

# B. Business Performance

## B.1 Segment Reporting

The Company is managed as a whole and is considered to have a single operating segment. There is no further division of the Company or internal segment reporting used by the Directors when making strategic decisions or resource allocation decisions.

Revenue by program:

| | Dec 2018 $000 | Dec 2017 $000 |
|---|---|---|
| Joint Strike Fighter Program | **23,994** | 17,630 |
| Other | **9,855** | 10,226 |
| | **33,849** | 27,856 |

# C. Capital and Financial Risk Management

This section provides information relating to the Group's capital structure and its exposure to financial risks, how they affect the Group's financial position and performance and how the risks are managed.

**C.1 Loans and Borrowings**
**C.2 Financial Instruments**
**C.3 Financial Risk Management**
**C.4 Finance Income and Finance Costs**
**C.5 Share Capital**
**C.6 Capital and other Commitments**

## C.1 Loans and Borrowings

| | Dec 2018 | | | June 2018 | | |
|---|---|---|---|---|---|---|
| | Current $000 | Non-current $000 | Total $000 | Current $000 | Non-current $000 | Total $000 |
| Secured bank loan | **2,957** | **4,435** | **7,392** | 2,121 | 5,914 | 8,035 |
| Capitalised interest facility | **492** | **1,920** | **2,412** | 353 | 1,986 | 2,339 |
| Accrued borrowing cost | **200** | **-** | **200** | 184 | - | 184 |
| Secured bank loan carrying amount | **3,649** | **6,355** | **10,004** | 2,658 | 7,900 | 10,558 |
| Short term facility-Efic | **5,500** | **-** | **5,500** | 3,000 | - | 3,000 |
| | **9,149** | **6,355** | **15,504** | 5,658 | 7,900 | 13,558 |

# C. Capital and Financial Risk Management

## C.1 Loans and Borrowings

### Term and Debt Repayment Schedule

| | | | Dec 2018 | June 2018 |
|---|---|---|---|---|
| | Effective interest rate | Year of maturity | Maximum facility value $000 | Maximum facility value $000 |
| Secured bank loan | 7.42 | 2021 | **10,000** | 10,000 |
| Capitalised Interest | 7.42 | 2021 | **3,333** | 3,333 |
| Short term facility - Efic | 9.30 | 2019 | **7,000** | 7,000 |

### Secured Bank Loan

On 1 November 2011 Quickstep Technologies Pty Ltd, a subsidiary Company of the Group, executed an Export Finance Facility Agreement with Australian and New Zealand Banking Group Limited (ANZ) (Financier) and Export Finance and Insurance Corporation (Efic) (Guarantor) to fund certain capital expenditure. The Agreement provides for a loan facility of up to $10,000,000 plus capitalised interest of up to $3,333,000. Loan repayments commenced on 30 April 2016, with the final repayment due in October 2021. No further draw down of this facility can be made as the availability period has passed.

Interest will be capitalised until the maximum facility value of $3,333,000 is reached. At 31 December 2018 the interest facility has been drawn to $2,412,000 (2018 $2,339,000). The Company has paid in this half year an amount of $107,000 (2018 $35,000).

The interest rate on the facility comprises a variable base rate, a fixed margin payable to the Financier and a fixed guarantee fee payable to the Guarantor. Unused limit fees are payable to both the Financier and the Guarantor on the undrawn principal balance.

Efic has agreed to guarantee certain of the subsidiary's obligations under the facility.

Under this agreement, Quickstep Technologies Pty Ltd (Chargor) has agreed to the following restrictions on title on any of the assets over which Efic (Chargee) has a fixed charge. Without the consent of the Chargee, the Chargor may not:

- dispose of the Secured Property,
- lease or license the Secured Property or any interest in it, or deal with any existing lease or licence,
- part with possession of the Secured Property,
- waive any of the Chargor's rights or release any person from its obligations in connection with the Secured Property, or
- deal in any other way with the Secured Property or any interest in it, or allow any interest in it to arise or be varied.

Quickstep Holdings Limited has entered into a subordination agreement which subordinates certain intercompany debts due to it from Quickstep Technologies Pty Ltd to the amounts due under the Export Finance Facility.

### Short term facility – Efic

Quickstep Holdings Limited executed an Export Contract Loan (ECL) agreement with Efic on 28 June, 2017 and a variation deed dated 25 June 2018. This revolving loan facility is limited to $7,000,000 (2018 $7,000,000) and each drawing under the facility will be due for repayment within 10 months of the drawdown date. The facility is in place to support additional working capital requirements related to growth of JSF deliveries and is available to be drawn up to 28 June 2019.

The interest rate on the facility is a variable rate calculated as the sum of the base rate plus a margin of 5.85%, payable to Efic quarterly on funds drawn. A commitment fee of 1.5%pa accrues from the date of the agreement and is payable to Efic quarterly.

## C. Capital and Financial Risk Management

### C.2 Financial Instruments

| | Dec 2018 $000 | June 2018 $000 |
|---|---|---|
| **Current assets** | | |
| Forward foreign exchange contracts – cash flow hedges | **545** | 239 |

#### *Fair Value Measurement*

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and accumulated in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit and loss. The Group uses forward foreign exchange contracts to hedge its currency exposure risk in relation to sales in US dollars – all hedges have a maturity date less than 1 year from reporting date.

#### *Valuation of Financial Measurement – cash flow hedges*

Foreign currency forward contracts are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

#### *Fair Value Hierarchy*

Financial assets and liabilities, including foreign currency hedges are considered level 2 in the fair value hierarchy. The carrying value of financial assets and liabilities carried at amortised costs, approximate their fair value. During the half year, there have been no transfers between levels in the fair value hierarchy.

### C.3 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2018.

### C.4 Finance Income and Finance Costs

| | Dec 2018 $000 | Dec 2017 $000 |
|---|---|---|
| **Finance income** | | |
| Interest income | **14** | 11 |
| Change in fair value of share option liability | **-** | 100 |
| **Finance income** | **14** | 111 |
| **Finance costs** | | |
| Interest expense on liabilities measured at amortised cost | **(589)** | (546) |
| Foreign currency losses | **(472)** | (204) |
| Other expenses | **(23)** | (64) |
| **Finance costs** | **(1,084)** | (814) |
| **Net finance costs** | **(1,070)** | (703) |

## C. Capital and Financial Risk Management

### C.5 Share Capital

**Movements in Share Capital**

| | Dec 2018 Shares | June 2018 Shares | Dec 2018 $000 | June 2018 $000 |
|---|---|---|---|---|
| Opening balance | **562,880,792** | 562,880,792 | **109,118** | 109,118 |
| Shares issued under share based payments arrangements | **1,147,525** | - | **-** | - |
| Closing balance | **564,028,317** | 562,880,792 | **109,118** | 109,118 |

During the half year, the Company issued 1,147,525 (2018 Nil) shares pursuant to share-based payment arrangements with certain key management personnel.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

**Options**

Movements in unissued shares under option:

| | Dec 2018 No of options | June 2018 No of options |
|---|---|---|
| Opening balance | **25,000,000** | 25,000,000 |
| Options lapsed | **(25,000,000)** | - |
| Closing balance | **-** | 25,000,000 |

These options did not entitle the holders to participate in any share issue of the Company or any other body corporate.

### C.6 Capital and other commitments

**Capital Commitments**

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | Dec 2018 $000 | June 2018 $000 |
|---|---|---|
| Property, plant and equipment | **982** | 796 |

# D. Operating Assets and Liabilities

This section provides information relating to the operating assets and liabilities of the Group. Quickstep has a strong focus on maintaining a strong balance sheet through continued focus on cash conversion. The Group's strategy also considers expenditure, growth and acquisition requirements.

**D.1 Trade and Other Receivables**
**D.2 Inventories**
**D.3 Contract Liability**
**D.4 Property, Plant and Equipment**

## D.1 Trade and Other Receivables

| | Dec 2018 $000 | June 2018 $000 |
|---|---|---|
| **Current assets** | | |
| Trade receivables | **5,145** | 3,971 |
| Other receivables | **817** | 480 |
| | **5,962** | 4,451 |

All trade receivables are current.

## D.2 Inventories

| | Dec 2018 $000 | June 2018 $000 |
|---|---|---|
| **Current assets** | | |
| **Raw materials and consumables** | **9,208** | **4,917** |
| **Work in progress** | **96** | **4,650** |
| **Finished goods** | **-** | **550** |
| **Provision for writedown** | **(129)** | **(102)** |
| | **9,175** | **10,015** |

## D.3 Contract Liability

| | Dec 2018 $000 | June 2018 $000 |
|---|---|---|
| Current | **3,254** | 2,394 |

The amounts reported as contract liability relate to Lockheed Martin Aeronautics Co – a 30% advance payment for long lead time materials for C-130J wing flaps. Income will be recognised by September 2019.

# D. Operating Assets and Liabilities

## D.4 Property, Plant and Equipment

| | Plant and equipment $000 | Assets under construction $000 | Office furniture & equipment $000 | Total $000 |
|---|---|---|---|---|
| **Dec 2018** | | | | |
| Opening net book amount | **12,520** | **574** | **143** | **13,237** |
| Additions | **-** | **2,253** | **-** | **2,253** |
| Proceeds from customer funding | **-** | **(1,855)** | **-** | **(1,855)** |
| Transfers from assets under construction | **-** | **-** | **-** | **-** |
| Disposals | **-** | **-** | **-** | **-** |
| Amortisation of grant | **203** | **-** | **-** | **203** |
| Depreciation charge | **(1,108)** | **-** | **(26)** | **(1,134)** |
| **Closing net book amount** | **11,615** | **972** | **117** | **12,704** |
| *Cost* | **32,156** | **972** | **725** | **33,853** |
| *Accumulated depreciation* | **(20,541)** | **-** | **(608)** | **(21,149)** |
| **June 2018** | | | | |
| Opening net book amount | 13,847 | 782 | 124 | 14,753 |
| Additions | - | 1,165 | - | 1,165 |
| Government grant received | (141) | - | - | (141) |
| Transfers from assets under construction | 1,285 | (1,373) | 88 | - |
| Effect of movements in exchange rates | (37) | - | (25) | (62) |
| Amortisation of grant | 488 | - | - | 488 |
| Depreciation charge | (2,922) | - | (44) | (2,966) |
| Closing net book amount | 12,520 | 574 | 143 | 13,237 |
| *Cost* | 32,156 | 574 | 725 | 33,455 |
| *Accumulated depreciation* | (19,636) | - | (582) | (20,218) |

## E. Other Disclosures

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements.



### E.1 Subsequent Events

On 12 February 2019, Quickstep announced a small shareholding sales facility in accordance with ASX Listing Rules and the Company's Constitution. This affects shareholders with parcels of ordinary shares with a market value of less than $500 as at 29 March 2019. These shareholders need to elect to retain their shares by that date or the shareholdings will be sold with the transaction costs being covered by Quickstep and the proceeds returned to the shareholder.

There have been no other matters or circumstances that have arisen since 31 December 2018 up to the date of this report that would significantly affect:

- the operations of the Consolidated Entity;
- the results of those operations; and
- the state of affairs of the Consolidated Entity.

### E.2 Changes in Significant Accounting Policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2018.

The changes to the accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2019.

The Group has initially adopted AASB 15 *Revenue from Contracts with Customers.* A number of other new standards are effective from 1 July 2018, such as AASB9 *Financial Instruments*, but they do not have a material effect on the Group's financial statements.

#### *AASB 15 Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It has replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations.

Under AASB 118, revenue for made-to-order parts was recognised when the goods were delivered to the customers' premises, which was taken to be at the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred.

Under AASB 15 the Group has determined that for made-to-order parts, the customer controls all the work in progress as the products are being manufactured. This is because under those contracts parts are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Therefore, revenue from these contracts and the associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises. Invoices are issued according to contractual terms. Uninvoiced amounts are presented as contract assets.

## E.2 Changes in Significant Accounting Policies

### *AASB 15 Revenue from Contracts with Customers*

The Group has adopted AASB 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application, 1 July, 2018. Accordingly, the information presented for the year ended 30 June 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

The following table summarises the impact, net of tax, of transition to AASB 15 on the consolidated balance sheet as at 1 July 2018

### Impact on Opening Consolidated Balance Sheet at 1 July 2018

| | June 2018 As reported $000 | Impact of adopting AASB 15 $000 | 1 July 2018 opening $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **2,862** | - | 2,862 |
| Derivative financial instruments | **239** | - | 239 |
| Term deposits | **810** | - | 810 |
| Trade and other receivables | **4,451** | - | 4,451 |
| Prepayment and other assets | **556** | - | 556 |
| Contract revenue assets | **-** | 6,289 | 6,289 |
| Inventories | **10,015** | (5,142) | 4,873 |
| **Total current assets** | **18,933** | 1,147 | 20,080 |
| **Non-current assets** | **13,257** | - | 13,257 |
| **Total assets** | **32,190** | 1,147 | 33,337 |
| | | | |
| **LIABILITIES** | | | |
| **Total liabilities** | **26,404** | - | 26,404 |
| **Net assets** | **5,786** | 1,147 | 6,933 |
| | | | |
| **EQUITY** | | | |
| Share capital | **109,118** | - | 109,118 |
| Reserves | **4,573** | - | 4,573 |
| Accumulated losses | **(107,905)** | 1,147 | (106,758) |
| **Total equity** | **5,786** | 1,147 | 6,933 |

## E.2 Changes in Significant Accounting Policies

### *AASB 15 Revenue from Contracts with Customers*

The following tables summarises the impact of adopting AASB 15 on the Group's condensed consolidated balance sheet as at 31 December 2018 and its condensed consolidated statement of profit or loss for the six months then ended for each of the lines affected. There was no material impact on the Group's condensed consolidated statement of cash flows for the six month period ended 31 December 2018.

**Impact on Condensed Consolidated Balance Sheet as at 31 December 2018**

| | Dec 2018 reported $000 | Impact of adopting AASB 15 $000 | Dec 2018 without adoption of AASB 15 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **3,171** | - | 3,171 |
| Derivative financial instruments | **545** | - | 545 |
| Term deposits | **810** | - | 810 |
| Trade and other receivables | **5,962** | - | 5,962 |
| Prepayment and other assets | **493** | - | 493 |
| Contract revenue assets | **6,744** | (6,744) | - |
| Inventories | **9,175** | 5,343 | 14,518 |
| **Total current assets** | **26,900** | (1,401) | 25,499 |
| **Non-current assets** | **12,717** | | 12,717 |
| **Total assets** | **39,617** | (1,401) | 38,216 |
| | | | |
| **LIABILITIES** | | | |
| **Total liabilities** | **31,212** | | 31,212 |
| **Net assets** | **8,405** | (1,401) | 7,004 |
| | | | |
| **EQUITY** | | | |
| Share capital | **109,118** | | 109,118 |
| Reserves | **5,159** | - | 5,159 |
| Accumulated losses | **(105,872)** | (1,401) | (107,273) |
| **Total equity** | **8,405** | (1,401) | 7,004 |

## E.2 Changes in Significant Accounting Policies

### *AASB 15 Revenue from Contracts with Customers*

**Impact on Condensed Consolidated Statement of Profit and Loss and other Comprehensive Income for the half year ended 31 December 2018**

| | Dec 2018 reported $000 | Impact of adopting AASB15 $000 | Dec 2018 without adoption of AASB 15 $000 |
|---|---|---|---|
| Revenue | **33,849** | (455) | 33,394 |
| Cost of sales of goods | **(26,134)** | 201 | (25,933) |
| Gross profit | **7,715** | (254) | 7,461 |
| Other income | **122** | - | 122 |
| Research and development expenses | **(1,163)** | - | (1,163) |
| Business development expenses | **(894)** | - | (894) |
| Corporate and administrative expenses | **(3,824)** | - | (3,824) |
| **Profit from operating activities** | **1,956** | (254) | 1,702 |
| Finance income | **14** | - | 14 |
| Finance expenses | **(1,084)** | - | (1,084) |
| **Net finance costs** | **(1,070)** | - | (1,070) |
| Profit before income tax | **886** | (254) | 632 |
| Income tax benefit | **-** | - | - |
| **Profit for the half year** | **886** | (254) | 632 |
| **Other comprehensive income net of income tax** | | | |
| Item that may be reclassified to profit or loss | | | |
| Cash flow hedges | **306** | - | 306 |
| Exchange difference on translation of a foreign operation | **23** | - | 23 |
| Other comprehensive income for the period, net of income tax | **329** | - | 329 |
| **Total comprehensive income for the half year** | **1,215** | (254) | 961 |

## E. Other Disclosures

### E.3 New Accounting Standards not yet adopted

A number of new standards and amendments to standards are effective for annual accounting periods beginning after 1 July 2018 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these condensed consolidated interim financial statements.

The Group has the following update to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

#### *AASB 16 Leases*

AASB 16 replaces existing leases guidance, including AASB 117 *Leases,* Interpretation 4 *Determining whether an Arrangement contains a Lease,* Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard is effective for annual periods beginning on or after 1 July 2019.

AASB 16 introduces a single, on-balance sheet lease accounting model for leases. A lease recognises a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

To date the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of factory and office facilities and IT equipment. As at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to $ 8.9 million, on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change because AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. This standard permits either a full retrospective or a modified retrospective approach for the adoption. The standard is effective for the first interim period within annual reporting periods beginning after 1 January 2019. The Group will adopt AASB 16 from 1 July 2019 using the modified retrospective approach.

# Director's Declaration

## for the half-year ended 31 December 2018

In the Directors' opinion:

(a) the condensed consolidated half-year financial statements and notes set out on pages 8 to 24 are in accordance with the *Corporations Act 2001*, including:

i. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001;* and

ii. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

**Mr. M H Burgess**

Director

21 February 2019
Sydney, New South Wales