



PROMISES DELIVERED

ANNUAL
REPORT
2018

 Quickstep

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OUR ACHIEVEMENTS

\$59.0m

SALES REVENUE
UP 13.7%

45%

JSF CONTRACT
REVENUE UP BY

\$0.9m

EBIT FOR
H2 FY2018

\$4.7m

EBITDA
IMPROVEMENT

5%

GROSS MARGIN
PERCENTAGE UP
IN H2 V'S H1

5 yr

CONTRACT
EXTENSION
C-130J

\$3.5m

ONEQUICKSTEP
ANNUAL COST
SAVINGS

New

BUSINESS WITH
BOEING AND
CHEMRING

1st

INDUSTRIAL
USE OF QURE
WITH MICRO-X

LEAN

PROGRAMS
HAVING
AN IMPACT



APPROVED
SUPPLIER
STATUS WITH
BOEING AND
AIRBUS



SINGLE R&D
CENTRE OF
EXCELLENCE



COLLABORATIONS
WITH GENERAL
ATOMICS AND
TRIUMPH GROUP



SUCCESSFUL
FRONT FENDER
DEMONSTRATION
PROJECT

Sales

AND
MANUFACTURING
AGREEMENT
WITH THE
ATR GROUP

OUR PROMISES TO SHAREHOLDERS – DELIVERED.

- ✓ Simplify management and Board structure
- ✓ Realign R&D and reduced costs in FY2018
- ✓ Close Germany/Consolidate at Geelong
- ✓ Cease non-core programs
- ✓ Cost savings of \$3.5m versus FY2017
- ✓ Improve Gross Margin
- ✓ Increased investment in business development
- ✓ Lean programs at Bankstown and Geelong
- ✓ Further develop Qure and QPS solutions
- ✓ Grow sales by >10% in FY2018
- ✓ Secure new customers and contracts
- ✓ Establish partnership opportunities
- ✓ Positive in H2 FY2018

CHAIR'S

REPORT

FY2018 was a significant year for Quickstep with the achievement of net profit in the second half of the year for the first time in the history of the company and the securing of additional future work to drive continued revenue growth. In FY2018, we have delivered as we promised at last year's Annual General Meeting, on the following:

14% 

INCREASE IN ANNUAL SALES REVENUE

+ EBIT

POSITIVE EBIT FOR THE SECOND HALF OF FY18

COSTS 

COST SAVINGS AND EFFICIENCY IMPROVEMENTS

**SECURING
NEW BUSINESS
FOR THE FUTURE**



PROFITABILITY AND GROWTH – AS PROMISED.

FINANCIAL PERFORMANCE

Our financial results for FY2018 reflect the success of the **OneQuickstep** change program, combined with JSF program volume growth, which has resulted in sales revenue increasing 14% from \$51.9 million in FY2017 to \$59.0 million in FY2018.

OneQuickstep continues to realign our company for growth and profitability, evidenced through \$0.9 million EBIT and positive net profit after tax in the second half of FY2018. Costs were reduced by \$3.5 million in FY2018 through initiatives including closure of our German operations, consolidation of our R&D operations at Geelong and ceasing non-core programs. Lean enterprise programs have commenced at both our Bankstown and Geelong sites, increasing efficiency and productivity, and our second half gross margin was 5% higher than the first half. Earnings before interest, tax and research and development costs (EBIT before R&D) were \$2.4 million for FY2018, compared to an operating loss before R&D of \$0.2 million in FY2017.

Our operating cash flow for the second half was \$3.6 million, compared to a cash outflow of \$4.3 million in the first half, reflecting the \$3.2 million improvement in EBITDA in the second half compared to the first half and our improved working capital management. Our full year net loss improved to a loss of \$2.9 million for FY2018, from a net loss of \$6.7 million in FY2017, despite a non-cash \$0.5 million decrease in gains from the revaluation of share options included in net finance costs. We expect that these improvements in EBIT and cashflow will continue in FY2019 and beyond.

BUSINESS IMPROVEMENT AND GROWTH

FY2018 saw a substantial change in the senior management team at Quickstep, under the leadership of Mark Burgess, our CEO and Managing Director. Mark has implemented a much leaner, but highly capable and focused leadership team, with extensive aerospace, defence and broader manufacturing and automotive experience. This team has the skills, experience and capabilities to further accelerate our growth and profitability in an effective and sustainable manner.

In FY2018, Quickstep secured two new export programs with Boeing Defense, became an approved supplier for Boeing opening opportunities across the Boeing Company, and for Airbus Australia Pacific. We are also a member of the General Atomics-led Team Reaper Australia partnership which is tendering for Australian Remotely Piloted Aircraft systems business.

In July 2018 we announced that we had secured a new project to produce carbon fibre composite housings for an F-35 counter-measure flare for Chemring Australia, further expanding our advanced manufacturing capability. We also announced we have signed a letter of intent to work jointly on future projects with Triumph Aerospace Structures, a major Tier One aerostructures supplier in the US market.

We have also recently signed a Memorandum of Understanding (MoU) with Lockheed Martin for a Long Term Flexible Contract (LTFC) associated with the ongoing supply of C-130J/LM-100J wing flaps for an additional five-years, covering the period 2020 to 2024. We have an existing contract with Lockheed Martin to provide wing flaps for the C-130J/LM-100J aircraft through to end-2019, and this contract extension will continue our successful supply chain relationship with Lockheed Martin.

In FY2018 we also completed a successful manufacturing trial using our patented Qure technology to produce demonstration automotive front fenders for a European luxury car manufacturer and we entered into a sales and manufacturing agreement with The ATR Group, a leading Italian supplier of advanced manufacturing composite components for the aerospace and automotive sectors.

CLOSING REMARKS

In closing, I would like to recognise the ongoing support of our shareholders, customers and suppliers and my fellow Board members. I would also like to acknowledge the departure of three Directors, Air Marshal Errol McCormack (Ret'd) AO, Peter Cook and Nigel Ampherlaw, in November 2017. I sincerely thank Errol, Peter and Nigel for the support and the hard work they provided during their tenure on the Quickstep Board. Finally, I would also like to thank Mark Burgess, the executive management team and all of our staff at Quickstep, for their hard work and dedication throughout FY2018.

We have had an extremely encouraging year in FY2018 and have a positive outlook for the year ahead. Quickstep remains focused on delivering our secured aerospace and defence programs, on target R&D to accelerate growth, and on further improvement and change through our **OneQuickstep** initiative. Our strong order book, patented technologies and operational competitiveness will provide us with the opportunity to accelerate our international growth and provide all our stakeholders with a long-term sustainable business.

TONY QUICK

Chair

CEO

AND MANAGING DIRECTOR'S REPORT

I am extremely pleased to deliver this report to you, following my first full year in the role as the CEO and Managing Director of Quickstep. In FY2018 we implemented a range of significant improvement initiatives under the **ONEQUICKSTEP** banner to shift the business towards long-term profitability and accelerated growth, with the aim of delivering real and sustainable value to all our stakeholders. Initiatives undertaken include:

- > Focused R&D
- > Lean Manufacturing
- > New contracts and customer diversification
- > Tiered Growth Plan



ONEQUICKSTEP – IMPROVEMENT, GROWTH AND MARGIN EXPANSION

I am immensely proud of what has been achieved in FY2018 and genuinely excited about the outlook for the business over the next five years. Over the past twelve months we have put in place a number of the key building-blocks that will provide us with the opportunity to accelerate our global growth and provide all of our shareholders with long-term sustainable returns.

ONEQUICKSTEP

Throughout FY2018 we have progressively introduced and ramped-up the **OneQuickstep** program, which focuses on having a unified and progressive culture across the entire Quickstep business. **OneQuickstep** is our value system and it drives our business culture through:

- > Aligned Company Strategy
- > Shared Vision and Mission
- > High Performance Culture
- > Operational Excellence
- > Standardised Systems/Processes
- > Leadership and Teamwork

FY2018 has seen substantial changes to the business through our **OneQuickstep** initiatives and we have made significant improvements and gains. We achieved cost savings of \$3.5 million in FY2018, with our gross margin improving by five percentage points in the second half compared to the first half. We achieved positive EBIT in the second half, as we promised.

FOCUSED R&D

We closed our German operations in FY2017 and have relocated all of our R&D and process development activities into our Geelong operation at Deakin University's Waurin Ponds campus. This global centre of excellence in Geelong also supports a range of activities for our Bankstown facility. We further commercialised the Qure process and its capability has been increased to higher specifications (equivalent to Autoclave for aerospace applications). We now have an upgraded Qure cell that is fully operational at our Geelong site. We did all of this by being focused, while reducing our R&D spend year-on-year by \$1.8 million.

LEAN MANUFACTURING

Continually improving our advanced manufacturing capability is a central element of Quickstep's overall strategy. We have placed ourselves at the forefront of available technology by pursuing and winning highly complex, close-tolerance work and commissioning 'state-of-the-art' advanced manufacturing equipment in Bankstown and Geelong. During FY2018 we commenced the implementation of lean manufacturing systems and practices internally at each of our manufacturing facilities and across all business processes and customer programs. We are focusing on production rate improvement, process efficiency, automation, one piece material flow, continuous improvement and cost competitiveness.

We have invested over \$35 million since 2012 on installed capital base and we can now undertake a complete range of advanced manufacturing operations internally including:

- > CNC (Computer numerical control) ply cutting & laser-guided material lay-up
- > Autoclave and Out-of-Autoclave curing of composites
- > Range of sophisticated NDT (non-destructive testing) processes
- > PMM (Precision Milling Machine) cells and robotic trimming
- > Robotic/Automated drilling and riveting
- > Complex assembly and painting
- > Laboratory testing of materials/components

We are focused on further enhancing our advanced manufacturing facilities through the adoption of digital manufacturing and Industry 4.0 techniques and practices to deliver a fully integrated and world-class advanced manufacturing capability to our customers.

BUSINESS GROWTH

During FY2018 we continued to work with existing and new customers on development proposals for new business opportunities, resulting in:

BOEING DEFENSE

We secured two new contracts from Boeing Defense for F-15 and F-18 components. These contracts add a new tier 1 customer, new aircraft platforms and part families to our customer portfolio. We also achieved Approved Supplier status with Boeing in FY2018, which will open significant future business opportunities across the Boeing Company.

GENERAL ATOMICS

We are partnering with General Atomics in the 'Team Reaper' tender for Remotely Piloted Aircraft (RPA) systems. This partnership is progressing well and may lead to additional project opportunities with General Atomics in the near-term.

LOCKHEED MARTIN

We recently announced that we have signed a Memorandum of Understanding (MoU) for a Long Term Flexible Contract (LTFC) associated with the ongoing supply of C-130J/LM-100J wing flaps for an additional five-years, covering the period 2020 to 2024. We have an existing contract with Lockheed Martin to provide these wing flaps through to end-2019, and this contract extension will continue this successful supply chain relationship.

AIRBUS

We secured Approved Supplier status with Airbus Australia Pacific allowing us to formally quote for new business.



ONEQUICKSTEP

HAS ACHIEVED A COST SAVING OF

\$3.5m 



U.S. MARKET

We appointed a senior Business Development leader in FY2018, based in Texas. This will allow for more regular and deeper engagement with existing and potential new U.S. customers.

CHEMRING

We have secured U.S. and Australian government funding to produce composite housings for an F-35 Lightning II countermeasure flare for a new customer, Chemring Australia. We will be commissioning an advanced new manufacturing cell at Bankstown during FY2019, extending our capability to support the F-35 Program and other defence and aerospace projects.

TRIUMPH

We signed a Letter of Intent for future collaboration with Triumph Group (US), a global leader in manufacturing and overhauling aerospace structures, systems, and components. Quickstep and Triumph have already identified future collaboration opportunities in Australia and the U.S.

ATR GROUP

We signed a Manufacturing Partnership Agreement with ATR Group, a leading Italian company that designs, prototypes and manufactures structural parts and components in advanced composite materials for the automotive and aerospace sectors.

FRONT FENDER PROJECT

We completed a successful manufacturing trial using our patented Qure technology to produce advanced prototype automotive front fenders for a European luxury car manufacturer. This activity will be progressed further in FY2019.

GROWING CORE BUSINESS

Our strong delivery and quality performance in FY2018 to Lockheed Martin, Northrop Grumman and BAE Systems/Marand, has also resulted in discussions and current proposals on a number of new supply opportunities with these customers.

OUTLOOK FOR FY2019

FY2019 will be another significant year for Quickstep: a year of continued volume expansion, product development and the further acceleration of our growth plans. We will be targeting our research and development (R&D) expenditure in FY2019 on commercialisation of our patented Qure process and exploitation of the Quickstep Production System (QPS) in the aerospace, defence and other advanced manufacturing sectors, such as automotive and medical devices.

We anticipate that the business will continue to improve in FY2019 as our JSF deliveries ramp up towards peak production volumes. We expect that our revenue will grow by more than 20% in FY2019 and our gross margins will continue to improve as we benefit from economies of scale and increasing efficiencies from our lean manufacturing activities. We therefore expect to deliver positive EBIT and positive operating cash flow for FY2019.

Quickstep has significant growth potential through securing composite manufacturing contracts, primarily in the aerospace sector, using our advanced manufacturing technologies to provide customers with product and process solutions. We will continue to focus on winning new customers and contracts in FY2019, and supporting growth through partnerships to build scale. We plan to further accelerate our business development activities in FY2019 to win additional business, through our tiered growth strategy:

- > **Core Defence Aerospace:** Increasing revenue and diversifying our customer base within the Defence/Aerospace sector utilising our existing Bankstown facilities, while expanding our core capabilities
- > **Aerospace Qure/Advanced Manufacturing Deployment:** Strategic growth within the Aerospace and other sectors, using our Qure process and innovative technology solutions to attract new business opportunities
- > **Step-change Growth:** Step change to Commercial Aerospace supply. Securing of large global programs and/or inorganic growth across the wider defence, commercial aerospace and automotive industries

Over the next three years we expect to benefit from increasing JSF production and higher margins. Our enhanced business development activities and healthy project pipeline have us well positioned for future profitable growth. Throughout FY2019, Quickstep will continue to be focused on high value, expanding global markets while strengthening our position as Australia's leading independent carbon fibre composites manufacturer.

CLOSING REMARKS

In closing, I would like to sincerely thank all of our shareholders, customers and partners for their ongoing support and confidence in Quickstep. We have a great company, with a unique value proposition, and this is now being seen and recognised by all our stakeholders and potential customers. I would like to take this opportunity to welcome Alan Tilley, our new Chief Financial Officer (CFO) to the Quickstep leadership team and thank our outgoing CFO, Andrew Crane, for his effort and support over his two and a half years with us. I would also like to welcome Gary Robinson as our Executive General Manager, Operations. Gary is a qualified aeronautical engineer with extensive operations experience to the leadership team. Gary joined us on a permanent basis in September 2018.

Finally, I would like to acknowledge the support and dedication of our Board of Directors, our leadership team and, in particular, all our dedicated employees – without you we would not be the great company we are today, your efforts are greatly appreciated.

MARK BURGESS

CEO and Managing Director



\$35m 

INVESTED ON INSTALLED CAPITAL BASE SINCE 2012

REVIEW OF

OPERATIONS

AEROSPACE PRODUCTION RAMPS UP AND WILL CONTINUE TO GROW

Quickstep currently has two advanced manufacturing facilities in Australia:

BANKSTOWN, NSW:

Hosts our corporate headquarters and a 16,000 sqm state of the art aerospace composite manufacturing plant at Bankstown Airport in south-west Sydney. This advanced manufacturing facility positions Quickstep as Australia's largest independent advanced composite manufacturer, capable of almost all facets of aerospace and defence composite manufacturing contract work.

GEELONG, VICTORIA:

In Geelong we have a dedicated R&D team and fully-equipped low volume production facilities, located at Deakin University's Waurin Ponds campus, focused on developing and delivering composite manufacturing solutions. R&D capabilities on site include: Design Engineering, Materials Development and Testing; Process Engineering and Automation; Tooling Design and; Program Management and implementation. Deakin University and the Carbon Cluster both provide enviable depth to a broad R&D capability.

TEXAS, USA:

In FY2018, Quickstep established a representative office in Texas, in the USA, to support future growth in the North American market. This will allow more regular and deeper engagement with existing and potential USA customers and, progressively, enable the localisation of supply chain and quality management, as well as potential manufacturing partnerships.

EUROPE:

During FY2018 we also established a European Sales and Manufacturing Agreement with The ATR Group in Italy. The collaboration will focus on developing sales and parts manufacturing opportunities with customers in both the automotive and aerospace sectors, aligned with Quickstep's growth strategy. Emphasis will be on the commercialisation of our out-of-autoclave process technology Qure and QPS for the manufacturing of advanced composite components and assemblies in the European market.

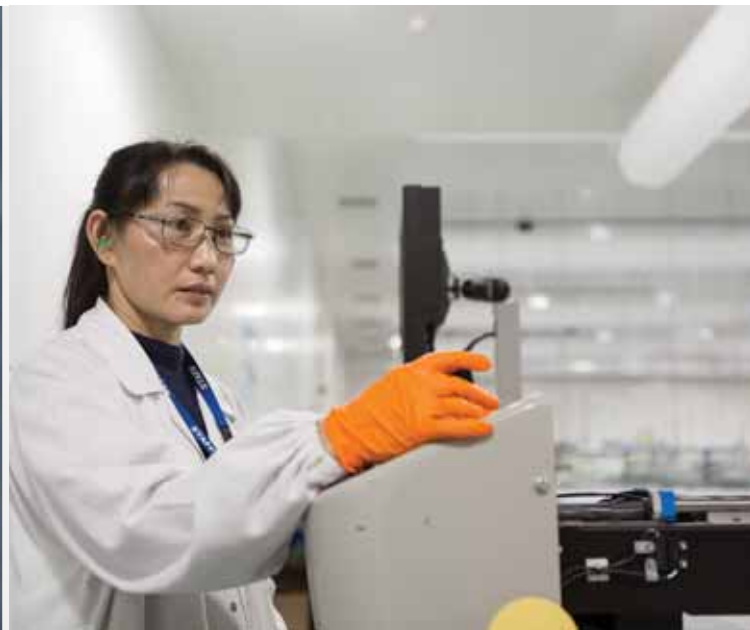


GEELONG OPERATIONS

The Geelong facility underwent a number of significant changes in FY2018, as a result of focusing our overall R&D spend, ceasing some non-core activities that no longer fit our long-term growth plans and centralising all of our R&D and technology development activities for the Quickstep group at the Geelong site. A lean enterprise program was also commenced at the Geelong site in FY2018.

A number of advanced manufacturing projects were undertaken in FY2018 at our Geelong facility, involving the application of our advanced composites solutions and the industrialisation of our patented 'Qure' process technology. These advanced manufacturing projects included:

- > **MICRO-X:** Production is continuing for the manufacturing of a carbon fibre chassis for a portable x-ray device. This program uses the Qure process and the device is being sold in export markets. Volumes at present are low, but are anticipated to increase in the future
- > **FRONT FENDER:** Development and demonstration of an advanced production solution, using Qure, for a complex engineered part for a European luxury vehicle manufacturer. This process will improve production rates and has multi-segment applicability. It is anticipated that further work will occur on this project in FY2019
- > **QPS:** Further development of the Quickstep Production System (QPS), a complete material-to-finished part solution for the manufacturing of advanced composite parts
- > **CHEMRING:** Development of an advanced manufacturing cell, using QPS, to produce carbon fibre composite housings for an F-35 counter-measure flare for Chemring Australia. This will be industrialised by Geelong in FY2019 for implementation at the Bankstown site.



BANKSTOWN OPERATIONS

In FY2018, Quickstep accelerated the implementation of an advanced lean production system at Bankstown, focused on rate improvement, process efficiency, automation and one piece material flow. Manufacturing practices and operational efficiency were improved significantly during FY2018 at the Bankstown facility through a number of important initiatives including:

- > Robotic drilling and fastening fully commissioned on the C-130J line, replacing manual operations
- > Upgrading of autoclave control systems, resulting in more efficient cure cycles and improved quality
- > Re-layout of the JSF and C-130J production lines to improve material and workflow
- > Scrap reduction through pareto analysis and continuous improvement processes
- > Lean manufacturing training and the expansion of our internal Continuous Improvement Program (CIP), including the appointment of a full-time CIP Manager
- > Training and development programs to improve workforce skills and capabilities, including leadership training and composites training for new operators by TAFE NSW

Revenue from Quickstep's Joint Strike Fighter (JSF) F-35 aircraft contracts for FY2018 was up 45% from FY2017 as deliveries accelerated. JSF revenues are expected to increase by more than 40% in FY2019, in line with the growing F-35 production schedule which has delivered 310 JSF aircraft to date.

C-130J wing flaps production continued at the long-term rate of two ship-sets per month and, during August, Quickstep secured a contract extension for production of these parts for a further five-year period from 2020 to 2024.

\$59.0m

TOTAL REVENUE

 up 14%

QLD

NSW

VIC

JEAN ENGLAND | C130 COMPOSITE TEAM LEADER

"I've put forward four successful candidates for our Employee Referral Program because Quickstep is a great company to work for. My candidates are in all their 20s. They have a future here if they want, all the way to Management plus it's great to pass on our knowledge for when the older employees retire."



OUR PEOPLE

We continue to focus on building Quickstep as an 'Employer of Choice', providing our employees with career opportunities across a wide and varied range of disciplines, our Employee Referral Program is testament to this. **ONEQUICKSTEP** has established and reinforced that we are a values based organisation and we are continuing to build a work culture and workplace environment that attracts and retains talented individuals that can work together collaboratively to achieve great outcomes. We focus on supporting well-being and flexibility through our policies and practices such as purchasing additional annual leave, transition to retirement, flexibility, domestic violence support and paid parental leave. We challenge and develop our people through professional development programs and our partnership with TAFE NSW allows us to continue to grow the capability of our workforce, to be ready and able to expand and meet the needs of existing and new programs and customers. It is truly an exciting time to be part of Quickstep.

ANDY MILLER | PRODUCT ENGINEER

"The R&D team has applied our patented Qure technology to process the complex 3D geometry of a composite automotive fender, demonstrating improved part quality, while reducing curing times and capital infrastructure costs compared to equivalent autoclave production parts."



MICHAEL BAKER | INDUSTRIAL & MANUFACTURING ENGINEER

"As Process Engineering Lead, my role is to effectively manage our team of Manufacturing and Industrial Engineers across all existing and incoming programs on the Bankstown site to ensure we meet safety, quality and cost requirements and achieve the best possible outcomes for the business."

SERENA LIU | TECHNICAL PLANNER

“As a graduate engineer, I never thought I would be able to work at the forefront of advanced composites technology, this early on in my career. Being able to contribute to one of the world’s most innovative and technological advancements while working alongside experts in the industry, is providing me with invaluable experience.”

CHRIS LITTLE | PURCHASING SPECIALIST

“I’m excited to be working for an Australian business leading the way in carbon composite manufacture and solutions as part of great team of people full of energy and knowledge with different skill sets to grow and learn from.”

**STEVE OSBORNE
BUSINESS DEVELOPMENT
DIRECTOR USA**

“This year saw the establishment of Quickstep USA Inc. in Houston, Texas. This is an important step in strengthening our key US industry relationships and this investment should be instrumental in securing Quickstep significant opportunities in the near future.”

KAMINI PATEL | QUALITY ENGINEER

*“As a Quality Engineer, with **ONEQUICKSTEP** vision, I am proud to be an integral part of the Continuous Improvement activity in the business.”*



BOARD OF DIRECTORS

The Quickstep Board underwent some change in FY2018 and now consists of four Directors, led by Tony Quick, as Chair. Our strong and experienced Board has extensive aerospace and automotive manufacturing experience and is well credentialed to lead and guide the business towards accelerated growth and improved profitability.

TONY QUICK, CHAIRMAN

MARK BURGESS, CEO & MANAGING DIRECTOR

JAMES DOUGLAS, NON-EXECUTIVE DIRECTOR

BRUCE GRIFFITHS OAM, NON-EXECUTIVE DIRECTOR

JAIME PINTO, COMPANY SECRETARY

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 year ended 30 June 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 financial 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

The following persons were Directors of Quickstep Holdings Limited, from 1 July 2017 to 28 November 2017 when they retired at the 2017 Annual General Meeting:

Mr. N I Ampherlaw
Mr. P C Cook
Air Marshal E J McCormack (Ret'd)

Principal Activities

During the year the principal continuing activities of the Group consisted of:

- production of parts for Northrop Grumman for the Joint Strike Fighter Project
- production of C-130J wing flaps for Lockheed Martin
- production of parts for Joint Strike Fighter vertical tails for BAE Systems and Marand Precision Engineering
- manufacturing and development of parts using Qure technology
- continued development of technologies for scaled volume production

Dividends

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2017 \$Nil).

Review of Operations

Total sales for the year ended 30 June 2018 were \$59.0 million (FY17 \$51.9 million) representing a 13.7% increase year on year. The increase is attributable to volume growth in the Joint Strike Fighter (JSF) program marginally above plan and consistent with the continuing ramp up of the program towards full production. Total JSF revenue was \$38.6 million (FY17 \$26.7 million) being a 45% lift on prior year. Revenue from the C – 130 contract of \$18.8 million was slightly ahead of plan and marginally down on previous year reflecting the mature nature of this revenue stream. The ongoing ramp up in JSF volumes is the principal driver behind FY18 H2 revenue of \$31.2 million being 12% or \$3.4 million more than FY18 H1. Quickstep remains on track to deliver higher JSF volumes over the next two years with JSF revenue expected to increase further in FY19.

The operating loss for FY18 of \$1.3 million is an improvement of \$4.4 million on the prior year including a gross profit improvement of \$1.6 million, reduction in spend on research and development of \$1.8 million and \$1.0 million less spend on corporate and other costs. This improvement reflects actions taken in H1 as part of the **OneQuickstep** initiative including Lean programs, more focussed R&D and a drive to reduce corporate costs and improve operational efficiency. The actions taken as part of **OneQuickstep** early in FY18 have helped deliver an operating profit of \$0.9 million in H2 compared to a \$2.2 million loss in the first half.

DIRECTORS' REPORT

Review of Operations

The FY18 net loss of \$2.9 million is an improvement of \$3.8 million on the prior year comprising the \$4.4 million operating loss reduction noted above partially offset by a \$0.6 million decrease in gains from share option revaluation, a non cash item.

Cash from operating activities for FY18 was \$(0.7million), compared to \$0.1 million in FY17 with the working capital balances as at 30 June 2018 representing a more sustainable position and funding JSF volume growth. EBITDA has materially improved between FY17 and FY18 from \$(3.5 million) to \$1.2 million as a consequence of the lift in revenues, lean initiatives and drive to reduce costs. Positive operating cash flow for H2 of \$3.6 million is a material improvement on the H1 operating cash outflow \$(4.3 million).

Total loans outstanding as at 30 June 2018 are \$13.6 million, a decrease of \$2.0 million from December 2017 reflecting improved profitability and cash flows from operations. To fund the working capital requirements of the further lift in JSF volumes in FY19, an increase of \$4 million in the short term working capital facility has been secured.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Group during the financial year.

Events Since the end of the Financial Year

No matter or circumstance has arisen since 30 June 2018 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Shares under Options

Unissued ordinary shares of Quickstep Holdings Limited under option at the date of this report are as follows

Date Options granted	Expiry Date	Issue Price of Shares	Number Under Option
9 January 2015	31 December 2018	\$0.1625	25,000,000

No option holder has any right under the options to participate in any other share issue of the Company or any controlled entities.

No options were granted during the year, and no options granted in prior years were exercised during the year ending 30 June 2018. No other options have been granted since the end of the financial year.

DIRECTORS' REPORT

Information on Directors

The following information is current as at the date of this report

Mr. Tony H J Quick, MA (Cantab) Chair Independent Non-Executive Director - appointed 14 February 2013		
Experience and expertise	<p>Mr. Quick joined Quickstep following a highly successful career in the aerospace and defence industries. After graduating from Cambridge University, Mr. Quick spent most of his career in International Business Development, Program and Business Management. He joined an Aerospace composites business in 1988 and in 1993 he joined Westland Helicopters in England where he held senior international business development and program management roles. In October 2000 he left Westland to emigrate to Australia and, in 2001, set up GKN Aerospace Engineering Services Pty Ltd to service global demand for engineering services. The Company's parent, GKN Aerospace, was one of the world's largest independent first-tier suppliers to the global aviation industry providing integrated metal and composite assemblies for aerostructures and engine products. GKN Aerospace Engineering Services Pty Ltd provided design services to the F-35 Joint Strike Fighter program for Lockheed Martin and Northrop Grumman and grew to employ more than 240 aerospace engineering staff in Australia. He was a Director and General Manager of that company until 2009. Mr. Quick was the Director of the Defence Industry Innovation Centre, Enterprise Connect from 2009 to 2011.</p>	
Special responsibilities	Chair of the board	
Other current Directorships	Chair of the Defence Materials Technology Centre.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	746,162

Mr. Mark H Burgess CEO and Managing Director - appointed 18 May 2017		
Experience and expertise	<p>Mr Burgess joined Quickstep in May 2017 bringing with him over 20 years' experience in the global aerospace and defence industry, where his successful delivery of profitable growth and complex projects in advanced technology businesses has led to significant employer, customer and industry recognition. Mr Burgess has held leadership roles of increasing responsibility across Europe, USA, the Middle East and Asia Pacific. After a long career with BAE Systems covering sales, contracts, project and general management he joined Honeywell in 2013 as Vice President Honeywell Aerospace, Asia Pacific. During his four years at Honeywell, he was responsible for driving sustained profitable growth across a defence, space and commercial helicopter portfolio. Mr Burgess has extensive experience of governance and stakeholder management, working with public, private and not-for-profit sectors. He has managed several successful post acquisition integration projects and has held numerous board positions on subsidiaries and international joint ventures. He holds a degree in Politics and Economics from the University of Hull and has completed several post graduate studies in business and operations management.</p>	
Special responsibilities	Chief Executive Officer	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	289,500

DIRECTORS' REPORT

Information on Directors

Mr. James C Douglas, LLB, BSc Independent Non-Executive Director - appointed 19 December 2016		
Experience and expertise	Mr. Douglas is Chair of Australian automotive wheels manufacturer Carbon Revolution and a founder of investment firm Newmarket Capital, a strategic investor in the carbon fibre manufacturing sector. He is also an Investment Director at Acorn Capital. James has over 20 years of global investment banking and financial industry experience and has held former roles as Global Head of Consumer Products at Merrill Lynch, Head of Consumer Products – Americas at UBS and Head of Global Banking Australia & New Zealand at Citi. He holds a LLB and BSc from the University of Melbourne.	
Special responsibilities	Chair of the Audit, Risk and Compliance Committee from 29 November 2017.	
Other current Directorships	Chair of Carbon Revolution. Director of Newmarket Capital.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	980,401
	Rights to shares in Quickstep Holdings Limited (one third share of Newmarket)	8,333,333

Mr. Bruce A Griffiths, OAM Independent Non-Executive Director - appointed 14 February 2013		
Experience and expertise	Mr. Griffiths has had a successful and extensive career, spanning more than 40 years, in the manufacturing industry. He has held a number of senior Executive roles within the industry and has a long history in working with Government. Bruce was awarded the Order of Australia Medal for services to the automotive manufacturing industry and to the community. Previous appointments include: Rail Supplier Advocate from 2009 to 2014, Chair - Futuris Automotive Group (2007-2012), Managing Director - Futuris Automotive Group (1992 -2007), Chair - Air International Thermal Systems (2008-2011), Board Member - AutoCRC (Advanced Automotive Technology Ltd) (Inception -2012), Vice President of the Federation of Automotive Products Manufacturers (FAPM) (1990-2012). Member - Automotive Industry Innovation Council, Advisory Board Member - Enterprise Connect, Chair - Sail Melbourne ISAF Sailing World Cup. Mr. Griffiths' honors include: Order of Australia Medal - 2013, Centenary Medal for Services to the Development of the Auto Industry Policy, Victorian Manufacturing Hall of Fame for services to the Manufacturing Industry.	
Special responsibilities	Chair of the Remuneration, Nomination and Diversity Committee from 29 November 2017.	
Other current Directorships	Current appointments include: Board Member - Industry Capability Network Limited (ICNL), Director - Carbon Revolution Pty Limited	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	1,833,167

Mr. Nigel I Ampherlaw B Com, FCA, MAICD Independent Non-Executive Director – retired 28 November 2017		
Experience and expertise	Mr. Ampherlaw was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles. He has extensive experience in Risk Management, technology, consulting and auditing in Australia and the Asia-Pacific region.	
Special responsibilities	Chair of the Audit, Risk and Compliance Committee until 28 November 2017.	
Other Directorships as at 28 November 2017	Directorships included a Non-Executive Director of Credit Union Australia where he is Chairman elect, and member of the Strategy Committee; Elanor Investor Group where he is Chair of the Audit and Risk Committee and a member of the Remuneration and Nominations Committee; and a Non-Executive Director of the Australia Red Cross Blood Service, where he is a member of the Finance and Audit Committee and of the Risk Committee. He has also been a member of the Grameen Foundation Australia Charity Board since 2012.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited as at 28 November 2017	500,000

DIRECTORS' REPORT

Information on Directors

Mr. Peter C Cook, MPharm, CChem, FMonash, FRMIT, MPS, MRACI, MAICD Independent non-executive Director- retired 28 November 2017		
Experience and expertise	Mr. Cook's most recent Executive appointment was as Managing Director and CEO of Biota Holdings Limited. Mr. Cook has also held the positions of Managing Director and Chief Executive Officer of Orbital Corporation Limited, Chief Executive Officer of Faulding Hospital Pharmaceuticals, President of Ansell's Protective Products Division, Deputy Managing Director of Invetech and Director of Research and Development for Nicholas Kiwi. Mr. Cook has had extensive experience in the commercialisation of innovation, both in new and established markets. Mr. Cook also has considerable experience in mergers. Mr. Cook has had a wide exposure of international commercial experience in Europe, USA and Asia, where he has both lived and worked. He holds a Masters' Degree in Pharmacy, post graduate qualifications in Management from RMIT University and is a Fellow of Monash University.	
Special responsibilities	Chair of the Remuneration, Nomination and Diversity Committee until 28 November 2017	
Other Directorships as at 28 Nov 17	Chair, Pharmaceutical Science Advisory Group (Monash University), Chair, Monash Institute of Pharmaceutical Science's Foundation and Director Myostin Therapeutics.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited as at 28 November 2017	1,590,685

Air Marshal Errol J McCormack (Ret'd) AO Independent Non-Executive Director – retired 28 November 2017		
Experience and expertise	Mr. McCormack has extensive experience as a Senior Commander in the Royal Australian Air Force. Mr. McCormack served in the Royal Australian Air Force for 39 years, retiring in 2001 as Chief of Air Force with the rank of Air Marshal. During his period of service he commanded at unit, wing and command level, held staff positions in capability development, operations and educational posts and attended both RAAF and Joint Services Staff Colleges. His overseas postings included flying tours in Vietnam, Thailand, Malaysia and Singapore, an exchange tour with the US Air Force flying the RF4C, Air Attaché Washington and Commander Integrated Air Defence System in the Five Power Defence Agreement between Malaysia, Singapore, UK, New Zealand and Australia. Since his retirement from the RAAF he has established a company providing consultancy services for multi-national companies working with the Australian Department of Defence. His pro-bono work includes Deputy Chair of the Board of the Sir Richard Williams Foundation, an independent think-tank supporting development of Australian military aviation policy.	
Special responsibilities	Member of the Audit, Risk and Compliance Committee and the Remuneration, Nomination and Diversity Committee until 28 November 2017.	
Other Directorships as at 28 Nov 2017	Non-Executive Chairman of Chemring Australia Pty Ltd.	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited as at 28 November 2017	590,319

Mr. Jaime Pinto, B.Com, CA, AIGA Company Secretary - appointed 20 November 2012		
Experience and expertise	Mr. Pinto is a Chartered Accountant with over 20 years' experience in both professional practice and commerce. He has held senior finance roles in organisations of varying size and complexity, including small private businesses, large national groups and ASX listed entities. Mr. Pinto holds a Bachelor Degree in Commerce from the University of NSW, is a member of The Institute of Chartered Accountants Australia, and an Associate Member of Governance Institute.	
Other current roles	He is currently the Company Secretary of a number of ASX-listed and unlisted companies in the manufacturing, investing, real estate and advisory industries	
Interests in shares and options	Ordinary shares in Quickstep Holdings Limited	90,000

DIRECTORS' REPORT

Board Structure & Director Independence

The Company continually monitors the structure and performance of the Board to ensure it is of an appropriate size, composition and skill to lead the Company and meet its current governance and strategic needs.

The Chair manages the Board to achieve responsive and effective business outcomes with highly committed Directors. Quickstep has a Remuneration, Nomination and Diversity Committee (RND Committee), whose responsibilities include the development and on-going review of Board competencies, structure, performance and renewal. Both the RND Committee Charter and "Policy and Procedure for Selection and Appointment of Directors" are accessible from the Company's website as follows.

http://www.quickstep.com.au/files/files/359_OHL_RND_Committee_Charter_-_September_2014.pdf

http://www.quickstep.com.au/files/files/366_OHL_Selection_and_Appointment_of_Directors_Policy_V1_-_02102014.pdf

The Policy and Procedure for Selection and Appointment of Directors includes a matrix of skills that are considered necessary within the non-executive Director group to facilitate an effective and efficient Board. The RND Committee periodically reviews both this matrix and the Directors' actual skills mix to ensure they satisfy the current and immediately foreseeable needs of the Company.

The Board maintains a varied level of tenure amongst its Directors, which is seen as essential for its effective functioning given the significant growth and change experienced by Quickstep in recent years. This has resulted in both an influx of fresh ideas and the retention of sufficient Quickstep specific understanding to optimise strategic and operational changes. As the business evolves this is continually reviewed.

The Board is committed to a majority of its Directors being independent to ensure the Board acts in the best interests of the entity itself, its security holders and stakeholders generally. Director independence is assessed on a regular basis, and all Directors are required to advise the Board of any actual or potential conflicts of interest as they arise, with any such conflicts tabled at Board meetings.

In assessing independence the Board considers a number of factors which include, but are not limited to, the "Factors relevant to assessing the independence of a Director" listed in Recommendation 2.3 of the Corporate Governance Principles and Recommendations 3rd Edition established by the ASX Corporate Governance Council ("the ASX Principles and Recommendations").

Directors' Meetings

The numbers of meetings of the Company's board of Directors and of each board committee held during the financial year ended 30 June 2018, and the numbers of meetings attended by each Director were:

	Board Meetings		Audit, Risk and Compliance Committee Meetings		Remuneration, Nomination and Diversity Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr. T H J Quick	23	23	2	2	1	1
Mr. M H Burgess	22	22	-	-	-	-
Mr. J C Douglas	23	23	5	5	1	1
Mr. B A Griffiths	23	20	2	2	4	4
Mr. N I Ampherlaw	8	7	3	3	-	-
Mr. P C Cook	8	8	-	-	3	3
Air Marshal E J McCormack (Ret'd)	8	8	3	2	3	3

DIRECTORS' REPORT

Insurance of Officers and Indemnities

Except as indicated below, the Group has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer of the Group or of any related body corporate against a liability incurred as an officer.

Insurance

During the financial year, Quickstep Holdings Limited paid a premium in respect of a Directors' and officers' liability insurance policy, insuring the Directors of the Company, the Company Secretary and all executive officers of the Company and Group against a liability incurred as a Director, Secretary or executive officer to the extent permitted by the Corporations Act 2001.

The Directors have not included details of the nature of the liabilities covered or the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

Indemnities

The Group has indemnified the Directors (as named in this report) and all executive officers of the Group and of any related body corporate against any liability incurred as a Director, Secretary or executive officer to the maximum extent permitted by the Corporations Act 2001.

Non-Audit Services

During the financial year, KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Risk and Compliance Committee, are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons- all non-audit services have been reviewed by the audit and risk committee to ensure they do not impact the impartiality 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.

Details of the amounts paid to the auditor of the Group, KPMG, for non-audit services provided during the year are set out below:

	2018 \$	2017 \$
Grant – Assurances	5,000	23,200
Accounting and tax services	24,040	-
Total Non-Audit Fee	29,040	23,200

DIRECTORS' REPORT

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 65.

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.

Corporate Governance Statement

Quickstep's Corporate Governance Statement can be found on the Company's website at the following address: <http://www.quickstep.com.au/Investors-Media/Corporate-Governance>

This report is made in accordance with a resolution of Directors on 28 August 2018.



M H Burgess
Director
Sydney, New South Wales

REMUNERATION REPORT – AUDITED

The Directors present the Quickstep Holdings Limited 2018 remuneration report, outlining key aspects of the Group's remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

1. Principles of Compensation
2. Details of Remuneration
3. Share Based Compensation
4. Analysis of Bonuses included in Remuneration
5. Key Management Personnel Related Transactions

1. Principles of Compensation

Key Management Personnel (KMP) comprise the Directors of the company and the senior leadership team. KMP have authority and responsibility for planning, directing and controlling the activities of the Group.

The report includes details relating to:

Executive Director

Mr. M H Burgess Chief Executive Officer and Managing Director

Non-Executive Directors

Mr. T H J Quick Chair

Mr. J C Douglas Chair of Audit, Risk and Compliance Committee from 29 November 2017

Mr. B A Griffiths Chair of Remuneration, Nomination and Diversity Committee from 29 November 2017

Mr. N I Ampherlaw Chair of Audit, Risk and Compliance Committee retired 28 November 2017

Mr. P C Cook Chair of Remuneration, Nomination and Diversity Committee retired 28 November 2017

Air Marshal E J McCormack (Ret'd) Retired 28 November 2017

Other Key Management Personnel

Mr. J Pinto Company Secretary

Ms. J E Courtney-Pitman Chief Human Resources Officer

Mr. R L Mahon Chief Business Development and Technical Officer

Mr. A J Tilley Chief Financial Officer from 25 June 2018

Mr. A R Crane Chief Financial Officer until 24 June 2018

Mr. K J Boyle Chief Operating Officer until 20 April 2018

The Board has established a Remuneration, Nomination and Diversity (RN&D) Committee which assists the Board in formulating policies on and in determining:

- The remuneration packages of executive directors, non-executive directors and other key management personnel, and
- Cash bonuses and equity based incentive plans, including appropriate performance hurdles, total payments proposed and plan eligibility criteria.

If necessary, the RN&D Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Group. Further information on the role of the committee is contained in the charter available at <http://www.quickstep.com.au/Investors-Media/Corporate-Governance>.

Quickstep has also developed an Executive Remuneration Policy and a Director Remuneration Policy that are available on the Company's website at <http://www.quickstep.com.au/Investors-Media/Corporate-Governance>.

Compensation levels for KMP of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration structures are designed to reward the achievement of strategic objectives and achieve the broader outcome of value creation for shareholders. Compensation packages include a mix of fixed compensation, short-term cash incentives and equity-based incentives.

Shares, options or rights may only be issued to Directors subject to approval by shareholders in a general meeting.

REMUNERATION REPORT – AUDITED

1. Principles of Compensation

The Group does not have any scheme relating to retirement benefits for its KMP other than contributions defined under its statutory obligations.

The Company's policy is to provide executives with a competitive fixed compensation comparable to the median paid by like sized companies undertaking similar work and offers additional short and long term incentives to allow the executive to achieve top quartile compensation, if all performance hurdles are met. All incentives are capped.

The Company's policy is to provide non-executive Directors with a fixed fee comparable to the median of that paid by similar sized ASX listed companies operating in similar fields. Non-executive Directors are not eligible for participation in any of the Company's incentive schemes.

Fixed compensation

Fixed compensation consists of base compensation, as well as statutory employer contributions to superannuation.

Compensation levels are reviewed annually through a process that considers current labour market rates, the individual's contribution and overall performance of the Group. Compensation is also reviewed in the event of promotion or significant change in responsibilities.

Performance linked compensation

Performance linked compensation includes both short and long term incentives and is designed to reward key management personnel, excluding non-executive Directors, for meeting or exceeding the Company's business and their personal objectives. Each individual's performance linked compensation is capped as a percentage uplift of fixed compensation. Other than as disclosed in this report, there have been no performance-linked payments made by the Group to key management personnel.

Short Term Incentive - Cash and equity settled short term incentive

Certain KMP receive short-term incentives (STI) in cash and/or shares on achievement of key performance indicators (KPIs). Each year, the RN&D Committee considers the appropriate KPIs and associated targets to align individual rewards to the Group's performance. These targets include measures related to the annual performance of the Group and specific measures related to the activities of individual KMPs.

In FY18, nine Corporate KPIs were used, including four financial KPIs (weighting 35%), two KPIs relating to people and safety (weighting 15%), two growth and technology focused KPIs (weighting 20%) and one project and operational KPI (weighting 30%). The weighting of corporate KPIs used in the determination of an executive's STI ranged from 70% for functional specialists to 100% for the Chief Executive Officer and Chief Financial Officer.

The RN&D Committee is responsible for assessing whether the Corporate KPIs have been achieved and meet the criteria set out at the beginning of the year. Each year a limited number of corporate KPIs are designated as threshold metrics, with no STI payable to any executive if these are not achieved. In FY18 there was one financial threshold metric.

Actual performance is then assessed against both a target outcome and a stretch outcome. Where performance falls below the target outcome no payment is made against that KPI and where performance exceeds the stretch outcome the maximum stretch is payable. Where performance falls between target and stretch outcomes an appropriate proportion of the KPI is payable. When the target is achieved 50% of the weighting for the KPIs is payable. When both the target and stretch outcomes are achieved 100% of the weighting for the KPIs are payable.

After determining the overall achievement of KPIs based on the above review process and hurdle, the RN&D Committee has recommended that a STI is payable in respect of FY18.

REMUNERATION REPORT – AUDITED

1. Principles of Compensation

Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

In November 2013 the Company established the Quickstep Incentive Rights Plan (IRP). The IRP was designed to facilitate the Company moving towards best practice remuneration structures for executives, and offers under the IRP have been made to a number of executives since its introduction. The terms of the IRP were most recently approved by shareholders at the 2015 AGM.

The IRP authorises the granting of Rights to executives of the Company, in the form of Performance Rights (PRs) and/ or Deferred Rights (DRs) and/or Restricted Rights - (RRs) (together, Rights). These Rights represent an entitlement on vesting to fully paid ordinary shares in the issued capital of the Company (Shares) and cash with the total value of cash and shares being equal to the value of vested Rights (number of vested Rights x market value of a Share). PRs may vest if Performance Conditions are satisfied. DRs may vest if service conditions are satisfied. There were no RRs granted in FY18 and none arose from PRs or DRs.

The Board has the discretion to set the terms and conditions on which it will offer PRs under the IRP, including the performance conditions and modification of the terms and conditions as appropriate to ensuring the IRP operates as intended. All PRs offered will be subject to performance conditions which are intended to be challenging.

The PRs are subject to a performance condition based on achieving a relative Total Shareholder Return (TSR) equivalent to or in excess of the ASX All Ordinaries Accumulation Index (AOAI) over the performance period. The AOAI is an index of total shareholder return achieved by ASX listed companies which combines both share price movement and dividends paid during the performance period (assuming that they are reinvested into shares). As a general rule, Quickstep uses a performance period of three (3) years with an anniversary date of 1 September each year.

For vesting to occur the Company's TSR (share price movement plus dividends) over the performance period must be positive (i.e. if shareholders have not gained then PRs will not vest) relative to the AOAI. If the Company's TSR is positive but the AOAI movement is negative over the performance period then vesting, if any, will be at the discretion of the Board (i.e. only applies if the Company has outperformed a general fall in the market by protecting against a similar fall in the Company's share price). If the Company's TSR is positive and the movement in the AOAI is also positive then the following vesting scales will apply to all tranches:

Performance Level	Company's TSR Relative to AOAI Movement of the Performance Period	Vesting %
Below Threshold	< Increase in the AOAI	0%
	= Increase in the AOAI	25% Pro-rata
Target	> 100% of AOAI increase & < 110% of AOAI increase	50% Pro-rata
	110% of AOAI increase	
Stretch and Above	> 110% of AOAI increase & < 120% of AOAI increase	100%
	120% of AOAI increase	

For PRs issued to executives, testing of the TSR hurdle will occur on the third anniversary of the commencement of the performance period and then semi-annually until the rights lapse or the fifth anniversary of the commencement of the performance period. Once a right has vested it may not become unvested based on performance at a subsequent test date. If at a test date some rights have previously vested and the Company's performance at the test date is higher than at previous test dates then additional rights will vest. Such vesting will apply on the basis that the total number of rights that have vested from a tranche (previous and current vesting) is equal to the number that would have vested at the current test date had no vesting occurred earlier.

REMUNERATION REPORT – AUDITED

1. Principles of Compensation

Long Term Incentive - Quickstep Incentive Rights Plan (IRP)

Upon the satisfaction of the performance conditions, the value of PRs granted under the IRP will be evaluated. The Board has discretion to vary vesting if it considers it to be appropriate to do so given the circumstances that prevailed over the performance period. This provision aims to address situations where vesting may otherwise be inconsistent with shareholder expectations.

The IRP contains provisions concerning the treatment of vested and unvested rights in the event that a participant ceases employment. Unless the Board determines otherwise, if a participant ceases employment in other than special circumstances (death, total and permanent disablement, retrenchment, redundancy, permanent retirement from full-time work with the consent of the Board or other circumstances determined by the Board), all unvested rights held by the participant will lapse.

Unless the Board determines otherwise, if a participant ceases employment under special circumstances, rights that were granted to the participant during the financial year in which the termination occurred will be lapsed in the same proportion as the remainder of the financial year bears to the full year. All remaining rights for which performance conditions have not been satisfied as at the date of cessation of employment will then remain "on foot", subject to the original performance conditions.

Non-Executive Directors' Fees

Remuneration for all non-executive directors was approved at a board meeting on 19 October 2017 – pending the retirement and non-replacement of three members. It was resolved that, despite an additional workload for the continuing non-executive Directors, and considering Company profitability, there would be no increase in any fees and the committee membership fee was removed. The table below indicates the maximum annual fees based on Directors' responsibilities at the date of this report. Non-executive directors do not receive performance related compensation.

Non-Executive Directors	Director Fees	Committee Fees
Mr. T H J Quick	\$126,000	n/a
Mr. J C Douglas	\$60,000	\$10,000
Mr. B A Griffiths	\$60,000	\$10,000

Consequences of Performance on Shareholder Wealth

In considering the Group's performance and benefits for shareholder wealth, the RN&D committee gives regard to the following indices in respect of the current financial year and the previous four financial years.

	2018	2017	2016	2015	2014
Loss attributable to owners of the company (\$000)	(2,891)	(6,662)	(5,785)	(3,937)	(11,181)
Dividends paid	\$nil	\$nil	\$nil	\$nil	\$nil
Operating income (\$000)	59,036	51,915	50,128	39,511	12,001
Change in share price	(22.7%)	(25.4%)	(18.2%)	(12.4%)	35.7%
Return on capital employed	(9.4%)	(33.3%)	(8.6%)	(6.1%)	(66.4%)

Loss amounts have been calculated in accordance with Australian Accounting Standards (AASBs). Return on capital employed is calculated as Profit before interest and tax (EBIT) divided by total assets less current liabilities.

REMUNERATION REPORT – AUDITED

1. Principles of Compensation

Service Agreements

Name	Initial agreement date	Duration	Notice period (3)	Termination benefits	STI cap as a % of TFR (1)	LTI cap as a % of TFR (2)
Mr. M H Burgess	8 May 17	Open	NES	12 months annual TFR; and pro-rated annual bonus (at Board's discretion). If due to change of control, 100% of annual TFR is paid immediately plus pro-rated annual bonus	50	50
Ms. J E Courtney-Pitman	30 Mar 16	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	20	20
Mr. R L Mahon	11 Jan 17	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	20	20
Mr. A J Tilley	25 June 18	Open	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	40	40
Mr. A R Crane	24 Sept 15	24 June 18	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	30	30
Mr. K J Boyle	23 Mar 16	20 April 18	NES	3 months of TFR and pro-rated annual bonus (at Board's discretion)	20	20

- (1) Short Term Incentive (STI) is determined on performance against KPIs set and reviewed by the RN&D Committee or the Board as appropriate. The STI cap refers to the maximum amount payable in cash other than Mr. M H Burgess, whose STI is payable in a combination of cash and shares), as a percentage of Total Fixed Remuneration (TFR). The KPIs include company financial objectives, such as sales, profit and cashflow, and other growth, operational and people objectives including new contracts, technology development, project delivery and functional outcomes aligned to the annual business plan.
- (2) Long Term Incentive (LTI) is determined on the Group's performance against relative Total Shareholder Return and is tested at multiple dates. The LTI cap refers to the maximum amount payable in shares as a percentage of TFR. This is the measure currently used in the IRP applicable to FY18.
- (3) NES refers to the National Employment Standard in the Fair Work Act (2009). Under section (3) (ss117-118) an employee is entitled to a minimum notice period depending on length of service and age.
- (4) In FY19, for all KMP, the LTI cap has increased to 40% of the TFR and the STI cap has increased to 40% of the TFR. The STI cap will be payable in a combination of cash and shares weighted 50/50 on the outcome.

REMUNERATION REPORT – AUDITED

2. Details of Remuneration

The following tables detail the remuneration received by KMP of the Group for the current and previous financial year.

	Salary / Fees \$	STI (2) \$	Discretionary Payment (6) \$	SGC \$	Termination \$	LTI Rights (1) \$	Total \$
2018							
Executive Directors							
Mr. M H Burgess	479,951	148,500	-	20,049	-	99,503	748,003
Non-Executive Directors							
Mr. T H J Quick	126,000	-	-	-	-	-	126,000
Mr. J C Douglas	61,163	-	-	5,811	-	-	66,974
Mr. B A Griffiths	66,250	-	-	-	-	-	66,250
Mr. N I Ampherlaw	29,167	-	-	-	-	-	29,167
Mr. P C Cook	26,637	-	-	2,530	-	-	29,167
Air Marshal E J McCormack (Ret'd)	32,915	-	-	3,127	-	-	36,042
Other KMPs							
Mr. J Pinto	60,000	-	-	-	-	-	60,000
Ms. J E Courtney-Pitman	228,182	6,779	-	20,049	-	24,281	279,291
Mr. R L Mahon	299,951	27,440	-	20,049	-	17,142	364,582
Mr. A J Tilley (3)	-	-	-	-	-	-	-
Mr. A R Crane (4)	329,951	20,718	-	20,049	-	148,117	518,835
Mr. K J Boyle (4)	216,682	(1,926)	-	20,049	75,831	(9,723)	300,913
2017							
Executive Directors							
Mr. M H Burgess (5)	73,289	-	-	4,904	-	-	78,193
Mr. D J Marino	488,426	99,171	125,000	19,616	-	335,110	1,067,323
Non-Executive Directors							
Mr. T H J Quick	126,000	-	-	-	-	-	126,000
Mr. N I Ampherlaw	69,463	-	-	537	-	-	70,000
Mr. P C Cook	63,825	-	-	6,175	-	-	70,000
Mr. B A Griffiths	61,500	-	-	-	-	-	61,500
Air Marshal E J McCormack (Ret'd)	78,870	-	-	7,630	-	-	86,500
Mr. J C Douglas	57,249	-	-	5,251	-	-	62,500
Other KMPs							
Mr. J Pinto	60,000	-	-	-	-	-	60,000
Mr. A R Crane	335,045	41,652	75,000	19,616	-	16,960	488,273
Ms. J E Courtney-Pitman	238,136	26,198	20,000	16,933	-	8,494	309,761
Mr. K J Boyle	249,397	25,594	20,000	19,616	-	8,072	322,679
Mr. R L Mahon (5)	142,990	11,971	-	9,808	-	2,637	167,406

- (1) LTI rights include the accounting expense attributable to the current year under the IRP.
- (2) STI is comprised of an accrued current year cash bonus plus adjustment for amounts accrued in FY17 which were not paid. This adjustment results in a negative expense in the above table in relation to KMPs' for whom the prior year accrual exceeded the current year accrual, except for Mr. M H Burgess whose STI is payable 50% cash and 50% shares and who was not entitled to a bonus in FY17.
- (3) Mr. A J Tilley commenced employment on 25 June 2018 and remuneration for the period of employment in FY18 was considered Immaterial.
- (4) Mr. K J Boyle ceased as a KMP on 20 April 2018 and Mr. A C Crane ceased as a KMP on 24 June 2018.
- (5) For personnel that commenced employment during FY17 these figures represent the period from start date to the end of FY17 – refer Services Agreement on page 28.
- (6) The RN&D Committee recommended and the Board approved a discretionary payment to select KMP in FY17. This reflected a level of activity beyond standard requirements to deliver key projects in line with or ahead of agreed timelines.

REMUNERATION REPORT – AUDITED

3. Share Based Compensation

Long term Incentive - Quickstep Incentive Rights Plan (IRP)

At 30 June 2018 executives have accrued performance rights pursuant to the IRP. Movements in IRP rights during the year are set out below:

	Tranche refer Note	Grant date	FV per right at grant date (a)	First testing date	Balance at 30 June 2017 Number	Granted during the year (b) Number	Lapsed during the year Number	Balance at 30 June 2018 Number	Fair Value at grant date \$	Cum vesting level
Mr. M H Burgess	CEO 1	01/12/17	\$0.047	31/08/18	-	412,376	-	412,376	\$19,382	0%
Mr. M H Burgess	CEO 2	01/12/17	\$0.089	31/08/19	-	412,376	-	412,376	\$36,701	0%
Mr. M H Burgess	CEO 1	01/12/17	\$0.051	31/08/18	-	825,248	-	825,248	\$42,087	0%
Mr. M H Burgess	CEO 2	01/12/17	\$0.089	31/08/19	-	825,248	-	825,248	\$73,447	0%
Mr. M H Burgess	FY18	01/12/17	\$0.069	31/08/20	-	1,237,624	-	1,237,624	\$85,396	0%
Mr. A R Crane	FY16	01/06/16	\$0.085	31/08/18	446,970	-	-	446,970	\$37,992	0%
Mr. A R Crane	FY17	01/03/17	\$0.072	31/08/19	906,610	-	-	906,610	\$65,276	0%
Mr. A R Crane	FY18	01/12/17	\$0.069	31/08/20	-	1,039,604	-	1,039,604	\$71,732	0%
Ms. J E Courtney-Pitman	FY16	01/06/16	\$0.085	31/08/18	123,737	-	-	123,737	\$10,518	0%
Ms. J E Courtney-Pitman	FY17	01/03/17	\$0.072	31/08/19	431,719	-	-	431,719	\$31,084	0%
Ms. J E Courtney-Pitman	FY18	01/12/17	\$0.069	31/08/20	-	495,050	-	495,050	\$34,158	0%
Mr. K J Boyle	FY16	01/06/16	\$0.085	31/08/18	131,313	-	(131,313)	-	\$11,162	0%
Mr. K J Boyle	FY17	01/03/17	\$0.072	31/08/19	457,622	-	(457,622)	-	\$32,949	0%
Mr. K J Boyle	FY18	01/12/17	\$0.069	31/08/20	-	554,455	(554,455)	-	\$38,257	0%
Mr. R L Mahon	FY17	01/03/17	\$0.072	31/08/19	276,300	-	-	276,300	\$19,894	0%
Mr. R L Mahon	FY18	01/12/17	\$0.069	31/08/20	-	633,663	-	633,663	\$43,723	0%

- (a) The fair value of rights granted was calculated using a Monte Carlo simulation analysis. Refer to Note E.4, for the model's key assumptions.
- (b) The fair value of rights granted in the year is \$512,792 (2017 \$304,622). The total value of the rights is allocated to remuneration over the vesting period.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

REMUNERATION REPORT – AUDITED

4. Analysis of Bonuses Included in Remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each Director of the Company and each of the named other key management personnel of the Group are detailed below:

	Included in remuneration(1)	% vested in year (2)	% lapsed in year (2)
Executive Director			
Mr. M H Burgess	\$148,500	59%	41%
Other KMP			
Ms. J E Courtney-Pitman	\$(8,675)	66%	34%
Mr. R L Mahon	\$27,440	62%	38%
Mr. A R Crane	\$36,172	59%	41%
Mr. K J Boyle	\$(1,926)	42%	68%

- (1) Bonuses included in remuneration comprise of an accrued current year cash bonus plus adjustment for amounts accrued in FY17 which were not paid. This adjustment results in a negative expense in the above table for whom the prior year accrual exceeded the current year accrual, except for Mr. M H Burgess whose bonus is payable 50% cash and 50% shares and who was not entitled to a bonus in FY17.
- (2) The amounts lapsed are due to the Group performance, personal performance or service criteria not being met in relation to the current financial year.

5. Key Management Personnel Related Transactions

Mr. J C Douglas is a non-executive Director of the Group and is also a Director of Newmarket Management Pty Ltd and Associates (Newmarket). Therefore at 30 June 2018 the Newmarket options are considered to be held by a related party.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Notes	2018 \$000	2017 \$000
Revenue		59,036	51,915
Cost of sales of goods		(49,707)	(44,175)
Gross profit		9,329	7,740
Grants received		498	532
Research and development expenses		(3,716)	(5,492)
Corporate and administrative expenses		(7,430)	(7,919)
Other expenses		-	(561)
Loss from operating activities		(1,319)	(5,700)
Finance income	C.2	150	606
Finance expenses	C.2	(1,722)	(1,568)
Net finance costs		(1,572)	(962)
Loss before income tax		(2,891)	(6,662)
Income tax benefit	B.5	-	-
Loss for the year		(2,891)	(6,662)
Other comprehensive income/ (loss) net of income tax			
Item that may be reclassified to profit or loss			
Cash flow hedges		239	-
Exchange difference on translation of a foreign operation		(36)	68
Other comprehensive income for the period, net of income tax		203	68
Total comprehensive (loss) for the year		(2,688)	(6,594)
Loss per share:		Cents	Cents
Basic loss per share	B.3	(0.51)	(1.18)
Diluted loss per share		(0.51)	(1.18)

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2018

	Notes	2018 \$000	2017 \$000
ASSETS			
Current assets			
Cash and cash equivalents	B.4	2,862	3,722
Derivative financial instruments	C.3	239	-
Term deposits	C.4	810	718
Trade and other receivables	D.1	4,451	6,292
Prepayment and other assets		556	635
Inventories	D.2	10,015	10,599
Total current assets		18,933	21,966
Non-current assets			
Property, plant and equipment	D.4	13,237	14,753
Intangibles		20	61
Total non-current assets		13,257	14,814
Total assets		32,190	36,780
LIABILITIES			
Current liabilities			
Trade and other payables		8,963	10,346
Loans and borrowings	C.1	5,658	3,763
Deferred revenue	D.3	2,394	4,220
Employee benefit obligations	E.1	1,179	1,138
Total current liabilities		18,194	19,467
Non-current liabilities			
Loans and borrowings	C.1	7,900	8,240
Deferred revenue	D.3	-	682
Employee benefit obligations	E.1	310	210
Total non-current liabilities		8,210	9,132
Total liabilities		26,404	28,599
Net assets		5,786	8,181
EQUITY			
Share capital	C.5	109,118	109,118
Reserves		4,573	4,077
Accumulated losses		(107,905)	(105,014)
Total equity		5,786	8,181

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Share capital \$000	Foreign currency translation reserve \$000	Cash flow hedges reserve \$000	Share based payments \$000	Accumulated losses \$000	Total equity \$000
2018						
Balance at 1 July 2017	109,118	(235)	-	4,312	(105,014)	8,181
Loss for the period	-	-	-	-	(2,891)	(2,891)
Other comprehensive (loss)/ income						
Foreign currency translation difference for foreign operations	-	(36)	-	-	-	(36)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	239	-	-	239
Total comprehensive (loss)/ income for the period	-	(36)	239	-	(2,891)	(2,688)
Transactions with owners of the company:						
Share based payments expenses	-	-	-	293	-	293
Balance at 30 June 2018	109,118	(271)	239	4,605	(107,905)	5,786
2017						
Balance at 1 July 2016	109,118	(303)	-	3,769	(98,352)	14,232
Loss for the period	-	-	-	-	(6,662)	(6,662)
Other comprehensive income:						
Foreign currency translation difference for foreign operations	-	68	-	-	-	68
Total comprehensive (loss)/ income for the period	-	68	-	-	(6,662)	(6,594)
Transactions with owners of the company:						
Share based payments expenses	-	-	-	543	-	543
Balance at 30 June 2017	109,118	(235)	-	4,312	(105,014)	8,181

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Notes	2018 \$000	2017 \$000
Cash flows from operating activities			
Cash receipts in course of operations		58,448	50,515
Interest received		24	31
Interest paid		(358)	(74)
Government and industry grants		498	532
Cash payments in the course of operations		(59,295)	(50,910)
Net cash (used in) /from operating activities	B. 4	(683)	94
Cash flows from investing activities			
Acquisition costs of plant and equipment and intangible assets		(1,165)	(4,437)
Proceeds from government grant for capital		141	467
Receipts from /(investment in) restricted cash and term deposit		(92)	245
Net cash (used in) investing activities		(1,116)	(3,725)
Cash flows from financing activities			
Proceeds from borrowings		6,000	1,500
Repayment of borrowings		(4,715)	(1,250)
Payment of borrowing costs		(310)	(542)
Finance lease payments		-	(1)
Net cash (used in) / from financing activities		975	(293)
Net (decrease) in cash and cash equivalents		(824)	(3,924)
Cash and cash equivalents at the beginning of the financial year		3,722	7,578
Effects of exchange rate changes on cash and cash equivalents		(36)	68
Cash and cash equivalents at end of period	B. 4	2,862	3,722

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

A. About this Report

Introduction

This is the financial report of Quickstep Holdings Limited (the "Company") and its controlled entities (the "Group").

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.

What's new this year?

This year we have reviewed the content and structure of the financial report looking for opportunities to make it less complex and more relevant to our users. This included:

- Eliminating immaterial disclosures that may undermine the usefulness of the financial report by obscuring important information;
- Reorganising the notes to the financial statements into sections to assist users in understanding the Group's performance;
- Moving the significant accounting policies to where the related accounting balance of financial statement matter is discussed, and
- Improving the presentation of certain notes.

The purpose of these changes is to provide users with a clearer understanding of what drives the financial performance and position of the Group, whilst still complying with the provisions of the Corporations Act 2001.

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.

Statement of Compliance

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial statements of the Group also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 28 August 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

A. About this Report

Basis of Preparation

The financial statements have been prepared on the historical cost basis. These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

Rounding of Amounts

The Company is of a kind referred to in Class Order 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements and Directors' report. Amounts in the financial statements and Directors' report have therefore been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Accounting Estimates and Judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions about future events.

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

Going concern

The Group has incurred a loss after tax for the year ended 30 June 2018 of \$2,891,000 (2017 \$6,662,000). The Group has net assets of \$5,786,000 (2017 \$8,181,000) and net current assets of \$739,000 (2017 \$2,499,000). Current loans and borrowings are \$5,658,000 (2017 \$3,763,000). Operating cash outflow for the year was \$683,000 including R&D investment of \$3,716,000.

The full year loss after tax of \$2,891,000 is \$3,771,000 lower than the prior year and profitability has improved over the course of the year ended 2018 resulting in a net profit after tax of \$38,000 for the six month period ended 30 June 2018. This can be attributed to the impact of **OneQuickstep** savings, the lean manufacturing program and an increase in volumes on the JSF program. Operating cash outflow for the year of \$683,000 includes EBITDA of \$1,183,000 and a working capital increase of \$537,000 with reductions in trade debtors and inventory offset by a normalisation of the trade payables balance. Cash generation and profits are forecast to improve further into FY19.

Additional working capital funding was secured with Efic during the year to support further JSF volume growth in FY19 resulting in an increase in the short term facility from A\$3,000,000 to A\$7,000,000.

The existing cash and current borrowing position of the Group and the need to further support growth requirements, uncertainty associated with foreign exchange rate fluctuations on US\$ denominated sales, 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 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 FY18 and additional working capital funding available and accordingly, the financial report has been prepared on the basis of a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

A. About this Report

Significant Accounting Policies

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the Group. Other significant accounting policies are contained in the notes to the consolidated financial statements to which they relate.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quickstep Holdings Limited ("Company" or "parent entity") as at 30 June 2018 and the results of all subsidiaries for the year then ended. Quickstep Holdings Limited and its subsidiaries together are referred to in the financial statements as the consolidated entity or the Group.

A subsidiary is any entity controlled by the parent entity. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars at reporting date using the following exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date

Foreign exchange gains and losses resulting from translation are recognized in the Income Statement, except for qualifying cash flow hedges which are deferred to equity.

On consolidation, the assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average monthly rate
Assets and liabilities	Reporting date
Equity and reserves	Historical date

Foreign currency differences resulting from translation are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

B. Business Performance

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

- B.1 Key Performance Measures
- B.2 Segment Reporting
- B.3 Loss per Share
- B.4 Notes to Statement of Cash Flows
- B.5 Income Tax Expense

B.1 Key Performance Measures

The key performance measures for the year were:

	2018 \$000	2017 \$000
Revenue	59,036	51,915
EBITDA	1,183	(3,477)
EBIT before research and development costs	2,397	(208)
EBIT	(1,319)	(5,700)
Net loss	(2,891)	(6,662)

Recognition and Measurement

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and rebates.

Revenue from sale of goods is recognised in the profit and loss when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

To the extent to which amounts are received in advance of the provision of the related services, the amounts are recorded as unearned income and credited to the statement of comprehensive income as earned.

Research and development expenses

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense as incurred.

Government grants

Grants from the government that compensate the Group for expenses incurred are recognised in the profit and loss when funds are received and the Group has complied with all grant conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

B. Business Performance

B.2 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.

Geographical Information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2018 \$000	2017 \$000
Revenue:		
United States of America	50,850	43,228
Australia	8,186	5,012
Other	-	3,675
Total	59,036	51,915
Non-current assets:		
United States of America	-	-
Australia	13,257	14,566
Other	-	248
Total	13,257	14,814

Major Customers

Approximately 86.1% (2017 83.3%) of revenue for the Group is attributable to the following customers

- Northrop Grumman ISS Int. Inc
- Lockheed Martin Aeronautics Co

B.3 Loss per Share

The calculation of basic loss per share is based on the loss attributable to ordinary shareholders and a weighted-average number (WAN) of ordinary shares outstanding.

	2018 \$	2017 \$
Loss attributable to ordinary shareholders	2,891,000	6,662,000

	2018 Number	2017 Number
Weighted average number of ordinary shares:		
Shares at 1 July	562,880,792	562,474,143
Shares issued under share based payments arrangements	-	64,618
Shares at 30 June	562,880,792	562,538,761
Basic loss cents per share	(0.51)	(1.18)

Potential ordinary shares on issue are not considered to be dilutive as the Company is in a loss position and therefore the diluted loss per share equals the basic loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

B.4 Notes to Statement of Cash Flows

Cash and Cash Equivalents

	2018 \$000	2017 \$000
Cash at bank and in hand	2,862	3,722

Reconciliation of Net Profit to Net Cash Provided by Operating Activities

	2018 \$000	2017 \$000
Loss for the period	(2,891)	(6,662)
Adjustments for:		
Amortisation of intangibles	24	29
Depreciation and grant amortisation	2,478	2,210
Bad debt write-off	-	345
Share based payment expense	293	543
Loss on disposal of non-current assets	79	-
Net foreign currency losses	505	546
Change in fair value of share option liability	(125)	(575)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	1,841	(1,402)
Decrease in inventories	584	1,307
(Increase)/decrease in other current assets	79	(152)
Increase/(decrease) in trade and other payables	(1,888)	2,604
Increase in employee benefits	141	199
Increase/(decrease) in deferred revenue	(2,508)	154
Decrease in prepaid interest	705	948
Net cash (used in) /from operating activities	(683)	94

B.5 Income Tax Expenses

Reconciliation of Income Tax Expense

Numerical reconciliation of income tax expense to prima facie tax payable is as follows:

	2018 \$000	2017 \$000
Loss from continuing operations	(2,891)	(6,662)
Tax benefit at the Australian tax rate of 30.0% (2017 - 30.0%)	(867)	(1,999)
Expenditure not allowable for income tax purposes	90	100
Effect of different tax rate for overseas subsidiaries	156	213
Income not assessable	(38)	(173)
Other	-	21
Deferred tax asset not brought to account	921	1,258
Prior year adjustment	(262)	580
Income tax expense	-	-
Current tax	-	-
Deferred tax	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

B. Business Performance

B.5 Income Tax Expenses

Tax Losses not brought to Account

	2018 \$000	2017 \$000
The gross amount of unused tax losses for which no deferred tax asset has been recognised	71,947	68,623

Temporary Differences not brought to Account

	2018 \$000	2017 \$000
Deferred tax assets/(liabilities):		
Other provisions	722	646
Borrowing costs	38	9
Deductible capital raising costs	144	251
Property, plant and equipment	2,067	1,804
Intangibles	208	208
Deferred tax assets relating to temporary differences not recognised	3,179	2,918

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because the Group considers it prudent to defer recognition until the Group generates taxable income.

Tax Consolidation Legislation

Quickstep Holdings Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated Group effective from 1 July 2010.

Recognition and Measurement

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit and loss except to the extent that it related to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Quickstep Holdings Limited and its subsidiaries have unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 Finance Income and Finance Costs
- C.3 Financial Instruments
- C.4 Financial Risk Management
- C.5 Share Capital
- C.6 Capital and other Commitments

C.1 Loans and Borrowings

	2018			2017		
	Current \$000	Non- current \$000	Total \$000	Current \$000	Non- current \$000	Total \$000
Secured bank loan	2,121	5,914	8,035	1,750	6,500	8,250
Capitalised interest facility	353	1,986	2,339	291	1,740	2,031
Accrued borrowing cost	184	-	184	97	-	97
Secured bank loan carrying amount	2,658	7,900	10,558	2,138	8,240	10,378
Short term facility-Efic	3,000	-	3,000	1,500	-	1,500
Newmarket share options at fair value	-	-	-	125	-	125
	5,658	7,900	13,558	3,763	8,240	12,003

Term and Debt Repayment Schedule

	Effective interest rate	Year of maturity	2018	2017
			Maximum facility value \$000	Maximum facility value \$000
Secured bank loan	7.27	2021	10,000	10,000
Capitalised Interest	7.27	2021	3,333	3,333
Short term facility - Efic	8.85	2019	7,000	3,000

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 30 June 2018 the interest facility has been drawn to \$2,339,000 (2017 \$2,031,000). The Company has paid in this financial year an amount of \$35,000 (2017 \$208,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.1 Loans and Borrowings

Secured Bank Loan

Efic has agreed to guarantee certain of the subsidiary's obligations under the facility. The subsidiary has provided Efic with a fixed and floating charge over its assets and undertakings, refer Note C.6.

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 (2017 \$3,000,000) 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. Loan establishment fees of \$40,000 were paid during FY18 and have been recognised through the profit and loss as finance expense (Note C.2). A commitment fee of 1.5%pa accrues from the date of the agreement and is payable to Efic quarterly.

Recognition and Measurement

Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.2 Finance Income and Finance Costs

	2018 \$000	2017 \$000
Finance income		
Interest income	25	31
Change in fair value of share option liability	125	575
Finance income	150	606
Finance costs		
Interest expense on liabilities measured at amortised cost	(1,063)	(947)
Foreign currency losses	(505)	(546)
Other expenses	(154)	(75)
Finance costs	(1,722)	(1,568)
Net finance costs	(1,572)	(962)

Recognition and Measurement

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Finance costs comprise interest expense on borrowings calculated using the effective interest method, transaction costs, unwinding discounting of provisions, and foreign exchange gains and losses. The interest expense component of finance lease payments is recognised in the profit and loss using the effective interest method.

C.3 Financial Instruments

	2018 \$000	2017 \$000
Current assets		
Forward foreign exchange contracts – cash flow hedges	239	-

Recognition and Measurement

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.4 Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk, and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit, Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and formally documented procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash balances and deposits. The carrying amount of the Group's financial assets represents the maximum credit exposure.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers other characteristics including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Goods are generally sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

Cash balances and deposits

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A+ from Standard & Poor's. Given these high credit ratings, management has assessed the risk that counterparties fail to meet their obligations as low.

As at the reporting date, financial assets are neither past due or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.4 Financial Risk Management

Exposure to credit risk

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	2018 \$000	2017 \$000
Australia	1,608	1,286
Europe	-	940
United States of America	2,843	4,066
	4,451	6,292

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash or funds otherwise reasonably available to it from fundraising activities to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of circumstances that cannot reasonably be predicted.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount \$000	Contractual Cash flows \$000	Less than 6 months \$000	6 – 12 months \$000	Between 1 and 2 years \$000	Between 2 and 5 years \$000
At 30 June 2018						
Trade and other payables	8,963	(8,963)	(8,963)	-	-	-
Secured bank loan	10,558	(11,113)	(750)	(1,725)	(3,450)	(5,188)
Short term facility	3,000	(3,136)	(598)	(2,538)	-	-
	22,521	(23,212)	(10,311)	(4,263)	(3,450)	(5,188)
At 30 June 2017						
Trade and other payables	10,346	(10,346)	(10,346)	-	-	-
Secured bank loan	10,378	(12,226)	(1,039)	(1,331)	(2,953)	(6,903)
Short term facility	1,500	(1,618)	(59)	(1,559)	-	-
	22,349	(24,190)	(11,444)	(2,890)	(2,953)	(6,903)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.4 Financial Risk Management

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group has entered into a variable rate secured loan agreement for a period of 10 years. The facility includes an allowance to defer interest payments up to \$3,333,000 with interest to be accrued on any deferred amount. The applicable interest rate is re-set on a monthly basis in accordance with the 30 day bank bill rate.

The Group is exposed to interest rate risk pre-dominantly on cash balances and deposits and loans and borrowings. Given the relatively short investment horizon for these, management has not found it necessary to establish a policy on managing the exposure of interest rate risk.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial assets/ (liabilities) was:

	2018 \$000	2017 \$000
Fixed rate instruments		
Held-to-maturity term deposits	810	718
Variable rate instruments		
Cash and cash equivalents	2,862	3,722
Secured bank loan	(10,374)	(10,281)
Short term facility agreement – Efic	(3,000)	(1,500)
	(10,512)	(8,059)

As at the end of the reporting period, the Group had the following instruments outstanding:

Held-to maturity term deposits

Amount	Interest rate	Maturity date
\$274,000	2.25%	4 October 2018
\$324,000	2.25%	4 October 2018
\$120,000	2.25%	4 October 2018
\$91,500	2.20%	4 October 2018

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as FY17.

	2018 \$000	2017 \$000
Variable rate instruments - increase by 100 basis points	(105)	(81)
Variable rate instruments - decrease by 100 basis points	105	81

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.4 Financial Risk

Currency risk

The Group is exposed to currency risk on sales, purchases and cash holdings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), Euro (EUR), Great Britain Pounds (GBP) and US Dollar (USD). The currencies in which these transactions primarily are denominated are AUD, EUR and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's investment in its German subsidiary is not hedged as the currency positions are considered to be long-term in nature.

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

	2018 USD 000	2018 EUR 000	2018 GBP000	2017 USD 000	2017 EUR 000
Receivables	2,101	-	-	3,115	631
Cash	403	-	-	1,075	74
Trade payables	(2,870)	(85)	(30)	(3,321)	(59)
	(366)	(85)	(30)	869	646

The following significant exchange rates applied have been applied:

	Average rate		Year-end spot rate	
	2018	2017	2018	2017
AUD v USD	0.7732	0.7530	0.7391	0.7662
AUD v EUR	0.6506	0.6903	0.6344	0.6718
AUD v GBP	0.5765	0.5788	0.5634	0.5912

Sensitivity analysis

A 10 percent movement of the Australian dollar against the following currencies at 30 June would have affected the movement of financial instruments denominated in a foreign currency and effected profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The analysis is performed on the same basis as FY17.

Index	Profit or loss		Equity, net of tax	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
US/AUD exchange rate - increase (10%)	45	103	(67)	(103)
US/AUD exchange rate - decrease 10%	(55)	(126)	82	126
GBP/AUD exchange rate - increase (10%)	5	11	(5)	625
GBP/AUD exchange rate - decrease 10%	(6)	(13)	6	(768)
EUR/AUD exchange rate - increase (10%)	12	11	791	625
EUR/AUD exchange rate - decrease 10%	(15)	(13)	(967)	(768)
	(14)	(25)	(165)	(120)

Fair Value Hierarchy

Financial assets and liabilities, including foreign currency hedges and the Newmarket options 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 year, there have been no transfers between levels in the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

C.5 Share Capital

Capital Management

The Group's objectives are to safeguard the Group's ability to continue as a going concern and maintain a strong capital base sufficient to maintain future development in accordance with the business strategy. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity and borrowings so as to fund its working capital, aerospace growth and commercialisation of technology requirements. There were no changes in the Group's approach to capital management during the year.

Movements in Share Capital

	2018 Shares	2017 Shares	2018 \$000	2017 \$000
Opening balance	562,880,792	562,474,143	109,118	109,118
Shares issued under share based payments arrangements	-	406,649	-	-
Closing balance	562,880,792	562,880,792	109,118	109,118

During the year, the Company issued Nil (2017 406,649) 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:

	2018 No of options	2017 No of options
Opening balance	25,000,000	25,000,000
Options lapsed	-	-
Closing balance	25,000,000	25,000,000

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

Mr. J C Douglas is a non-executive Director of the Group and is also a Director of Newmarket. Therefore at 30 June 2018, the Newmarket Options are considered to be held by a related party.

Newmarket Share Options at Fair Value

Newmarket Financing Management Pty Ltd and Associates (Newmarket) holds 25,000,000 (2017 25,000,000) options to acquire ordinary shares in Quickstep. These options expire on 31 December 2018.

These options were revalued at 30 June 2018 to a fair value of 0 (zero) cents (2017 0.5 cents) per share or \$NIL (2017 \$125,000). The gain of \$125,000 (2017 \$575,000) has been recognised through the income statement as finance income, refer Note C.2

A Binomial Tree model was used to value these options per dollar issued. The model key assumptions were as follows:

Expiry date	31 December 2018
Share price at valuation date	\$0.075
Exercise price	\$0.1625
Contractual life	0.5 Years
Risk free interest rate	1.89%
Volatility of QHL	40%
Dividend Yield	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

C. Capital and Financial Risk Management

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:

	2018 \$000	2017 \$000
Property, plant and equipment	796	784

Other Commitments – Pledged as Collateral against 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 subsidiary has provided Efic with a fixed and floating charge over the following:

	2018 \$000	2017 \$000
Cash and cash equivalents	1,954	1,634
Trade and other receivables	4,335	5,914
Inventories	9,935	9,791
Property, Plant and equipment	12,448	13,485

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.

Non-Cancellable Operating Leases

The Group leases various premises and IT equipment under non-cancellable operating leases. The leases have varying terms, escalation and renewal rights. On renewal, the terms of the leases are negotiated.

	2018 \$000	2017 \$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Less than one year	2,424	2,253
Between one and five years	6,192	7,847
More than five years	-	-
	8,616	10,100

The operating lease expense for the year ended 30 June 2018 was \$2,424,000 (2017 \$2,597,000).

Recognition and Measurement

Leases

Payments made under operating leases are recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the term of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 Deferred Revenue
- D.4 Property, Plant and Equipment

D.1 Trade and Other Receivables

	2018 \$000	2017 \$000
Current assets		
Trade receivables	3,971	4,756
Other receivables	480	1,536
	4,451	6,292

All trade receivables are current.

Recognition and Measurement

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

D.2 Inventories

	2018 \$000	2017 \$000
Current assets		
Raw materials and consumables	4,919	6,136
Work in progress	4,261	3,920
Finished goods	835	543
	10,015	10,599

Recognition and Measurement

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress. Cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

D. Operating Assets and Liabilities

D.3 Deferred Revenue

	2018 \$000	2017 \$000
Current	2,394	4,220
Non-current	-	682
	2,394	4,902

The amounts reported as 2018 deferred revenue include:

- Lockheed Martin Aeronautics Co - a 30% advance payment for long lead time materials for C-130J wing flaps, income will be recognised by September 2018.
- Lockheed Martin Aeronautics Co - amount received in advance to support the robotic drill project, income will be recognised by November 2018.

D.4 Property, Plant and Equipment

	Plant and equipment \$000	Assets under construction \$000	Office furniture & equipment \$000	Total \$000
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	-
Disposals	(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
<i>Cost</i>	<i>32,156</i>	<i>574</i>	<i>725</i>	<i>33,455</i>
<i>Accumulated depreciation</i>	<i>(19,636)</i>	<i>-</i>	<i>(582)</i>	<i>(20,218)</i>
2017				
Opening net book amount	9,670	3,144	244	13,058
Additions	174	4,198	1	4,373
Government grant received	(467)	-	-	(467)
Transfers from assets under construction	6,558	(6,560)	2	-
Effect of movements in exchange rates	(1)	-	-	(1)
Amortisation of grant	341	-	-	341
Depreciation charge	(2,428)	-	(123)	(2,551)
Closing net book amount	13,847	782	124	14,753
<i>Cost</i>	<i>31,648</i>	<i>782</i>	<i>987</i>	<i>33,417</i>
<i>Accumulated depreciation</i>	<i>(17,801)</i>	<i>-</i>	<i>(863)</i>	<i>(18,664)</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

D. Operating Assets and Liabilities

D.4 Property, Plant and Equipment

Recognition and Measurement

Property, Plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling the items and restoring the site on which they are located and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expense in profit or loss.

Government grants that compensate the Group for the cost of an asset are recognised as a deduction in arriving at the carrying value of the asset.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately. Depreciation is recognised in profit and loss on a reducing balance basis over the estimated useful lives of each component of an item of property plant and equipment. The depreciation rates used for each class of depreciable asset for the current and prior years are:

Class of Asset	Depreciation Rate
Plant and factory equipment	6.67% to 37.50%
Office equipment	6.67% to 50.00%

Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

E. Employee Benefits

This section provides a breakdown of the various programs Quickstep uses to reward and recognise employees and Key Management Personnel (KMP). Quickstep believes that these programs reinforce the value of ownership and incentives and drive performance both individually and collectively to deliver better returns to shareholders.

- E.1 Employee Benefit Obligations
- E.2 Related Party Transactions
- E.3 Employee Benefit Expense
- E.4 Quickstep Incentive Rights Plan (IRP)
- E.5 Equity Settled Short Term Incentive

E.1 Employee Benefit Obligations

	2018 \$000	2017 \$000
Employee benefit obligation		
- Annual leave (current)	1,179	1,138
- Long service leave (non-current)	310	210
	1,489	1,348

Recognition and Measurement

Long service leave

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

E.2 Employee Benefit Expense

	2018 \$000	2017 \$000
Wages and salaries	20,001	19,050
Defined contribution plan expense	1,588	1,536
Increase in leave liabilities	141	199
Share based payments expense	293	543
	22,023	21,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

E. Employee Benefits

E.2 Employee Benefit Expense

Recognition and Measurement

Wages and salaries

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Share-based payment transactions

An expense is recognised for all equity-based remuneration and other transactions, including shares, rights and options issued to employees and Directors. The fair value of equity instruments granted is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The amount recognised is adjusted to reflect the actual number of shares and options that vest, except for those that fail to vest due to market conditions not being met. The fair value of equity instruments granted is measured using a generally accepted valuation model, taking into account the terms and conditions upon which the equity instruments were granted. The fair value of shares, options and rights granted is measured based on relevant market prices at the grant date.

E.3 Related Party Transactions

Key Management Personnel Compensation

The key management personnel compensation included in "Employee benefit expense" in note E.2 is as follows:

	2018 \$000	2017 \$000
Short-term employee benefits	2,273	2,599
Share-based payments	279	371
Termination benefits	76	-
	2,625	2,970

The total value of the rights is allocated to remuneration over the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

E. Employee Benefits

E.4 Quickstep Incentive Rights Plan (IRP)

During the 2014 financial year the Company established the Quickstep Incentive Rights Plan (IRP). The IRP was designed to facilitate the Company moving towards best practice remuneration structures for executives. In 2015 the Board adopted Revised Rules for the IRP to ensure the IRP continued to reflect market practice and remained appropriate for the Company. These Revised Rules were approved by shareholders at the Company's 2015 Annual General Meeting.

The IRP authorises the granting of Rights to executives of the Company, in the form of Performance Rights (PRs) and/or Deferred Rights (DRs) (together, Rights). These rights represent an entitlement on vesting to fully paid ordinary shares in the issued capital of the Company (Shares) and cash with the total value of cash and Shares being equal to the value of vested Rights (number of vested Rights x market value of a Share). PRs may vest if Performance Conditions are satisfied. DRs may vest if service conditions are satisfied. Further details regarding the IRP are set out in the Remuneration Report.

During 2018 an expense of \$293,000 (2017 \$543,000), refer Note B.4 has been recognised in the financial statements in respect of the portion of the fair value of rights attributable to the current financial year as required by accounting standards.

A Monte-Carlo model was used to value the rights. The model's key assumptions were as follows:

In Relation to CEO Performance Rights

Tranche	CEO Transition 1	CEO Transition 2
Grant date	01/12/17	01/12/17
First testing date	31/08/18	31/08/19
Expiry date	31/08/18	31/08/19
Share price at grant date	\$0.089	\$0.089
Expected life (years)	0.7	1.7
Risk free factor	1.66%	1.76%
Volatility of QHL	40%	40%
Volatility of AOAI	12%	12%
Dividend yield	0%	0%

In Relation to Performance Rights

Tranche	3	FY15	FY15(a)	FY16	FY17	FY18
Grant date	16/02/15	31/08/14	19/02/15	01/06/16	01/03/17	01/12/17
First testing date	31/08/17	31/08/17	31/08/17	31/08/18	31/08/19	31/08/20
Expiry date	31/08/19	31/08/19	31/08/19	31/08/20	31/08/21	31/08/22
Share price at grant date	\$0.20	\$0.185	\$0.20	\$0.14	\$0.105	\$0.89
Expected life (years)	2.9	3.3	2.9	2.7	2.9	3.1
Risk free factor	1.86%	2.69%	1.83%	1.65%	1.97%	1.93%
Volatility of QHL	55%	55%	55%	45%	40%	40%
Volatility of AOAI	12%	12%	12%	15%	13%	12%
Dividend yield	0%	0%	0%	0%	0%	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

E. Employee Benefits

E.4 Quickstep Incentive Rights Plan (IRP)

Rights

Movements in unissued shares under rights:

	2018 No of rights	2017 No of rights
Opening balance	11,059,693	5,773,667
Granted during the year	7,419,773	6,116,592
Rights vested	-	(415,283)
Rights forfeited/lapsed	(1,692,590)	(415,283)
Closing balance	16,786,876	11,059,693

The rights are issued pursuant to:

- Executive services agreements, which rights vest at various times in the future according to years of service completed.
- Offers under the Incentive Rights Plan (IRP), which vests at various future dates upon satisfaction of performance conditions and service criteria.
- The exercise price of the rights is Nil and the rights are lapsed if employment is terminated prior to the vesting date.

E.5 Equity Settled Short Term Incentive

Certain executives are eligible to receive short term incentives (STI) in cash and/or shares based on achievement of key performance indicators (KPIs). Each year the RN&D Committee considers the appropriate targets and KPIs and the alignment of individual rewards to the Group's performance. These targets may include measures related to the annual performance of the Group and/or specified parts of the Group and are measured against actual outcomes. The number of shares issued to executives is based on the accrued equity settled STI value divided by the weighted average share price on the date the shares are granted.

In FY18 Nil (2017 Nil) shares were issued to employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

F. Other Disclosures

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

- F.1 Group Entities
- F.2 Parent Entity Financial Information
- F.3 Deed Of Cross Guarantee
- F.4 Auditors' Remuneration
- F.5 Subsequent Events
- F.6 New Accounting Standards

F.1 Group Entities

Name of entity	Country of Incorporation	Ownership Interest	
		2018 %	2017 %
Parent entity			
Quickstep Holdings Limited	Australia		
Controlled entities			
Quickstep Technologies Pty Limited *	Australia	100	100
Quickstep Systems Pty Limited *	Australia	100	100
Quickstep GmbH	Germany	100	100
Quickstep Automotive Pty Limited *	Australia	100	100
Quickstep Aerospace Pty Limited *	Australia	100	100
Quickstep USA Inc.	USA	100	-

Quickstep USA Inc was incorporated 30 April 2018. There have been no transactions in FY18.

* Companies entered into deed of cross guarantee with Quickstep Holdings Limited.

F.2 Parent Entity Financial Information

As at, and throughout, the financial year ending 30 June 2018 the parent entity of the Group was Quickstep Holdings Limited.

	2018 \$000	2017 \$000
Results of the parent entity		
(Loss) /profit for the year	21	1,073
Total Comprehensive income	530	1,100
Financial position of the parent entity at year end		
Total assets	5,031	2,854
Total liabilities	(4,259)	(2,612)
Net assets / (liabilities)	772	242
Total equity of the parent entity comprises		
Share capital	109,118	109,118
Reserves	5,276	4,767
Accumulated losses	(113,622)	(113,643)
Total equity	772	242

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

F. Other Disclosures

F.3 Deed of Cross Guarantee

Under the terms of ASIC Corporations (Wholly owned Companies) Instrument 2016/785, certain wholly owned controlled entities have been granted relief from the requirement to prepare audited financial reports. Quickstep Holdings Limited has entered into an approved deed of indemnity for the cross-guarantee of liabilities with those controlled entities in Note F.1.

The following consolidated Statement of Comprehensive Income and Balance Sheet comprise Quickstep Holdings Limited and its controlled entities which are party to the Deed of Cross Guarantee (refer Note F.1.), after eliminating all transactions between parties to the Deed.

	2018 \$000
Statement of Profit and Loss and other Comprehensive Income	
Revenue	59,036
Loss before income tax	(8,318)
Income tax benefit	-
Loss for the year	(8,318)
Other comprehensive income net of income tax	
Items that might be reclassified to profit or loss	
Cash flow hedges	239
Total comprehensive (loss) for the year	(8,079)
Balance Sheet	
ASSETS	
Current assets	
Cash and cash equivalents	2,862
Derivative financial instruments	239
Term deposits	810
Trade and other receivables	4,423
Prepayment and other assets	533
Inventories	10,015
Total current assets	18,882
Non-current assets	
Property, plant and equipment	13,237
Intangibles	20
Total non-current assets	13,257
Total assets	32,139
LIABILITIES	
Current liabilities	
Trade and other payables	7,619
Loans and borrowings	5,658
Deferred revenue	2,394
Employee benefit obligations	1,179
Total current liabilities	16,850
Non-current liabilities	
Loans and borrowings	7,900
Employee benefit obligations	310
Total non-current liabilities	8,210
Total liabilities	25,060
Net assets	7,079
EQUITY	
Share capital	109,118
Reserves	5,515
Accumulated losses	(107,554)
Total equity	7,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

F. Other Disclosures

F.4 Auditor's Remuneration

Amounts received or due and receivable by the auditor KPMG for:

	2018 \$	2017 \$
Audit services	209,500	205,000
Other services		
Grant assurance	5,000	23,200
Accounting and tax services	24,040	-
Total non-audit fee	29,040	23,200
	238,540	228,200

F.5 Subsequent Events

There have been no matters or circumstances that have arisen since 30 June 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.

F.5 New Accounting Standards

AASB 15 Revenue Recognition

AASB 15, which becomes mandatory for the Group from 1 July 2018, will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts.

AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. This new standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group will apply the cumulative effect method as at the initial date of application being 1 July 2018.

The Group has completed an impact assessment of adopting this standard and identified the key difference between the Group's current accounting policy and treatment under AASB 15 is that from 1 July 2018 revenue will be recognized over the performance period (i.e. period of manufacture) instead of at a point in time (i.e. dispatch of goods). Based on this assessment the estimate impact for the year ended 30 June 2018 would be an increase of revenue of \$ 6.7 million and increase in costs of goods sold of \$5.2 million and have a net impact on the Income Statement of approximately \$1.5 million. The Group expects to make an adjustment to increase opening retained earnings by \$1.5 million as at 1 July 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

F. Other Disclosures

F.5 New Accounting Standards

AASB 9 Financial Instruments

AASB 9 'Financial Instruments' replaces the existing guidance in AASB 139 'Financial Instruments: Recognition and Measurement'. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139. AASB 9 is not mandatory until 1 July 2018 for the Group. Management has completed a review of the potential impact on its financial statements resulting from the application of AASB 9 and determined there is no material impact. The Group will adopt AASB 9 for the year ended 30 June 2019.

AASB 16 Leases

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and financial leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. Refer to Note C.6. for details of the Group non-cancellable lease commitments. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's loss and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

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 has decided to adopt AASB 16 in FY20.

DIRECTORS' DECLARATION

for the year ended 30 June 2018

In the Directors' opinion:

- (a) the consolidated financial statements and notes set out on pages 33 to 63 and the Remuneration report on pages 24 to 31 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - ii. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the 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.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2018.

The directors confirm that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

There are reasonable grounds to believe that the Company and the group entities identified in Note F.1 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

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



Mr. M H Burgess

Director

28 August 2018

Sydney, New South Wales



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 audit of Quickstep Holding Ltd for the financial year ended 30 June 2018 there have been:

- i. No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. No contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Charmaine Hopkins'.

Charmaine Hopkins
Partner
Sydney, 28 August 2018



Independent Auditor's Report

To the shareholders of Quickstep Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Quickstep Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Balance Sheet as at 30 June 2018;
- Consolidated Statement of Profit or Loss and other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



Material uncertainty related to going concern

We draw attention to Note A "Going Concern" in the financial report. The conditions disclosed in Note A, indicate a material uncertainty exists that may cast doubt on the 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 financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Evaluating the underlying data used by management to derive forecast cash flows. We specifically considered the consistency of the underlying data with budgets and forecasts approved by the Directors and tested by us. We also considered the consistency of the underlying data with our understanding of the Group's intentions, as outlined in Directors minutes.
- Analysing the potential impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. Assessing the resultant impact on the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions;
- Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, results since year end, and our understanding of the business, industry and economic conditions of the Group. We have also considered the ability of the Group to defer or cancel forecast uncommitted capital and research and development expenditure;
- Assessed significant non-routine forecast cash outflows by inspecting associated third party correspondence to consider the impact of possible changes on the quantum and timing of amounts to be paid on the cashflow projections;
- Assessed the Group's forecast of advance payments from customers. We checked assumptions of quantum and timing to customer correspondence and signed customer contracts, to assess their accuracy to the cashflow projections;
- Reading correspondence and agreements with existing financiers to understand and assess the variation to existing debt facilities.
- We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.



Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the Key Audit Matter.

Revenue recognition (\$59.0m)

Refer to Note B.1 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group generates revenue through sale of goods. The Group also receives payments in advance of sale which results in deferred revenue being recognised.</p> <p>We focused on this as a key audit matter due to the significance of the quantum of revenue recognised combined with the large volume of transactions. This necessitated additional audit effort across the transactions.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We evaluated the Group's process for revenue recognition and deferral of advanced payments in accordance with the accounting standards; • We tested a statistical sample of revenue transactions recognised during the year and checked recognition against underlying invoices to customers, customer signed dispatch dockets or evidence of delivery and the Group's revenue recognition policy; • We selected a sample of pre and post year end revenue transactions and checked the timing of revenue recognition against underlying invoices to customers, customer signed dispatch dockets or evidence of delivery and the Group's revenue recognition policy; • We selected a sample of post year end credit notes to assess the recognition of revenue in the appropriate period; and • We selected a sample of advanced payment receipts from customers to check the deferral of revenue in accordance with the Group's revenue recognition policy.



Other Information

Other Information is financial and non-financial information in Quickstep Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinions.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Quickstep Holdings Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in page 24 to 31 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

A stylized, handwritten signature of the KPMG logo in black ink.

KPMG

A handwritten signature in black ink, appearing to read 'Charmaine Hopkins'.

Charmaine Hopkins
Partner

Sydney
28 August 2018

SHAREHOLDER INFORMATION

for the year ended 30 June 2018

The shareholder information set out below was applicable as at 31 July 2018.

A. Voting rights

The voting rights attaching to each class of equity securities are set out below:

- (a) On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Options do not carry any voting rights.

B. Substantial holders

Substantial holders in the Company are set out below:

C. On Market buy back

There is no current on-market buy back.

D. Distribution schedules

Distribution of each class of security as at 31 July 2018:

Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	459	103,017	0.02
1,001 - 5,000	860	2,823,027	0.50
5,001 - 10,000	830	6,756,165	1.20
10,001 - 100,000	2,650	104,673,056	18.60
100,001 - Over	759	448,525,527	79.68
Total	5,558	562,880,792	

Options exercisable at the lesser of \$0.25 or 25% above the issue price of any equity capital raising up to \$10M undertaken prior to 31 December 2018 (unlisted).

Range	Holders	Units	%
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - Over	1	25,000,000	100.00
Total	1	25,000,000	100.00

E. Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being \$500 parcel at \$0.0890 per share):

Holders	Units
1,389	3,296,659

SHAREHOLDER INFORMATION

for the year ended 30 June 2018

D. Top holders

The 20 largest registered holders of each class of quoted security as at 31 July 2018 were:

Rank	Holder Name	Securities	%
1	Washington H Soul Pattinson And Company Limited	89,419,161	15.89
2	Deakin University	33,333,333	5.92
3	State One Stockbroking Pty Ltd	16,214,017	2.88
4	Farjoy P	13,680,981	2.43
5	Romsup PL <Romadak S/F A/C>	8,812,430	1.57
6	Code Nom PL	7,207,580	1.28
7	Decta Holdings Pty Ltd <ND Graham Fam No 2>	6,788,904	1.21
8	WSF Pty Ltd <Woodstock S/F A/C >	6,305,793	1.12
9	HSBC Custody Nominees (Australia) Limited	4,470,854	0.79
10	Hobson Cove PL	4,000,000	0.71
11	Best Holding Pty Ltd	3,500,000	0.62
12	Petia Super Pty Ltd <Full Circle S/F A/C	3,065,661	0.54
13	National Nominees limited	3,058,920	0.54
14	Sandhurst Trustees Ltd -<LMFG Consol A/c>	3,048,688	0.54
15	Yarraandoo Pty Ltd <Yarraandoo S/F A/C>	2,959,933	0.53
16	Sols Super Pty Ltd	2,748,830	0.49
17	Exwere Investments Pty Ltd	2,400,000	0.43
18	Bond Street Custodians Limited<Ijen-V26792 A/c>	2,149,464	0.38
19	BNP Paribas Nominees Pty Ltd <IB Au Noms Retailclient DRP>	2,134,839	0.38
20	Mr Richard Cornelis Peetera	2,120,000	0.38
	Total	217,419,518	38.63

CORPORATE DIRECTORY

DIRECTORS

Mr. T H J Quick	Chair
Mr. M H Burgess	CEO and Managing Director
Mr. J C Douglas	Non-Executive Director
Mr. B A Griffiths	Non-Executive Director

SECRETARY

Mr. J Pinto

PRINCIPAL OFFICE

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Chartered Accountants
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Abbotsford Victoria 3067

STOCK EXCHANGE

Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney New South Wales 2000

ASX CODE

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 quickstep