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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended June 30, 2010**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1-10936**

**ORBITAL CORPORATION LIMITED**

**Australian Company Number: 009 344 058**

**Western Australia, Australia**  
(Jurisdiction of incorporation)

**4 Whipple Street, Balcatta, Western Australia 6021, Australia**  
(Address of principal executive offices)

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**4 Whipple Street, Balcatta, Western Australia, 6021, Australia**  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

None

Securities registered or to be registered pursuant to Section 12(g) of the Act

American Depositary Shares\*

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

Ordinary Shares 481,973,944

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES  NO

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ITEM 17  ITEM 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

\* Evidenced by American Depositary Receipts. Each American Depositary Share ("ADS") represents one hundred and sixty Ordinary Shares.

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## **CURRENCY OF PRESENTATION AND DEFINITIONS**

“Orbital” means Orbital Corporation Limited, a corporation incorporated under the laws of the State of Western Australia, Commonwealth of Australia and its consolidated subsidiaries.

See the Glossary at the end of this Annual Report for definitions of technical terms.

Orbital publishes its consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise specified or the context requires, references to the “US\$” or “US Dollars” are to United States dollars and references to “\$” or “A\$” are to Australian dollars. For the convenience of the reader, this Annual Report contains translations of Australian dollar amounts into United States dollars at the rate or rates indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the buy rate for telegraphic transfers of Westpac Banking Corporation, for the dates specified. These translations should not be construed as representations that the A\$ amounts actually represent the US\$ amounts or could be converted into US\$ at the conversion rate used.

## **FORWARD LOOKING STATEMENTS**

This Annual Report contains “forward-looking statements” as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations rather than historical facts and they are indicated by words or phrases such as “anticipate”, “estimate”, “expect”, “project”, “believe”, “intend”, “envision” and similar words or phrases. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are beyond Orbital’s control, that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Some of the factors that would affect our financial performance, cause actual results to differ from our estimates, or underlie such forward-looking statements, are set forth in various places in this report including, but not limited to, Item 3 “Key Information – Risk Factors”; Item 4 “Information on the Company” and Item 5 “Operating and Financial Review and Prospects”.

These risks include, but are not limited to, the following:

- reduction in fees from customers for our engineering, development and testing services;
- the impact of exchange rate movements on licence and royalty receipts;
- changes in engine manufacturers’ preferences towards FlexDi Technology;
- increased competition from existing or new engine technologies;
- changes in engine emissions standards or other environmental laws in countries where Orbital licences or plans to licence FlexDi Technology;
- the rate of market penetration of Orbital’s next generation Liquid LPG fuel systems;
- a downturn in general economic conditions in industries and markets where Orbital licences or plans to licence FlexDi Technology; and
- the cost of any product liability or intellectual property suits against Orbital.

Orbital undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Because of the risks, uncertainties and other factors discussed above, such forward-looking statements should not be unduly relied upon.

## PART 1

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

NOT APPLICABLE

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

NOT APPLICABLE

### ITEM 3. KEY INFORMATION

#### *Exchange Rate Information*

The following table sets forth, for the fiscal years indicated, the high, low, average and period-end WM/Reuters Australian Dollar Fix Rate at 4:00pm (Sydney) for Australian dollars expressed in United States dollars per A\$1.00. Orbital's fiscal year ends on June 30 of each year.

<u>Fiscal Year Ended June 30</u>	<u>At Period End</u>	<u>Average Rate (1)</u>	<u>High</u>	<u>Low</u>
2006	\$0.7423	\$0.7472	\$0.7781	\$0.7056
2007	\$0.8491	\$0.7925	\$0.8491	\$0.7407
2008	\$0.9562	\$0.9042	\$0.9797	\$0.7860
2009	\$0.8114	\$0.7442	\$0.9786	\$0.6122
2010	\$0.8523	\$0.8839	\$0.9349	\$0.7745

(1) The average of the Dollar Fix Rate on the last business day of each month during the period.

Details of the high and low Dollar Fix Rates for Australian dollars expressed in United States dollars per A\$1.00 in each month during the last six months are as follows:

<u>Month</u>	<u>High</u>	<u>Low</u>
May 2010	\$0.9250	\$0.8178
June 2010	\$0.8828	\$0.8156
July 2010	\$0.9019	\$0.8366
August 2010	\$0.9183	\$0.8837
September 2010	\$0.9675	\$0.9000
October 2010	\$0.9950	\$0.9586

On October 31, 2010, the Dollar Fix Rate was US\$0.9761 per A\$1.00.

The Australian dollar is convertible into US dollars at freely floating rates. There are currently no restrictions on the flow of Australian currency between Australia and the United States.

Fluctuations in the exchange rate between the Australian dollar and the US dollar may affect Orbital's earnings, the book value of its assets and its shareholders' equity as expressed in Australian and US dollars, and consequently may affect the market price for the American Depositary Shares (the "ADSs"). In addition, fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar price of Orbital's ordinary shares on the ASX and, as a result, are likely to affect the market price of Orbital's ADSs in the United States. See "Item 3. Key Information - Risk Factors – Fluctuations in exchange rates may have a material adverse effect on us". Any fluctuations will also affect the conversion into US dollars by the Depository of cash dividends, if any, paid in Australian dollars on the ordinary shares represented by the ADSs.

To date, Orbital has denominated and received most of its earnings from licence, development and supply agreements in US dollars. Cash and investments have been denominated in a combination of US dollars and Australian dollars and a significant proportion of expenditure in past years has been denominated in US dollars. However, presently most of Orbital's expenditure is denominated in Australian dollars. In periods when the US dollar appreciates against the Australian dollar, the Australian dollar conversion of the US dollar earnings under the licence and supply agreements may be materially enhanced. However, when the US dollar depreciates against the Australian dollar, Australian dollar conversion of the US dollar earnings under the licence and supply agreements may be materially reduced. Orbital may, where appropriate, enter into forward foreign currency hedging contracts to minimise currency exposure particularly in relation to royalties received in US dollars and Euros and their conversion into Australian dollars to satisfy Australian dollar expenditures and realise profits in Australian dollars.

Orbital's financial statements for the years ended June 30, 2010, 2009 and 2008 have been prepared in accordance with Australian Accounting Standards (AASB), which Orbital adopted on July 1, 2005. In complying with AASB, Orbital is also in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Prior to July 1, 2005, Orbital prepared its financial statements in accordance with Australian Generally Accepted Accounting Practice ("AGAAP"). The accounting policies set out in Notes 2 and 3 have been applied consistently to the 2008, 2009 and 2010 financial years.

The selected consolidated financial data in accordance with AASB below has been derived from Orbital's consolidated financial statements for the years ended June 30, 2010, 2009, 2008, 2007, and 2006, which have been audited by Ernst & Young (2010, 2009 & 2008) and KPMG (2007 & 2006), both independent registered public accounting firms. The consolidated financial statements as of June 30, 2010, 2009 and 2008, and the Report of independent registered public accounting firm thereon, are included elsewhere in this report, see F1 – F53. The consolidated financial statements as of June 30, 2007 and June 30, 2006 and the Report of independent registered public accounting firm thereon have not been included in this report.

**Selected Financial Data**

Amounts prepared in accordance with IFRS  
(in 000's except per Ordinary Share amounts)

	2010 (1) US\$	2010 A\$	2009 A\$	2008 A\$	2007 A\$	2006 A\$
<b>Consolidated Income Statement Data</b>						
<b>Operating Revenue</b>						
Revenue from trading operations	16,852	17,265	16,513	14,939	15,256	11,371
Other income	8,550	8,759	4,048	372	390	492
	<u>25,402</u>	<u>26,024</u>	<u>20,561</u>	<u>15,311</u>	<u>15,646</u>	<u>11,863</u>
<b>Costs and expenses</b>						
Cost of goods sold	(4,497)	(4,607)	(4,897)	—	—	—
Employee expenses	(10,534)	(10,792)	(9,820)	(9,812)	(9,428)	(8,297)
Selling, corporate and administration	(7,434)	(7,616)	(7,268)	(6,946)	(7,324)	(6,346)
Share of profit from equity accounted investment	1,829	1,874	1,846	2,357	3,157	4,135
Finance costs	(737)	(755)	(726)	(886)	(816)	(622)
Profit/(loss) before income tax	4,029	4,128	(304)	24	1,235	733
Income tax credit/(expense) attributable to operating profit/(loss)	379	388	(2,147)	445	98	(218)
Net profit/(loss) after income tax	<u>4,408</u>	<u>4,516</u>	<u>(2,451)</u>	<u>469</u>	<u>1,333</u>	<u>515</u>
Dividends paid or payable	—	—	—	—	—	—
Earnings/(loss) per ordinary share (3)						
- Basic (cents)	9.16	9.39	(5.13)	0.97	3.00	1.30
- Diluted (cents)	9.07	9.29	(5.13)	0.97	2.90	1.30
Dividends per ordinary share (cents)	—	—	—	—	—	—
Total number of shares	48,197,394	48,197,394	47,888,505	47,456,319	47,312,682	41,129,209

Amounts prepared in accordance with IFRS  
(in '000's except per Ordinary Share amounts)

	2010 (1) US\$	2010 A\$	2009 A\$	2008 A\$	2007 A\$
<b>Consolidated Financial Position Data at period end</b>					
Total assets	37,676	38,599	42,535	42,239	41,000
Total long-term debt (2)	7,422	7,604	14,873	14,151	17,958
Net assets	20,303	20,800	17,114	15,490	16,402
Total shareholders' equity	20,303	20,800	17,114	15,490	16,402

- (1) For the convenience of the reader the 2010 Statement of Financial Position and Income Statement items have been translated at the WM/Reuters Australian Dollar Fix Rate at 4:00pm (Sydney) for Australian dollars on October 31, 2010 which was US\$0.9761 = A\$1.00. Such translations are unaudited and provided for information purposes only. These translations should not be construed as representations of the amount that the Australian dollar amounts actually represent US dollar amounts, or could be converted into US dollars at the conversion rate used.
- (2) The long-term debt consists principally of a loan facility with the State of Western Australia (A\$14.3 million for 2010; A\$19.0 million for 2009 and 2008). In January, 2010 Orbital reached agreement with the State of Western Australia through the Department of Commerce for the restructure of the Non-Interest Bearing Loan.

Under the agreed restructure the original loan has been terminated and replaced by a new loan of \$14,346,000, which includes the following terms and conditions.

- Term – 2010 to 2025.
- Repayments - Commencing May 2010 at \$200,000 per annum.
- Repayments - Increasing annually to a maximum of \$2,100,000 per annum in 2023.
- Interest free.

(for additional information see note 26 to the Consolidated Financial Statements).

- (3) The options exercisable under the Orbital employee share plan have no material dilutive effect in respect of any year. At June 30, 2010 there were 481,973,944 ordinary shares on issue.
- (4) On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of ordinary shares on the basis that every ten ordinary shares be consolidated into one ordinary share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share. The share consolidation became effective on October 28, 2010. The effect of the share consolidation has been retroactively applied to the number of shares outstanding and Earnings per share calculations above. At October 28, 2010 there were 48,198,888 ordinary shares on issue.

### **Risk Factors**

- **We have a history of operating losses.**

Orbital experienced operating losses over a number of years prior to the 2006 fiscal year and again in the 2009 fiscal year, as a result of which the company's net assets were significantly reduced. The company has positive shareholders' equity and we believe that the company is operating on a going concern basis. However, if we were to incur future losses, we may not be able to continue our operations.



- **Our customers may reduce their out-sourced engineering services expenditure.**

A major source of Orbital's revenue is the provision of engineering services to customers in the automotive, motorcycle and marine and recreation sectors. Customers utilise Orbital's services as they either do not have the necessary skills in-house or their internal resources are overloaded. The sourcing of overload work is very dependent on the state of the market. In the event of a market downturn, this source of work would diminish. Reduction by Orbital's customers of their expenditure on out-sourced engineering services may substantially lessen the revenue received by Orbital.

- **The future fees we receive under agreements with Original Equipment Manufacturers ("OEMs") may be substantially less than the fees received in recent years.**

Agreements are entered into with vehicle, engine and component manufacturers and financing parties that grant rights to manufacture, use and sell products that utilise Orbital Combustion Process ("FlexDi") Technology. In the fiscal year ended June 30, 2010, royalty and licence fees revenue generated from the seventeen current licensed users of FlexDi technology and their affiliates accounted for approximately 7% of Orbital's consolidated operating revenues. During the last two fiscal years, royalty and licence fees income from licensed users accounted for approximately 7% of Orbital's consolidated operating revenues.

Orbital has already received and brought to account through revenue a majority of the total lump sum fees due under its existing licence agreements. The amount of additional lump sum fees earned under these agreements will depend on several factors, including the commercialisation of products incorporating FlexDi Technology, whether the licensees expand the territories or volumes covered by the agreements and whether additional engineering or engine development services are provided. As a result, the remaining fees received by Orbital under existing agreements may be substantially less than the fees received in prior years.

- **The failure to obtain new customers or receive royalties from existing or new customers could have a material adverse effect on us.**

The agreements with OEMs usually entitle Orbital to receive ongoing royalties when licensees sell engines incorporating FlexDi Technology. The total royalties paid to Orbital will depend on whether manufacturers succeed in selling large numbers of these engines to consumers. As at October 31, 2010, nine of Orbital's seventeen licensed users are in commercial production and selling products using FlexDi Technology. For the year ended June 30, 2010, Orbital has not received any royalty payments under any of its other agreements.

Orbital may not be able to enter into additional agreements with new customers. In addition, current licensees may choose not to commercially produce engines incorporating FlexDi Technology, and those who do may not succeed in selling these products to consumers. The failure to obtain new customers or receive royalties from existing or new customers could have a material adverse effect on Orbital's business and results of operations.

- **We rely on a small number of key customers.**

Orbital relies on a small number of key customers for the majority of its revenues. Three customers (Ford Australia, Changan Automobile, and Sygma Motors) accounted for 43% of total revenue in fiscal 2010. The loss of one or more of these customers could have a material adverse effect on Orbital's business and results of operations. Three customers (Ford Australia, Rato Power and Sygma Motors) accounted for 44% of Orbital's total revenue in fiscal 2009.

Synerject, which makes a significant contribution to Orbital's overall result, is also reliant on a small number of key customers for the majority of its revenues. In fiscal 2010, two customers (BRP and Kymco) accounted for 57% (2009: two customers (BRP and Mercury Marine) accounted for 66%) of Synerject's total revenue.

- **We may not be able to successfully complete the production testing programs for the application of FlexDi Technology to customer engines.**

Orbital and its licensees engage in production testing programs, which typically last two to four years, for the application of FlexDi Technology to customer engines. These tests must be successfully completed before manufacturers will consider committing the large capital amounts needed to modify existing or build new engine manufacturing plants. Orbital generally receives engineering fees for undertaking these programs.

Orbital may not be able to complete these testing programs successfully or without unforeseen problems or delays. As a result there can be no certainty that further products using FlexDi Technology will be introduced into the market or that Orbital will continue to receive engineering fees for performing these production programs.

- **The market may not accept FlexDi Technology.**

Many factors will influence whether Orbital's licensees decide to produce engines commercially using FlexDi Technology. These include the cost of adapting existing facilities or building new manufacturing facilities, the cost of producing each system and the reliability and efficiency of FlexDi Technology. Manufacturers also will evaluate competing technologies and consider how government fuel economy and emissions standards in different countries may favour one technology over another. If manufacturers begin commercial production using FlexDi Technology, the number of engines sold will depend on market acceptance. Many of these factors are beyond Orbital's control, but will ultimately affect the amount of royalties received. If licensees decide not to use FlexDi Technology commercially or consumers choose not to buy products incorporating FlexDi Technology, there would be a material adverse effect on Orbital's business and results of operations.

- **Our sales of LPG Vapouriser Kits may drop.**

The sale of LPG Vapouriser kits is a significant portion of our revenue (2010: 36%, 2009: 39%). Changes in emissions regulations in Australia that came into effect on July 1, 2010 prohibit the manufacture of new vehicles with vapouriser kits. Sales to the aftermarket will continue past June 30, 2010 as retrofit conversions can still be undertaken on vehicles manufactured before June 30, 2010. Orbital has developed a Liquid LPG fuel system which complies with the Australian emissions regulations noted above.

- **Our sales of Liquid LPG Fuel Systems may not be to plan.**

In fiscal 2010, we invested approximately \$1.0 million in the development of the next generation Liquid LPG fuel systems. We have continued to invest in kit development post June 30, 2010. Sales of these kits may not be at a high enough volume and/or high enough margin to recoup these investments. The overall level of conversion of vehicles to LPG in Australia is considerably lower than in recent years and this depressed market may continue resulting in less demand for our Liquid LPG fuel systems.

- **We have a large concentration of LPG fuel system sales to a single customer.**

Our major customer for LPG fuel systems is Ford Australia. Demand for large sedans may drop which will effect the level of our sales to Ford. There may be delays between the ending of manufacture of vehicles with a vapouriser LPG fuel system and the commencement of production of vehicles with a Liquid LPG fuel system.

- **We may not be able to fund the capital and working capital requirements necessary for our business.**

Orbital requires significant capital amounts to conduct its business. For example, Orbital expects to incur on-going research and development costs and operating costs to enhance the FlexDi Technology and Liquid LPG fuel systems products. In the past, these costs have been paid with a combination of operating revenues, equity injections, debt and other financing. However, there can be no assurance that Orbital will have sufficient operating revenues to fund future costs or that outside financing will be available at affordable prices, or at all. A failure to obtain sufficient financing for ongoing costs could prevent Orbital from carrying out business plans on time and give an advantage to competitors with greater financial resources. If a shortage of financing causes long delays in the further development and commercialisation of FlexDi Technology, licensees could choose not to build engines with FlexDi Technologies or to use competing technologies. This could have a material adverse effect on Orbital's business and results of operations.

- **We may not be able to protect our intellectual property rights.**

Orbital has obtained patents on many aspects of its FlexDi Technology, and has applied for additional patents on other aspects of its technologies. Orbital's success depends, in part, on its ability to protect its technology and products under applicable intellectual property laws.

Orbital is not a party to any present patent or intellectual property litigation, but in the future may be sued by other parties that claim Orbital infringes their patent rights or other rights, or may need to sue other parties to enforce its patent or other intellectual property rights. In the event of being sued by other parties, if proved, these claims could have a material adverse effect upon Orbital. Even if Orbital won any of these suits, the management time and legal expenses required to defend these claims could have an adverse effect on Orbital's future operating results. Orbital also has trade secrets and know-how, which are not patentable but are still important to Orbital's business. Orbital seeks to protect these rights through confidentiality agreements and contractual protections. These arrangements may not protect Orbital from unauthorised use or disclosure of its trade secrets and know-how.

- **Our share price may be volatile.**

The price of Orbital's ordinary shares on the Australian Stock Exchange ("ASX") and the OTC Bulletin Board have experienced historic volatility. In addition, technology stocks traded in both markets have experienced substantial price and volume fluctuations from time to time, even though these changes were sometimes unrelated to the operating performance of specific companies. Announcements of operating results or technical innovations by Orbital or its competitors, including reports or announcements about FlexDi Technology, may have a material effect on the market price of the ordinary shares or the ADSs. On October 31, 2010, the closing price of Orbital's ordinary shares on the ASX was A\$0.028. The closing price on June 30, 2010 was A\$0.030. The closing price of the ADSs on the OTC Bulletin Board on October 31, 2010 was US\$4.12, an increase of approximately 11% from the closing price of US\$3.72 for the ADSs on the OTC Bulletin Board on June 30, 2010. See Item 9. – "The Offer and Listing – Nature of Trading Market".

- **A large product liability or professional indemnity judgement could have a material adverse effect on us.**

Orbital is subject to business risk from product liability or professional indemnity suits if third parties claim that defects in FlexDi Technology or in engineering services provided by Orbital resulted in personal injury or other losses. Orbital may also be required to indemnify licensees for claims arising from alleged defects in products, which use FlexDi Technology or are designed or manufactured by Orbital. Licensees are, however, required to indemnify us from liabilities caused by defects in products not manufactured by Orbital.

Orbital believes that sufficient product liability and indemnity insurance is held for the range of products and services currently provided to licensees and other customers, but sufficient coverage may not be able to be obtained in the future at affordable costs, or at all. Even if Orbital has such insurance, a judgement against us in a large product liability or professional indemnity suit could have a material adverse effect on Orbital's business or financial condition.

- **FlexDi Technology may not be able to compete successfully against other engine technologies.**

Orbital faces significant competition from automobile and engine manufacturers and engineering firms specialising in internal combustion engine technology. Many of these competitors have substantially greater financial, marketing and technological resources than Orbital.

Orbital's commercial success depends in part upon whether FlexDi Technology can compete successfully against both existing and new engine technologies, including new technologies that are similar to FlexDi Technology. To achieve further commercial success, FlexDi Technology will need to displace current four-stroke and two-stroke internal combustion engine technologies, which have a dominant market position. Current four-stroke and two-stroke engine technologies may continue to dominate the engine market, or they may be replaced by new technologies other than FlexDi Technology. Orbital's competitors may develop products that are technically superior to Orbital's products or more acceptable to the market. This could reduce Orbital's market share or make FlexDi Technology less attractive or obsolete, which would have a material adverse effect on Orbital's business and results of operations.

- **Fluctuations in exchange rates may have a material adverse effect on us.**

Orbital records its transactions and prepares its financial statements in Australian dollars. Most of Orbital's earnings from licence and supply agreements are in US dollars. Cash and investments are denominated in both Australian and US dollars. Approximately 81% of Orbital's expenditures are denominated in Australian dollars. When the US dollar appreciates against the Australian dollar, the US dollar earnings would convert into more Australian dollars. However, when the US dollar depreciates against the Australian dollar the US dollar earnings would convert into fewer Australian dollars. Fluctuations in exchange rates between the Australian dollar and the US dollar may also affect the book value of assets and the amount of shareholders' equity. To reduce its potential currency exposure, Orbital has from time to time entered into forward foreign currency exchange contracts to fix, in Australian dollars, the majority of forecast US dollar royalty and engineering services fee receipts. Details of Orbital's total foreign currency forward exchange contracts as of June 30, 2010 are contained in Item 5. – "Operating and Financial Review and Prospects – Foreign currency exchange sensitivity". As at October 31, 2010, Orbital's outstanding forward foreign currency exchange contracts totalled US\$nil. See also Item 3 – "Key Information – Exchange Rate Information" above.

- **We may not be able to comply with future governmental regulations.**

Products using FlexDi Technology must comply with many emissions, fuel economy and other regulations in Australia, the US and other countries. Based on internal testing, Orbital believes that products using FlexDi Technology will be able to meet current emissions and fuel economy standards in the countries that are Orbital's most important markets. The effects of any future regulations on Orbital's business or results of operations cannot be predicted. However, if Orbital were unable to comply with any material new regulations in Australia, the US or other key markets, this could delay further commercialisation of FlexDi Technology and have a material adverse effect on Orbital's business and results of operations.

- **Classification as a "PFIC" would result in adverse tax treatment to our US shareholders.**

Under US federal tax laws, a foreign corporation is treated as a passive foreign investment company ("PFIC") if 50% or more of its assets or 75% or more of its income is passive. Historically, Orbital has not been treated as a PFIC and currently believes that it is not a PFIC. This is, however, a factual determination made annually, which could change, based upon future developments or changes in Orbital's gross income or the value of its assets. If Orbital were classified as a PFIC in any taxable year, a US holder of Ordinary Shares or ADSs would be subject to special rules. These rules are intended to reduce or eliminate any benefit from the deferral of US income tax that a US holder could derive if the foreign company does not distribute all of its earnings on a current basis. See Item 10.- "Additional Information - United States Federal Income Taxation".

#### ITEM 4. INFORMATION ON THE COMPANY

##### *History And Development Of The Company*

Orbital Corporation Limited is incorporated as a public company under the laws of Australia and operates under the Corporations Act 2001. Following a special resolution passed by shareholders at the Company's annual general meeting on October 26, 2004, the Company changed its name from Orbital Engine Corporation Limited to Orbital Corporation Limited on October 27, 2004. The Company's domicile is Australia where its registered office and principal place of business is located at 4 Whipple Street, Balcatta, Western Australia (tel +61 8 9441 2311).

The Company operates as the ultimate holding company of the Orbital group of companies, the details of which are as follows:

#### PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	Class of Shares	Consolidated Entity Interest	
		2010 %	2009 %
<b>Orbital Corporation Limited</b>			
Controlled Entities, incorporated and carrying on business in:			
<b>Australia</b>			
- Orbital Australia Pty Ltd	Ord	100	100
- Orbital Australia Manufacturing Pty Ltd	Ord	100	100
- OEC Pty Ltd	Ord	100	100
- S T Management Pty Ltd	Ord	100	100
- OFT Australia Pty Ltd	Ord	100	100
- Investment Development Funding Pty Ltd	Ord	100	100
- Power Investment Funding Pty Ltd	Ord	100	100
- Orbital Environmental Pty Ltd	Ord	100	100
- Orbital Share Plan Pty Ltd	Ord	100	100
<b>United States of America</b>			
- Orbital Holdings (USA) Inc	Ord	100	100
- Orbital Engine Company (USA) Inc	Ord	100	100
- Orbital Fluid Technologies Inc.	Ord	100	100
<b>United Kingdom</b>			
- Orbital Engine Company (UK) Ltd	Ord	100	100

Orbital is an international developer of engine and related technologies, providing research, design and development services for the world's producers of powertrains and engine management systems for application in motorcycles, marine and recreational vehicles, automobiles and trucks. Orbital's principal operations in Perth, Western Australia, provide a world-class facility with capabilities in design, manufacturing, development and testing of engines and powertrains. Orbital provides its customers with leading edge engineering expertise. Headquartered in Perth, Western Australia, Orbital stock is traded on the Australian Stock Exchange (OEC) and the OTC Bulletin Board (OBTMY).

Orbital's beginnings date to the late 1960s, when Ralph Sarich, Orbital's founder, began development of a rotary internal combustion engine called the Orbital Engine. Mr Sarich entered a partnership, known as the Sarich Design and Development Partnership, with two other individuals for the purpose of developing, patenting and marketing the Orbital Engine. In November 1972, the partnership entered into a joint venture with The Broken Hill Proprietary Company Limited ("BHP"), then one of Australia's largest companies. Under that joint venture, in which each of the partnership and BHP had a 50% interest, Orbital Engine Company (Australia) Pty Ltd (now Orbital Australia Pty Ltd) was established in January 1973, for the development and commercialisation of the Orbital Engine.

In 1978, the partnership assigned its interest in Orbital Engine Company (Australia) Pty Ltd to the Sarich Design and Development Unit Trust (the "Trust"). In 1984, the Trust publicly offered some of its interest in Orbital Engine Company (Australia) Pty Ltd through the listing on the Australian Stock Exchange ("ASX") of the Sarich Technologies Trust ("STT"). In December 1988, STT was converted to an ASX listed company, Sarich Technologies Limited. In May 1989, BHP exchanged its 50% equity interest in Orbital Engine Company (Australia) Pty Ltd for a 35% shareholding in Sarich Technologies Limited, reflecting BHP's rights to income under the original joint venture agreement with the partnership and certain debt owing from Orbital Engine Company (Australia) Pty Ltd to BHP. In November 1990, Sarich Technologies Limited changed its name to Orbital Engine Corporation Limited.

In the period between 1973 and 1983, Orbital established a team of engineers and technicians and developed fuel injection and combustion technology that enhanced the performance of the rotary Orbital Engine, culminating with General Motors Corporation entering into an agreement in 1983 to evaluate the Orbital Engine. During this period, Orbital recognised that its fuel injection and combustion technology could also be applied to a conventional two-stroke engine to reduce many of its shortcomings.

In 1983, Orbital determined that the application of its technology to two-stroke engines had the potential for greater commercial return and market acceptance than the rotary Orbital Engine due, among other things, to the commercial barrier of requiring completely new manufacturing processes and facilities to produce the rotary Orbital Engine. As a consequence, Orbital decided to cease development of the rotary Orbital Engine in favour of applying its fuel injection and combustion technology to two-stroke engines.

In December 1991, Orbital offered for sale 2,890,000 American Depositary Shares (“ADSs”) (representing 23,120,000 ordinary shares in Orbital) and BHP offered for sale 510,000 ADSs representing 4,080,000 ordinary shares in Orbital. These ADSs were listed on the NYSE at that time. BHP sold its entire shareholding by December 1999.

In June 1997, Orbital and Siemens-VDO Automotive established a joint venture, Synerject LLC, to design, develop, manufacture, distribute and sell fuel rail assemblies incorporating FlexDi Technology. See “Strategic Alliances – Continental” below.

Effective July 1, 2004, Orbital’s ADSs were de-listed from the NYSE as the continued listing requirements relating to market capitalization and shareholder equity were not met. Trading in the Company’s ADSs was transferred to the OTC Bulletin Board with effect from July 1, 2004. As of October 31, 2010, approximately 21% of Orbital’s outstanding shares were held in the form of ADSs traded on the OTC Bulletin Board. See Item 9. - “The Offer and Listing - Nature of Trading Market”.

The Company’s principal capital expenditures since July 1, 2007 have consisted of ongoing improvements to test facilities and equipment (\$5.347 million), including the construction of the Heavy Duty Engine Testing Facility (\$3.508 million).

In June 2008, Orbital acquired the business assets of Boral Alternative Fuel Systems (renamed Orbital Autogas Systems – OAGS), a tier 1 supplier of LPG fuels systems, for \$1.758 million.

### ***Business Overview***

Orbital’s strategy is to focus on:

- Expanding into an alternate fuels LPG business building on the Orbital Autogas Systems acquisition.
- Continuing our commitment to grow Synerject as a profitable systems provider in the non-automotive markets and increasing the value of this asset.
- Targeted R&D to enhance FlexDi products to respond to requests raised by existing and potential customers who require improved performance or lower unit cost to extend the roll out of our technology. In turn this will enhance the company’s intellectual property portfolio.
- Judicious acquisitions, where we can add shareholder value.
- Expanding Orbital’s automotive engineering services by winning projects and establishing strategic alliances with Australian and Asian partners.
- Achieving future growth of licences and royalties for FlexDi in niche markets.
- Targeted growth in liquid natural gas/compressed natural gas for the Australian and Asian heavy transport sector.

Orbital technology has been commercialised in the motorcycle, marine and recreational vehicle markets. Orbital’s goal is to broaden the application of Orbital technology in these and other markets. Orbital’s strategy is to continue to participate actively, where appropriate, in the commercialisation of FlexDi Technology to reduce risks and advance the rate of adoption of this technology while targeting growth in the alternative fuels industry.

### ***Orbital Combustion Process (“FlexDi”)***

The breakthrough in engine design achieved by Orbital is a stratified combustion process, which involves an air-assisted injection of fuel directly into the combustion chamber and uses electronic control of the fuel delivery, injection timing, ignition and other variables. The FlexDi combustion process and control is suitable for both two-stroke and four-stroke engines and has been applied successfully across a range of cylinder displacements from 50cc to greater than 500cc, including high operating engine speeds.

In a conventional engine, the fresh fuel/air mixture is prepared upstream of the cylinder (whether by carburettor or conventional EFI) and enters the cylinder during the intake stroke, with the intent of forming a homogenous mixture of air and fuel within the cylinder. The FlexDi systems allow a highly stratified combustion process to occur, containing the combustible fuel cloud to a small area within the cylinder, with the remainder of the air in the cylinder being not fuelled. This process, at light loads, allows the engines with FlexDi Technology to run very lean (in some cases, total engine operation is carried out without the use of an air intake throttle). Under high load conditions, the FlexDi system tends to run more like a homogeneously charged engine, with good mixing of the fuel/air mixtures within the cylinder.

In the case of a two-stroke engine, the FlexDi system allows injection to occur after exhaust port closures at light loads, minimising the short-circuiting of fresh fuel/air mixture out of the exhaust port as occurs in conventional two-stroke engines. In the case of a four-stroke engine, this allows lean engine operation, significantly reducing the engine pumping work.

The combustion process itself, due to control of the air to fuel ratio gradient within the spray plume, allows clean and controlled combustion, resulting in further improvements in fuel economy and emissions control.

Apart from the basic combustion process and the associated fuel and control system, Orbital has developed other technologies including catalyst systems, control systems, control hardware and control software for vehicle applications of engines using the FlexDi Technologies.

### ***Sources of Revenue***

Orbital’s sources of revenue are currently from:

- provision of consulting and engineering services;
- sale of goods; and
- licence fee income and royalties.

Further details on segment revenue is contained in note 6 of the Consolidated Financial Statements on page F-30.

During the last three fiscal years Orbital spent approximately A\$4.109 million on research and development programs. The Orbital group’s licence fee income and royalties relate to the sale of rights to its intellectual property, such as patents and know-how, to major vehicle, engine and component manufacturers through licence and engineering service agreements. These agreements grant the licensee limited rights to manufacture, use and sell products utilising FlexDi Technology.

As at October 31, 2010, Orbital has 17 agreements to end users of technology or suppliers, which grant licence rights related to FlexDi Technology. Orbital’s customer base covers applications in the automotive, marine, recreational and motorcycle markets.

At October 31, 2010 Orbital had 9 customers (2009: 11 customers) using FlexDi Technology in commercial production.

At October 31, 2010 the following agreements granting rights to Orbital's FlexDi Technology were in place:

### **Agreements for Rights to FlexDi Technology**

<u>Date</u>	<u>Company</u>	<u>Market</u>
September 1987	Brunswick Corporation (Manufacturer of Mercury and Mariner engines)	Marine
June 1988	Ford Motor Company (Incorporating Jaguar Motor Cars)	Automotive
June 1989	General Motors Corporation	Automotive
May 1990	Piaggio & C. spa	Motorcycles
January 1991	Fiat Auto Company	Automotive
February 1997	Tohatsu Corporation	Marine and Fire Pump Engines
June 1997	Kymco	Motorcycles
June 1997	Synerject, LLC (Joint Venture with Continental Corporation)	Fuel Injection Systems
September 1999	Aprilia World Service B.V	Motorcycles
August 2001	Delphi Automotive Systems	Automotive
May 2002	Peugeot Motocycles	Motorcycles
January 2003	UCAL Fuel Systems Ltd	Motorcycles
May 2004	Bajaj Auto Limited	Auto-rickshaws
April 2005	Goebler-Hirth Motoren KG	Heavy fuelled UAVs
May 2005	Envirofit International Limited	Retrofit Applications
February 2006	Polaris Industries Inc.	Marine & Recreational
September 2006	Bajaj Auto Limited	Auto-rickshaws (gaseous)

Although these licence agreements differ in their specific terms, generally each licence agreement defines the scope of access rights to the FlexDi Technology, including geographic regions, applications covered by the licence agreement (for example, engine types and horsepower range), any areas of exclusivity which may have been granted, the duration of the licence and royalty periods, and confidentiality provisions. The licence agreements also set out the basis on which initial and ongoing technical disclosure is to be made between the parties and the details of technical programs to utilise the FlexDi Technology, such as performance targets and the quantities of vehicles and engines required to be produced by Orbital for testing purposes by the licensees. A licence agreement also typically covers the licensee's right to Orbital's improvements and Orbital's rights to the licensee's improvements on the basic FlexDi Technology, as well as indemnity provisions relating to losses arising from products designed and manufactured by Orbital or its licensees. Under the terms of the licence agreements, licensees are not specifically obliged to commence production and sale of engines using FlexDi Technology and may terminate the agreements upon notice to Orbital. If a licensee were to terminate its licence agreement with Orbital, the licensee would forfeit the licence and any technical disclosure fees paid through to the date of termination.



The licence agreements may provide for the payment to Orbital of fees upon the execution of the licence agreement. These initial licence fees may be negligible in some instances and significantly larger in others. Additional fees may also be required after a fixed time interval or after delivery of prototype engines and/or hardware employing the FlexDi Technology that meets specified performance targets, provided the licence agreements are not terminated. In some cases the licence agreements provide for technical disclosure fees and territory fees that are payable upon disclosure and transfer of Orbital's technical know-how or upon any expansion of the licensees' rights to FlexDi Technology.

Generally, under the terms of Orbital's licence agreements, royalty payments will become payable if licensees commence commercial production and sale of engines or components incorporating the FlexDi Technology. Such royalties will usually be based on several factors, which may include a base amount, the engine's particular horsepower rating, an adjustment for inflation, the benefit delivered to the Original Equipment Manufacturer, access to improvements and the level of technology applied. Royalties currently achieved for the non-automotive application of FlexDi Technology range from approximately US\$6.00 for a small scooter to US\$67.00 for a large multi-cylinder marine outboard engine.

Commercial production or sale of engines with FlexDi Technology commenced in 1996. Production royalties of approximately A\$1.19 million were received by Orbital in the 2010 fiscal year compared to approximately A\$1.11 million in fiscal 2009. There can be no assurance that Orbital will be successful in entering into additional licence agreements, that other licensees will commence commercial manufacture of products incorporating the FlexDi Technology, or that Orbital will receive additional fees under existing agreements. Orbital's financial results have varied from period to period in the past and will continue to experience such fluctuations in the future. There can also be no assurance that products incorporating FlexDi Technology will achieve market success.

### ***Strategic Alliances***

#### *Continental*

In June 1997, Orbital formed a joint venture company, Synerject, LLC, with Continental Corporation (previously Siemens Automotive Corporation - Continental Corporation acquired Siemens Automotive Corporation in January 2008). At the time of formation, Synerject's principal activities were to design, develop, manufacture, distribute and sell fuel rail assemblies incorporating FlexDi technology.

In November 1998, Orbital announced the expansion of the operations of the Synerject joint venture to allow Synerject to provide motorcycle and scooter Original Equipment Manufacturers ("OEMs") with both air assisted direct injection and electronic fuel injection systems. This includes engine management systems and all peripheral components, and system integration services, in addition to supply of the fuel rail assembly. This expansion enables Synerject to provide both technical and program management services to the customer. Fiscal 2000 saw the launch of the Aprilia SR 50 DITECH (DI Technology), the first commercial motorcycle or scooter using Orbital's DI technology, followed by Aprilia's Scarabeo DITECH™ scooter in 2001. In May 2002, Piaggio, manufacturer of the Vespa brand scooter, and Peugeot Motocycles each launched two motor scooter models incorporating Orbital's direct injection technology. Peugeot launched its Jetforce scooter during the 2003 fiscal year and Kymco launched its 100cc KDI 2-stroke scooter in the 2005 fiscal year. In May 2007 Bajaj Auto Ltd commenced production in India of an autorickshaw utilising Orbital's direct injection technology.

During 1998 Orbital's relationship with Continental was expanded to create an alliance that facilitates the supply of complete integrated systems incorporating FlexDi technology to automotive customers. This capability is attractive in order to penetrate the automotive industry, as manufacturers are continuing to reduce the number of suppliers and rely more heavily on large companies that act as systems integrators. These system integrators source, validate, and coordinate the supply of the components of a system which may include the fuel rail assembly, electronic control unit, compressor, fuel pump and wiring harnesses. The system is then sold to the manufacturer as a complete unit.

Synerject LLC was restructured and refinanced during fiscal year 2003. In January 2003, new financing arrangements were put in place for Synerject LLC until September 30, 2006. As part of the restructure, in April 2003, Synerject LLC acquired, by way of capital contributions from each joint venturer, the operations of Orbital's marine and recreation system sales business and Continental's non-automotive systems business. The actual performance of each of these contributed businesses in the 3 year period to June 30, 2006, compared to the planned performances, was reviewed to determine the optional adjustment to the percentage shareholdings of Orbital and Continental in Synerject LLC ("the recalculation").

The change in shareholdings as a result of the above recalculation was 10% i.e. ownership percentages of 40:60.

There was an option for the joint venturer who has the majority shareholding as determined by the recalculation above, to call from the other shareholder ("minority shareholder") the percentage of shares determined by the recalculation. The minority shareholder may dilute their shareholding or may choose to exercise an option to maintain the 50:50 ownership structure by either paying the other joint venturer US\$400,000 for each 1% interest of Synerject or by injecting additional capital into Synerject LLC of US\$800,000 for each 1% interest in Synerject.

Continental exercised its option to call from Orbital 10% of the shares in Synerject LLC on March 31, 2009. On that date Orbital exercised its option to maintain the 50:50 ownership amounting to US\$4,000,000. Orbital also agreed on March 31, 2009 to sell 8% of Synerject to Continental for US\$4,000,000.

Following the sale of the interest the ownership percentages are Orbital 42%:Continental 58%. As a result of the change in ownership Orbital now recognises and discloses its investment in Synerject as an investment in associate.

Orbital and Continental hold a 42%/58% interest in Synerject LLC and share equal board representation. Under the terms of the joint venture agreement, the net income and losses of the joint venture are allocated in accordance with the percentage interest held.

Orbital and Continental also executed a new shareholders' agreement that provides for Orbital representation on the board of Synerject and commits both parties to manage the business for the benefit of all shareholders.

In March 2006 Synerject acquired a business based in Delavan, Wisconsin, which supplies fuel systems and components for outboard marine engines from BRP US Inc for approximately US\$2.5m. The investment by Synerject consisted of working capital, principally inventory and plant & equipment.

During FY2007 Synerject established a manufacturing facility in Changchun, China and an engineering support facility in Chongqing, China. These facilities have been established to produce low cost electronic control units for motorcycle applications, with manufacturing commencing in FY2008.

Synerject has operations located in Newport News, Virginia, Delavan, Wisconsin, Toulouse, France and Changchun and Chongqing, China (as noted above). In Newport News, Synerject manufactures air injectors and fuel rail assemblies for the majority of Orbital's marine and motorcycle customers and supplies systems to marine customers. In Delavan, Synerject manufactures electronic management modules and direct injection fuel injectors and oil pump assemblies primarily for Bombardier Recreational Products. In Toulouse, Synerject sources components (including air injectors and fuel rail assemblies manufactured in Newport News) and supplies systems to motorcycle customers. As noted below, in April 2003, Synerject acquired Continental's non-automotive systems business which is now conducted in Toulouse.

#### *UCAL Fuel Systems*

In February 2003, Orbital entered into a Technical Cooperation Agreement with UCAL Fuel Systems Ltd, a manufacturer of carburetors and fuel injection system components for the Indian motorcycle and automotive markets. Under the agreement, UCAL has been granted the right to manufacture and supply components of Orbital's direct injection fuel systems to the 2-stroke 2 and 3 wheeler motor vehicle market in India.

#### *Vialle*

In June 2008, in parallel with the acquisition of Boral Alternative Fuel Systems (now Orbital Autogas Systems), Orbital entered into Licencing Agreements with Vialle for the distribution of LPG fuel systems in Australia and New Zealand. The Licence Agreements cover the sale of vapouriser LPG fuel systems and Liquid LPG fuel systems.

#### *Motonic Corporation*

In September 2009, Orbital reached an agreement with Motonic Corporation of Korea for the exclusive access to Motonic products for the Australian LPG Autogas market.

Motonic is the world's largest supplier of LPG Autogas components. Motonic is a Tier 1 supplier of LPG Autogas systems to Hyundai, the world's largest manufacturer of LPG vehicles.

### *Competition*

Orbital's success depends upon its ability to continue to earn revenue from engineering services, to maintain a competitive position in the development of FlexDi Technology in relation to other existing and emerging technologies and to increase market share in the Australian LPG market by sale of its newly developed Liquid LPG fuel system.

Success of the FlexDi Technology is also dependent upon Orbital's ability to both displace current fuel injection and combustion technologies for four-stroke or two-stroke internal combustion engines, which have an established and dominant position in this field, and its ability to gain market share against emerging technologies. There is significant competition from automobile and engine manufacturers and engineering firms specialising in the development of internal combustion engine technology for the automotive, marine, motorcycle and small engine industry. These companies may have substantially greater resources for research, development and manufacturing than Orbital. Despite the fact that Orbital has developed, patented and licensed the FlexDi Technology to a number of automobile and engine manufacturers, it is possible that Orbital's competitors may succeed in developing alternative technologies and products that are more effective or commercially more acceptable than those developed by Orbital.

There is a difference between an individual engine design and the broad range of possibilities covered by the FlexDi Technology for which fees are charged under licensing agreements. Manufacturers may have their own specific engine designs incorporating FlexDi Technology as well as their own proprietary and non-proprietary know-how. Licensees may market the individual characteristics of their engine designs without reference to the fact that the FlexDi Technology is required or being used. Under the terms of Orbital's licence agreements, royalties would be payable in such situations.

Other competition to engines employing FlexDi Technology may also include other lean burn engines, electro-magnetic valve lift and timing actuation, electric motors, hybrid vehicles and fuel cells and other concepts not known to Orbital. Insofar as these technologies incorporate efficient technology for internal combustion engines they would be complementary to FlexDi Technology, for instance in hybrid vehicles.

Current four-stroke technology also remains the main competitor to the introduction of FlexDi Technology for non-automotive applications. Various direct injection technologies, such as high pressure, single fluid direct injection systems, are available to engine manufacturers to improve the performance of two-stroke engines as an alternative to both the current four-stroke and FlexDi Technology.

With respect to provision of engineering services, Orbital competes against engineering groups such as Ricardo, AVL, FEV and others, which have well established European presences and growing presences in the China/Asia market. An additional competitor to Orbital's services is the customer's internal resources. In all cases, Orbital must compete on work-scope, cost and quality with its competitors. Orbital's competitors may have significantly more financing available than Orbital which may help to win certain work programs. The engineering service requirement is directly influenced by global, national and OEM company financial positions and also by the presence, or lack of, drivers such as new emission or other regulatory changes.

Synerject, as an Engine Management System and component supplier for the non-automotive market for both direct injection and manifold port injection, and for Orbital's proprietary air injector for the automotive market, competes directly with established suppliers such as Bosch, Del'orto, Magneti Marelli, Delphi and others.

Orbital's competitors in the Australian LPG market include Alternative Fuel Innovations, Apollogas, Boemo Engineering, Impco, and Sprintgas

### ***Alternative Fuels***

Alternative fuel applications and system supply is a cornerstone of Orbital's forward strategy.

Alternative Fuels is a market that is in focus globally. Automotive manufacturers are now developing multi and bi-fuel vehicles. CNG (Compressed Natural Gas) for automotive use grew at almost 20% globally 2009 vs. 2008. LPG (Liquid Petroleum Gas) is the principal low cost, lower emissions, automotive alternative fuel in Australia and Korea. The trucking industry is increasingly taking up LNG (Liquid Natural Gas) and CNG (Compressed Natural Gas) on a global basis. The reasons for the growth in the alternative fuel market are threefold; 1) Cost savings for the operator, 2) Reduction in greenhouse gas emissions and 3) Fuel security.

Orbital Autogas Systems (OAGS) generated revenue of \$6,203,000 similar to FY09. In FY10 OAGS invested in building an LPG retrofit business underpinned by the latest technology liquid LPG systems. OAGS grew its infrastructure over the past year in preparation for increased Ford and aftermarket sales. As a result overhead costs increased by approximately \$1,000,000, including increased staff and larger premises and this business generated a loss of \$1,727,000 compared with \$739,000 in FY09.

Orbital is at the leading edge of several key developments and products in alternative fuel markets.

- Firstly, OAGS "Liquid" LPG aftermarket kits have now been developed for some 25 popular vehicle models, as well as being the LPG system for the next generation of Ford Australia E-Gas vehicles. OAGS supplies the current technology "vapouriser" LPG systems to Ford Australia and to the retrofit market. Orbital's new "Liquid" system gives customers the highest level of performance and meets the new Australian Design Regulation (ADR) 79/02 emission requirements implemented in Australia from July 2010 onwards. OAGS is contracted to supply Ford Australia's next generation LPG injection systems, and recently entered the retrofit market with "Liquid". Market feedback to the new system has been positive. Whilst the Australian LPG aftermarket has remained subdued this year due to the low cost of petrol, the OAGS liquid LPG system, offering seamless performance relative to the baseline gasoline vehicle and carbon dioxide savings of up to 13%, is poised to see growth when petrol prices increase. Historically sales of LPG trend with the price of petrol. Introduction of the ADR 79/02 emission regulation dictates the use of more advanced LPG systems, either sequential vapour injection, or liquid LPG injection systems developed by OAGS. The "vapouriser" style LPG systems previously sold in Australia will not meet the new emissions standards. This change in legislation should drive future sales growth.
- Natural gas vehicle production and conversion is increasing significantly around the world. Building on the OAGS business, and on Orbital's 30 years of engine, combustion and engine management system experience, Orbital is seeking to capitalize on this emerging market. The LNG (Liquid Natural Gas) heavy duty transport market in Australia and Asia has the potential to be a significant opportunity for Orbital. In conjunction with Mitchell Corporation, Orbital is actively developing solutions to enable LNG dual fuel substitution with diesel for heavy duty, line haul transport. The prime driver for the truck user is the potential significant fuel cost savings, especially in the high mileage, heavy load applications typical in Australia.
- Thirdly, Orbital is developing new FlexDI™ ethanol applications working with our partners in Brazil, Sygma Motors and Vale Energy Solutions. The initial target is large displacement, heavy duty engines for power generation. Once developed the technology has the potential to move into heavy duty transport, mine haul and other applications in Brazil. Diesel industrial engines converted to run on ethanol can reduce the carbon dioxide emissions from these engines by up to 70% along with a significant reduction in the particulate emissions typically associated with diesel fuel operations. The use of ethanol in Brazil continues to grow in passenger car usage. The fuel is cost effective and renewable. FlexDI™ can play a role in the expansion of ethanol applications in Brazil.

Orbital is also working on the extension of its FlexDI™ in cylinder injection systems to gaseous applications. Direct injection of LPG and CNG is the next logical step in automotive applications, and Orbital is investigating potential opportunities in this field.

### ***Consulting Services***

Orbital provides engineering consulting services, design, development and testing in the areas of engine design, engine combustion, fuel systems, engine management systems, alternative fuels, engine and vehicle testing. Orbital provides fuel economy and emissions solutions to a wide variety of vehicle applications, from small displacement utility engines to large transportation and power generation applications.

Orbital Consulting Services (OCS) revenue increased by \$823,000 (9.4%) to \$9,621,000. Revenue was generated from a number of programs primarily in China and Brazil, being FlexDI™ projects with Changan and Sygma respectively. The Changan program for the development of a passenger car with benchmark fuel efficiency using Orbital's FlexDI™ system is on schedule and meeting customer expectations. Orbital was awarded the first non-OEM Green Car Innovation Fund grant from the Australian Federal Government to undertake additional R&D to enhance the long term potential success of this program. Consulting services revenue from North American and Asian customers increased; other markets remained subdued.

In Australia, Orbital commenced a major program with Mitchell Corporation to provide expertise and development support for Mitchell's existing LNG fuelled truck fleet, along with ongoing work to support Ford Australia for the introduction of OAGS's LPG system for the next generation of E-Gas vehicles.

Orbital has implemented additional marketing strategies for this year, including the formation of the "Orbital Resource Group", targeting service to the domestic resource/mining industry. The focus for this initiative is to use Orbital's existing expertise and infrastructure to expand the domestic business base for consulting services.

In addition to contract engineering services, the OCS group provides technical support and R&D for Orbital's strategic growth initiatives, ranging from assisting OAGS with the development of "Liquid" LPG aftermarket kits, through to advanced technology FlexDI™ development for petrol and alternative fuels applications. Orbital remains committed to R&D and to the development of future product and business streams. One example is the R&D in spark ignition of heavy fuels which is now leading to new engineering and business opportunities with customers in Australia and North America.

The commissioning of OCS's new heavy duty engine test facility was completed in August 2009, and now has a significant workload testing for customers and supporting internal development programs.

At June 30, 2010, OCS had an order book of \$3,430,000.

#### ***Licences and Royalties***

Orbital earns licence fees and royalties from manufacturers using Orbital's FlexDI™ systems and technology. The royalty bearing products today are in the marine, recreational and scooter/motorcycle markets.

Royalty and licence income of \$1,199,000 was 7.5% higher than FY09. Marine royalty volumes increased by 45% as the US marine market recovered from lows in FY09; however the royalty revenue was negatively impacted by \$180,000 due to the strengthening Australian dollar.

Following a very subdued market in the previous financial year due to the global financial crisis, the marine market in North America did show a level of improvement in the second half of FY10 with both increased sales and rebuilding of inventory, albeit still well short of the markets in 2006/2007.

#### ***Synerject***

Orbital holds a 42% (FY09 50%) interest in Synerject LLC, a joint venture entity with Continental Corporation. Synerject is a key supplier of engine management systems (EMS) to the non-automotive market, with small engine applications for scooters through to high performance motorcycles, outboards and snowmobiles.

Synerject's revenue increased by 25% to US\$93,477,000 due to a level of recovery in the North American marine market, the recently acquired Mercury electronic control unit business from Continental, and the launch of newly developed products including snowmobile in North America and Europe.

Synerject's profit after tax under USGAAP increased by 30% to US\$4,744,000 as a result of the revenue increase, cost control and efficiency improvements. Orbital's equity accounted share of Synerject's result was negatively impacted by adjustments required due to dissimilar accounting policies (A\$403,000) and the strengthening Australian dollar (A\$200,000).

As a result of the improved operating result and tight control of working capital Synerject generated US\$5,957,000 operating cash flow for the year after investment in capital expenditures (2009: US\$1,660,000), paid annual dividends of US\$1,475,000 and remains in a strong financial position with a gearing ratio of 20% (FY09: 56%).

Synerject's traditional recreational markets in North America and Europe were impacted, especially in the first half of the financial year, by the global financial crisis. Synerject, by stringent cost control and introduction of new products in the high end market, weathered the global financial crisis well. Improvements have been noted in the marine market in the second half of the financial year; however volumes are still well down on earlier years.

Taiwan has been a major scooter system market for Synerject this year. Synerject had the right product available at the right time to meet the very stringent in-field emission regulation that is driving nearly all scooter and motorcycle products to employ EMS in that market. Synerject is a major supplier to the 2 largest scooter manufacturers in Taiwan.

With the introduction of the Euro III level emission limits in China for motorcycles, Synerject, with its locations in Changchun and Chongqing, is well positioned to both support and supply domestic Chinese manufacturers as they seek fuel systems and technology to satisfy the emission requirements.

### ***Orbital Research and Development***

Orbital's R&D, aligned with the growing importance of alternative fuels and energy management, are central to Orbital's activities aimed at positioning the company as a leading edge technology company with the ability to provide solutions to Original Equipment Manufacturers and industry.

This year we completed the commissioning our new Heavy Duty Engine Test Facility. This facility, funded by the Australian Government will enable us to test and certify engines up to 600 kW, and is intended to support Government and industry in investigation and implementation of alternative fuels for the line haul transport industry in Australia.

The continued commitment to the core R&D has resulted in six new patents granted in the last 12 months, along with six new patent family applications strengthening the Orbital patent portfolio and extending the life of royalty streams.

### ***Patent Protection***

Orbital continues to actively investigate new technologies while also seeking to improve and enhance existing technology through continued research and development and product development, particularly in regard to FlexDi related technology. Orbital believes that patent protection of its technologies and processes is critical to its future financial performance and that its success depends upon its ability to protect its proprietary products and technology under applicable intellectual property laws. Accordingly, Orbital has been, and intends to continue to be, active in securing and policing intellectual property rights for its proprietary products and technology.

As at October 31, 2010, Orbital had approximately 65 individual patent families with a total of over 180 patents and patent applications around the world. As of October 31, 2010 there were approximately 38 granted patents and 2 patent applications pending in the United States (including PCT patent applications). There are numerous other developments for which patent protection has not been obtained and these form part of Orbital's proprietary know-how. Trade secrets and confidential know-how are protected through confidentiality agreements, contractual provisions and administrative procedures. There can be no assurance that such arrangements will provide meaningful protection for Orbital in the event of any unauthorised use or disclosures.

Orbital is not a party to any present litigation relating to patents, but it has in the past and may in the future receive claims from other parties that the FlexDi engines or components or elements of such engines infringe patent rights or other rights of such other parties. Orbital may also in the future need to sue other parties for infringement of patent or other intellectual property rights relating to its FlexDi Technology. In the event of either being sued by other parties or suing other parties, the management time and legal expenses required to be devoted to these claims could have an adverse effect on Orbital's future operating results, even if Orbital won any such suits.

### ***Marketing channels***

Engineering Consulting Services – We typically sell the majority of our consultancy services through our own dedicated sales force with engineering background, servicing an international customer base – generally engine manufacturers from our head office and from regional sales support offices. We also occasionally generate consultancy services through the presentation of papers at technical seminars.

Alternative Fuels - Orbital Autogas Systems – OEM – We directly market our LPG fuel systems to Australian OEM's who provide an LPG fuel system option (currently Ford Australia – Falcon models). After OEM – We directly market our LPG fuel systems to Australian After-OEM's who provide an LPG fuel system option (currently Holden Special Vehicles "HSV"). Aftermarket – We are also a supplier to aftermarket retro-fitters who supply the retail customer, and also automotive distributors who supply fleet operators. This sector is supported by our own dedicated sales force based in Sydney.

### ***Description of Property***

Orbital has its principal facilities in Balcatta, Western Australia and conducts business from a leased warehouse in Sydney, New South Wales.

The Balcatta premises comprise two owned properties and one leased property. The leased property is occupied on a monthly tenancy basis. Rent under the lease is payable monthly in advance. Orbital is responsible for its proportionate costs of insurance, rates and taxes of the leased property.

The primary focus of the Balcatta facility is the provision of engineering services, the preparation of engines utilising FlexDi Technology for the production validation process and research and development and administration. Equipment includes engine development test cells, engine durability test cells, vehicle emission chassis dynamometer cells, outboard motor test tanks, a personal water craft test tank, robot driven vehicle mileage accumulation chassis dynamometers, and an environmental test cell (incorporating both an engine and vehicle test cell). Other facilities include a comprehensive electronics laboratory, extensive emissions measuring equipment and a specialised computer system. The computer system supports a range of complex and data intensive engineering requirements, including computer-aided design, manufacturing and engineering programs, combustion analysis and fluid mechanics.

The Balcatta facility also includes a number of fuel systems laboratories with high speed transient fuelling analysis equipment and environmental and durability test equipment.

Under the terms of Orbital's loan facilities with Westpac Banking Corporation and the State Government of Western Australia, the assets of Orbital, including its plant and equipment (but excluding patents, licences and technologies), have been pledged to secure the borrowings under such facilities.

The Balcatta premises have been placed on the market for sale and lease-back. An interested party is currently undertaking due diligence on the property. As at the date of this report, no contract of sale or lease has been entered into.

### ***Government Regulation***

Orbital Corporation Limited is a company registered in Australia. Companies in Australia are regulated by the Australian Securities and Investments Commission ("ASIC") and are governed by the Corporations Act 2001 (Commonwealth).

### ***Events After the End of the Financial Year***

There has not arisen in the interval between the end of the Company's financial year and the date of this report, any item, transaction or event of a material and unusual nature that is likely to significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity for the year ended June 30, 2010, except as detailed below.

On October 21, 2010, the participants of the Medium Term Incentive (MTI) Scheme irrevocably waived their rights to the MTI bonuses relating to the year ended 30 June 2010. The Company will record a reversal of the present liability for the cash bonus by reflecting a credit to the Company's Income Statement of \$400,000 in the 2011 financial year.

On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of ordinary shares on the basis that every ten ordinary shares be consolidated into one ordinary share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share. See note 11 for the effect of the share consolidation on earnings per share.

### **ITEM 4A UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### ***General***

During the 2010 fiscal year Orbital's revenues were generated from contracts for engineering services, including engine development programs, sale of goods and licensing and licensing related agreements for FlexDi Technology. In addition, Orbital equity accounted its share in Synerject LLC's result.

Unless otherwise indicated, all financial information in the following discussion is derived from Orbital's Consolidated Financial Statements, included herein, prepared in accordance with International Financial Reporting Standards.

### ***Critical Accounting Policies and Estimates***

Orbital's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Our significant accounting policies are more fully described in Note 3 to our consolidated financial statements. The preparation of our consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. We continually evaluate our estimates and judgements including those related to product warranties, trade debtors and deferred taxation. We base our estimates and judgements on historical experience and on various other assumptions we believe to be reasonable under the circumstances. This forms the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

In developing accounting policies, in addition to IFRS requirements, we also consider industry practice.

The critical accounting policies discussed below are applied consistently to all segments of Orbital. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors.

The financial statements of the equity accounted associate, Synerject LLC, are prepared under US GAAP and adjusted to reflect consistent accounting policies with Orbital.

The following are the critical accounting policies and estimates that have been adopted in preparing our IFRS financial statements:

### ***Long term borrowings***

Included in non-current liabilities is an amount owing to the Government of Western Australia resulting from a loan of \$14,346,164 restructured in January 2010. The loan is interest-free with annual repayments commencing in May 2010 and concluding in May 2025.

The non-interest bearing loan from the Government of Western Australia was recognised initially at fair value and subsequently stated at amortised cost using the effective interest method. The difference between the fair value and face value of the loan is accounted for as a government grant as disclosed in note 27.

### ***Equity Accounting***

The consolidated financial statements include the consolidated entity's share of the total recognised gains and losses of an associate on an equity accounted basis. For a number of years, the consolidated entity's share of losses exceeded its interest in the associate, and during that period, the consolidated entity's carrying amount was reduced to nil and recognition of further losses continued to the extent that the consolidated entity had incurred legal or constructive obligations on behalf of the associate.

### ***Research and Development Expenditure***

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. Orbital's share of development expenditure capitalised (included in results of jointly controlled entity) in fiscal 2010 is \$0.274 million (2009 \$0.297 million, 2008 \$0.810 million).



Capitalised expenditure on development activities relating to the next generation Liquid LPG fuel systems was \$1.128 million in Fiscal 2010 (2009: \$0.170 million).

#### *Patents, Licences and Technologies*

Patents, licences and technology development and maintenance costs are expensed as incurred.

#### *Expenditure capitalised and amortisation*

Expenditure on intangible assets which are capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation will be charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

#### *Impairment*

The carrying amount of all assets is 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. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In relation to goodwill, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

#### *Allowance for impairment loss of Trade Debtors*

Allowance for impairment loss of trade debtors is estimated based on an analysis of trade debtors exceeding agreed payment terms and the likelihood of collection having regard to recent payment histories, subsequent cash receipts and direct correspondence with the relevant customers. We believe that we adequately manage our credit risk through our evaluation process, credit policies and credit control and collection procedures. However, losses on amounts receivable from our largest customers could be material to our results of operations. Allowance for impairment loss amounted to A\$0.116 million at June 30, 2010 (A\$0.230 million at June 30, 2009), with a bad debts write-off for the year of A\$Nil (2009: A\$Nil).

Refer to "Results of Operations Fiscal 2010 Compared with Fiscal 2009" below for further explanation of the above expenses.

#### *Income Tax*

##### ***(i) Current income tax expense and liability***

Income tax on the income statement for the year presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

##### ***(ii) Deferred income tax expense and liability***

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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.

### ***(iii) Tax Consolidation***

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Orbital Corporation Limited.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

### ***Deferred taxation***

We recognise a deferred tax asset in our statement of financial position only where we determine that it is probable that it will be recovered. A portion of the deferred tax asset recorded in our statement of financial position relates to current or prior period tax losses where management considers that it is more likely than not that we will recover the benefit of those tax losses in future periods through the generation of sufficient future taxable profits. Our assumptions in relation to the generation of sufficient future taxable profits depend on our estimates of future taxable profits, which are estimated based on forecasts of engineering services income, licence and royalty receipts and Synerject's business plans. These estimates are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter the projections, which may impact the recoverability of the deferred tax asset recorded in our statement of financial position and those tax losses currently provided as not recoverable. In such circumstances, some or all of the carrying value of the deferred tax asset may require provisioning and we would charge the expense to the profit and loss account, and conversely, some or all of the amounts provided as not recoverable may be reversed and we would credit the benefit to the income statement.

At June 30, 2010, our deferred tax asset included A\$5.215 million (A\$5.054 million at June 30, 2009), in relation to prior period tax losses.

### ***Temporary differences***

Temporary taxation differences, arising due to timing differences between the periods in which transactions are recognised for accounting purposes differing to the periods in which those transactions are recognised for income taxation purposes, of the Company and its Australian resident controlled entities, decreased during fiscal 2010 by A\$2.826 million to A\$0.952 million at June 30, 2010 from A\$3.778 million at June 30, 2009. A\$1.934 million of the temporary difference relates to a provision for capital loss on an investment.

### ***Carry forward tax losses***

#### ***Australia***

Tax carry forward losses of the Company and its Australian resident controlled entities increased during fiscal 2010 by A\$2.797 million to A\$60.500 million at June 30, 2010 from A\$57.703 million at June 30, 2009.

Australian income tax carry forward losses do not expire and can be carried forward indefinitely subject to:

- i) the Company and/or its controlled entities continuing to comply with the conditions for deductibility imposed by the law;
- ii) the companies being able to satisfy the tests as set out in the new taxation consolidations legislation recently enacted in Australia, which provides further tests in relation to transferring losses to a consolidated group and recouping losses within the group; and
- iii) no changes in tax legislation adversely affecting the relevant company and/or the consolidated entity in realizing the benefit.

Potential future income tax benefits in Australia have not been recognised as assets at June 30, 2010 because it is not probable that future profits will be available against which the consolidated entity can utilise the losses and timing differences.

For the consolidated entity to fully realize its potential Australian future income tax benefits it will need to generate future Australian taxable income of approximately A\$60.500 million and be in a position to utilize the taxable income against the benefits in the Company and the controlled entities retaining those benefits in accordance with the consolidations legislation.

#### ***United States of America***

Tax carry forward losses of approximately A\$46.608 million (US\$40.153 million) (2009: A\$57.594 million (US\$47.106 million)) are available to certain controlled entities in the United States. A deferred tax asset of A\$5.215 million (US\$4.493 million) (2009: A\$5.054 million, US\$4.134 million) has been recognized as an asset as it is probable that future profits will be available against which the consolidated entity can utilise the losses.

Under the tax laws of the United States, tax losses that cannot be fully utilized for tax purposes during the current year may, subject to some statutory limitations, be carried forward to reduce taxable income in future years. At June 30, 2010, the US\$40.153 million of tax carry forward losses available expires between the years 2011 and 2023.

For the controlled entities in the United States to realize their potential United States future income tax benefits they will need to generate future taxable income of approximately US\$40.153 million. Approximately US\$11.852 million of taxable income will be required prior to 2011 when the first portion of the benefit is due to expire.

Based upon the level of historical taxable income and current projections for future taxable income over the periods in which the tax carry forward losses are deductible in both Australia and the United States, management are only in a position to state that it is probable that benefits totalling A\$5.215 million in respect of carry forward losses will be realised in full.

The deferred tax asset recognised as at June 30 each year represents management's assessment of the amount of carry forward losses that it is probable will be deductible in the following five years. The movement in the recognised deferred tax asset from June 30, 2009 to June 30, 2010 is the result of the movement of the assessment period and also updates to future forecast results.

### ***Results of Operations Fiscal 2010 Compared with Fiscal 2009***

Orbital's net profit after tax was A\$4.516 million for the year ended June 30, 2010 compared to a net loss of A\$2.451 million for the year ended June 30, 2009.

Revenue from trading activities in fiscal 2010 as detailed in Income Statements in the Consolidated Financial Statements increased as compared to fiscal 2009 by 5% to A\$17.265 million:

- Engineering services income increased 9% (A\$0.823 million) to A\$9.621 million, reflecting a steady workload from key contracts. Significant programs during the year included the application of FlexDi™ to an ethanol fuelled internal combustion engine in Brazil and the development of a powertrain fuel economy demonstrator for China.
- Licence and Royalty income increased by 7% to A\$1.199 million due to a 45% increase in royalty volumes, offset by \$0.180 million decrease due to the strengthening Australian dollar.
- Sale of goods decreased 1% to A\$6.203 million reflecting a tough LPG retrofit market.

Other income, excluding the government grant arising on restructure of non interest bearing loan of A\$7.695 million, improved by A\$0.372 million compared to fiscal 2009 (A\$0.692 million, excluding the gain on sale of interest in Synerject of \$3.678 million).

In January 2010 Orbital renegotiated the terms of the A\$19.0 million loan from the Western Australian Government due to be repaid in May 2014. The loan was replaced by an interest free A\$14.346 million loan repayable over 15 years to 2025. The restructure resulted in a non cash gain of A\$7.695 million.

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC) increased 5.7% to A\$19.163 million in fiscal 2010 from A\$18.136 million in fiscal 2009. The net increase was due to the following:

- Total employee expenses increased by 9.9% to A\$10.792 million as a result of an increase to the headcount of staff in the Orbital Autogas Systems business.
- Depreciation and amortisation decreased by 8% to A\$1.004 million primarily due to items reaching full depreciation during the year.
- Engineering consumables and contractor expenses increased by 36% to A\$2.085 million reflecting an increased use of external contractors and higher requirement of project consumables during the year reflecting a different mix of engineering activity.
- Travel and accommodation expenses decreased by 27% to A\$0.866 million as a result of decreased overseas travel.
- Communication and computing expenses increased by 11% to A\$0.791 million reflecting the addition of the new Orbital Autogas Systems business.
- Patent costs decreased by 21% to A\$0.338 million from A\$0.431 million.
- Insurance, audit, compliance and listing costs decreased by 9% to A\$1.001 million from A\$1.097 million mainly as a result of reduced compliance requirements for SEC registrants (Sarbanes Oxley section 404), offset by increased insurance costs.
- Finance costs have increased by A\$0.029 million to A\$0.755 million as a result of increased short term borrowings.
- Other expenses were steady at A\$1.531 million.

Orbital's share of Synerject's net profit increased by 1% to A\$1.874 million in fiscal 2010 from A\$1.846 million in fiscal 2009. Synerject's revenue increased by 25% to US\$93.477 million as a result of improvements in the North American marine market, the acquisition of a new business and the introduction of new products. Development expenses of A\$0.747 million incurred by Synerject have been capitalised in Orbital's equity accounted results (fiscal 2009 A\$0.297 million) in accordance with IFRS.

The income tax benefit for fiscal 2010 was A\$0.388 million, being primarily recognised Deferred Tax Asset (A\$0.417 million) and recouped withholding tax (A\$0.212 million) offset by State and Federal income taxes in the United States (A\$0.231 million) as a result of our share of Synerject taxable income. In fiscal 2009, Orbital de-recognised A\$1.731 million Deferred Tax Asset in the net income tax expense of A\$2.147 million.

Inflation has had a minimal effect on Orbital's results of operations in fiscal 2010 compared to fiscal 2009.

### ***Results of Operations Fiscal 2009 Compared with Fiscal 2008***

Orbital's net loss after tax was A\$2.451 million for the year ended June 30, 2009 compared to a net profit of A\$0.469 million for the year ended June 30, 2008.

Revenue from trading activities in fiscal 2009 as detailed in the Income Statements in the Consolidated Financial Statements increased as compared to fiscal 2008 by 11% to A\$16.513 million:

- Engineering services income decreased 25% (A\$2.883 million) to A\$8.798 million, reflecting the downturn in the general market and the stronger Australian dollar. In particular engineering revenue from Asian customers declined by \$3.4 million (60%) as a result of the tough economic conditions experienced globally. Significant programs during the year included the application of FlexDi to an ethanol fuelled internal combustion engine in Brazil and the development of a powertrain fuel economy demonstrator for China.
- Licence and Royalty income decreased by 58% to A\$1.115 million due to a decrease in licence fees and significantly lower royalty volumes and royalty income.

Other income, excluding the gain on sale of interest in Synerject of \$3.678 million, was steady at A\$0.370 million compared to fiscal 2008 (A\$0.372 million).

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC) increased 1.0% to A\$17.814 million in fiscal 2009 from A\$17.644 million in fiscal 2008. The net increase was due to the following:

- Total employee expenses increased by only 0.1% to A\$9.820 million.
- Depreciation and amortisation decreased by 14% to A\$1.094 million primarily due to a number of large value items reaching full depreciation during the year.
- Engineering consumables and contractor expenses increased by 66% to A\$1.534 million reflecting an increased use of external contractors and higher requirement of project consumables during the year reflecting a different mix of engineering activity.
- Travel and accommodation expenses increased by 17% to A\$1.187 million as a result of increased overseas travel.
- Communication and computing expenses increased by 10% to A\$0.715 million reflecting the addition of the new Orbital Autogas Systems business.
- Patent costs increased by 7% to A\$0.431 million from A\$0.404 million.
- Insurance, audit, compliance and listing costs have reduced by 9% to A\$1.097 million from A\$1.205 million mainly as a result of reduced compliance requirements for SEC registrants (Sarbanes Oxley section 404), supported by reduced insurance costs.
- Finance costs have decreased by A\$0.160 million to A\$0.726 million as a result of the full accretion of the commitment to Continental to maintain the 50% interest in Synerject in the prior fiscal period, with the actual figure for fiscal 2009 representing the fair value amortisation of the interest free A\$19 million loan from the Western Australian Government.
- Other expenses have decreased by 18% to A\$1.210 million as a result of reduced foreign exchange losses and a reduced allowance for impairment loss for trade receivables of A\$0.205 million.

Orbital's share of Synerject's net profit decreased by 22% to A\$1.846 million in fiscal 2009 from A\$2.357 million in fiscal 2008. Synerject's revenue decreased by 8% to US\$74.635 million impacted by the difficult economic conditions experienced in the North American marine market. Development expenses of A\$0.297 million incurred by Synerject have been capitalised in Orbital's equity accounted results (fiscal 2008 A\$0.810 million) in accordance with IFRS.

The income tax expense for fiscal 2009 was A\$2.147 million, being primarily de-recognised Deferred Tax Asset (A\$1.584 million) and State and Federal income taxes in the USA (A\$0.563 million) as a result of our share of Synerject taxable income. In fiscal 2008 Orbital recognised benefits from the reversal of a withholding tax provision of A\$0.456 million in the net income tax benefit of A\$0.445 million.

Inflation has had a minimal effect on Orbital's results of operations in fiscal 2009 compared to fiscal 2008.

### ***Liquidity and Capital Resources***

As at June 30, 2010, Orbital's cash balance, including short term deposits, was A\$3.608 million compared to A\$10.123 million at June 30, 2009 and A\$8.804 million at June 30, 2008. At October 31, 2010 the cash balance was A\$2.347 million. In Orbital's opinion, the working capital is sufficient for its present requirements.

For fiscal 2010 Orbital recorded a net cash outflow from operations of A\$5.049 million compared to cash outflows of A\$2.097 million in fiscal 2009 and A\$0.885 million in fiscal 2008. The cash outflow in fiscal 2010 resulted from cash flow used in operating activities of A\$4.028 million and working capital requirements of A\$1.021 million. This compares with net cash used by operating activities in fiscal 2009 of A\$3.613 million (fiscal 2008: A\$0.057 million) plus working capital sources of A\$1.516 million (fiscal 2008: working capital sources A\$0.828 million). Synerject's equity accounted result is non cash and therefore has no impact on operating cash flow in either fiscal 2010 or fiscal 2009 (however Synerject paid dividends to Orbital in Fiscal 2010, Fiscal 2009 and Fiscal 2008, including a special dividend of A\$3.151 million in Fiscal 2009).

Research and development expenditures were A\$1.152 million in fiscal 2010, A\$1.810 million in fiscal 2009 and A\$1.147 million in fiscal 2008. Research and development activity during fiscal years 2010, 2009 and 2008 was in developing new technology for advanced combustion systems, combustion of alternative fuels (liquid and gaseous) in internal combustion engines, further developing the air-assist DI system for application on new products, and in fiscal years 2010 and 2009 development of the next generation LPG fuel systems.

Orbital generated net cash of A\$1.699 million from investing activities in fiscal 2010 compared with A\$2.319 million cash outflow in fiscal 2009 and A\$1.630 million cash outflow in fiscal 2008. The expenditure in fiscal 2010 consisted mainly of the construction of a heavy duty engine testing facility and the development of the next generation of Liquid LPG fuel systems. No advances to Synerject were required in fiscal 2010, 2009 or 2008. Synerject paid Orbital dividends of \$0.677 million in fiscal 2010 (\$4.577 million in fiscal 2009 and \$0.958 in 2008). In fiscal 2010, Orbital redeemed A\$3.500 million short term deposits which were acquired in fiscal 2009.

Orbital has a \$2.500 million Trade Finance facility with Westpac Banking Corporation to provide support for the import of inventory for the Orbital Autogas Systems business. At June 30, 2010, A\$2.056 million (fiscal 2009: A\$1.520 million) of the facility had been drawn down.

Orbital also has standby arrangements with Westpac Banking Corporation to provide support facilities of A\$0.950 million, of which A\$0.029 million was drawn down at June 30, 2010. At June 30, 2009 available support facilities totalled A\$0.935 million, of which A\$0.032 million was drawn down.

Orbital had no capital expenditure contracted but not provided for as at June 30, 2010. In July 2008, Orbital received funding of A\$2.76 million from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. The total construction costs were approximately A\$3.500 million. Orbital is obliged to fund the maintenance and operation of the facility until at least fiscal 2015 and provide the Commonwealth with preferential access to the facility.

The government grant will be recognised as income over the periods and in the proportions in which depreciation on the heavy duty engine test facility is charged.

#### *Capital Expenditure*

The Company has budgeted capital expenditures of A\$1.410 million for fiscal year 2011 primarily in the expansion of the Orbital Autogas Systems business. Funds for such expenditure will be sourced internally. In the event of a delay or a reduction in capital expenditure during fiscal 2011 the Company would still have sufficient plant, equipment and other facilities to maintain operating levels in line with previous years. There are no long-term capital commitments by the Company.

#### *Orbital's Jointly Controlled Entity, Synerject LLC*

Net cash provided by Synerject's operating activities in fiscal 2010 was US\$6.887 million, fiscal 2009 was US\$2.904 million and fiscal 2008 was US\$2.699 million. In June 2006 Synerject negotiated a 4 year term bank loan of \$8.0 million which, together with additional capital contributions of US\$2 million from each member, replaced loan arrangements that matured in September 2006. In addition Synerject has available a US\$5.0 million line of credit to be drawn as and when required. At June 30, 2010 Synerject had drawn down \$2.588 million under this line of credit. Synerject's long term loan repayment commitments in fiscal 2011 are approximately US\$1.933 million (actual paid fiscal 2010 US\$1.889 million) and it is expected that Synerject will fund these repayments out of operating cash surpluses during the year. Synerject's cash at June 30, 2010 was US\$4.623 million (2009 US\$1.078 million) and total debt outstanding (including the line of credit) at June 30, 2010 was US\$7.939 million (2009 US\$8.876 million). Member guarantees are not required to support Synerject's financing arrangements.

### ***Trend Information***

OAGS will see revenue growth as the newly developed Liquid retrofit systems are available for marketing throughout Australia. OAGS will also commence supply of the next generation LPG system to Ford Australia in fiscal 2011.

Consulting services revenue can be cyclical in nature and the order book (thus future revenue and cash flows) at June 30, 2010 was approximately \$3.4 million compared to \$5.0 million at June 30, 2009. The Synerject result will be influenced by the timing of the launch of new products in China and North America and the recovery of the North American marine market. We anticipate that royalty earnings will see a level of improvement from the North American marine market.

### ***Off-Balance Sheet Arrangements***

#### ***Synerject Loan Guarantee Commitments***

Prior to July 2006 Orbital guaranteed 50% of the borrowings by its related business undertaking, Synerject LLC. The guarantee was entered into in 1997, at the time of formation of Synerject, to enable it to obtain loan funds for its trading operations.

As noted above, in June 2006 Synerject negotiated new financing arrangements to replace the loan from Continental. The new loan is secured by Synerject assets. There is no guarantee required from Orbital for the new financing arrangements and no obligations remaining under the Continental line of credit.

### ***Inflation***

Orbital's operating costs are subject to the effects of inflation, and under the terms of Orbital's licence agreements, certain fees and royalty payments are, or will be, indexed to inflation, generally based on the US Producers Price Index for Finished Goods. In general, inflation has had minimal effect on Orbital's results of operations during the last two fiscal years.

### ***Market Exposures***

Refer to Item 11. – “Qualitative and Quantitative Disclosures About Market Risk - Market Exposures” included herein.

### ***Interest rate sensitivity***

The table below provides information about Orbital's financial instruments that are sensitive to changes in interest rates as at June 30.

<b><u>Financial Instruments</u></b>	<b>A\$'000</b>		<b>Weighted Average Interest rate %</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Cash – Floating (and fixed less than 6 months)	3,608	6,623	3.86	3.26

At June 30, 2010 and June 30, 2009 Orbital did not have any interest rate sensitive derivative instruments.

### Foreign currency exchange sensitivity

The functional currency of the Company is Australian Dollars.

The table below provides information about Orbital's derivative and other financial instruments that are sensitive to changes in foreign currency fluctuations as at June 30.

<u>Financial Instruments</u>	<u>Fair Value</u> <u>A\$'000</u>		<u>Year End</u> <u>Exchange Rate A\$</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cash held in United States Dollars	195	172	0.8615	0.8179
Cash held in European currency units	23	82	0.7123	0.5845
Receivables in United States Dollars	308	190	0.8615	0.8179
Receivables in European currency units	48	389	0.7123	0.5845

The Company's equity accounted investment has a functional currency of United States dollars. The table below provides information about Orbital's net investment in equity accounted jointly controlled entity which is sensitive to changes in foreign currency fluctuations as at June 30.

<u>Investment in equity accounted investee</u>	<u>Carrying Value</u> <u>A\$'000</u>		<u>Year End</u> <u>Exchange Rate A\$</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Synerject LLC	11,534	11,264	0.8615	0.8179

At June 30, 2010 and 2009, Orbital did not have any foreign currency sensitive derivative instruments.

Details of Orbital's foreign currency translation exposure as at June 30, 2010, where movements on re-translation in future periods will be recognized in net profit / (loss) are as follows:

	<u>Foreign</u> <u>Currency</u> <u>Amount</u>	<u>Translated</u> <u>Exchange Rate</u>	<u>A\$ Equivalent</u>
Receivables	US\$ 0.265 m	0.8615	A\$0.308 m
Receivables	Euro 0.034 m	0.7123	A\$0.048 m

### Maturity Profile of Commercial Commitments

<u>Obligations (A\$'000s)</u>	<u>2011</u>	<u>At June 30, 2010</u> <u>Expected Maturity or Expiry Date</u>				<u>Total</u>
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	
Operating Leases	184	3	—	—	—	187
Long -Term Debt (1)	240	288	346	415	498	1,787
Heavy Duty Engine Testing Facility Operations commitment (2)	391	391	391	291	—	1,464
Total	815	682	737	706	498	3,438

- (1) Fair value has been calculated based on discounted future cash flows at the 10-year bond rate. Refer also Item 5 – "Liquidity and Capital Resources."
- (2) In June 2008, Orbital received funding of \$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility.

Orbital is obliged to fund the maintenance and operation of the facility until at least fiscal 2015 and provide the Commonwealth with preferential access to the facility (100 days at Nil cost and 100 days at 50% of commercial rates).



## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### *Directors and Senior Management*

The business of Orbital is managed by a board of directors which, in accordance with the Company's Constitution, may be comprised of no fewer than three, nor more than nine members. The present number of directors is five, one of whom is an executive director, as set out below.

On November 13, 1985 the Company announced the appointment of Mr John Grahame Young as a Non-Executive Director.

On August 22, 2007 the Company announced the appointment of Mr William Peter Day as a Director and Chairman of Orbital.

On March 11, 2008 the Company announced the appointment of Dr Mervyn Jones and Dr Vijoleta Braach-Maksvytis as Non-Executive Directors effective March 31, 2008.

On May 20, 2008 the Company announced the appointment of Mr Terry Stinson as the Managing Director and Chief Executive Officer effective June 21, 2008.

Directors of Orbital are classified as either executive or non-executive directors, with the former being those directors engaged in full-time employment by Orbital.

As at the date of this report, the directors of Orbital were as follows:

<u>Name</u>	<u>Position</u>	<u>Initially Elected or Appointed to Board</u>
William Peter Day	Non Executive Chairman (1)(2)	August 22, 2007
John Grahame Young	Non Executive Director (1) (2)	November 13, 1985
Mervyn Thomas Jones	Non Executive Director (1) (2)	March 31, 2008
Vijoleta Braach-Maksvytis	Non Executive Director (1) (2)	March 31, 2008
Terry Dewayne Stinson	Chief Executive Officer and Managing Director	June 21, 2008

(1) Member of Audit Committee

(2) Member of Human Resources, Remuneration and Nomination Committee

Qualifications and experience of each of the Directors are as follows:

MR WILLIAM PETER DAY, LLB (Hons), M Administration, FCPA, FCA (Aust & UK), FTIA, MAICD,

Joined the Board and appointed Chairman in August 2007. Mr Day retired as Chief Financial Officer of the global packaging group Amcor in 2007. He has a diversified background in finance and general management in mining, manufacturing, food and financial services industries.

He has held senior executive and director positions with Bonlac Foods, Rio Tinto, CRA and Comalco including Chief Financial Officer at Commonwealth Aluminium Corporation (USA) and Managing Director, CRA Business Services in Australia.

He is a former Chairman of the Australian Accounting Standards Board, and was Deputy Chairman of the Australian Securities & Investments Commission. Mr Day is a non-executive director of Ansell Limited (appointed August 20, 2007), SAI Global Limited (appointed August 15, 2008) and Centro Retail Trust Limited (also Chairman appointed October 1, 2009). He is also involved in a number of public interest activities.

MR JOHN GRAHAME YOUNG, LLB, FTIA, TEP

Joined the Board in November 1985. Mr Young is a lawyer with more than 30 years experience in corporate, revenue and intellectual property law. He has been a director of Cape Bouvard Investments Pty Ltd since 1998. Mr Young chairs the Company's Audit Committee.

DR MERVYN THOMAS JONES, B.Eng (Hons), Ph.D, DipBusStuds, CEng (UK), FIChemE (UK), MAICD, MIoD (NZ)

Joined the Board in March 2008. Dr Jones has more than 35 years experience as a consulting engineer and as a senior executive. He has specific expertise in the development and management of organic business growth in the Asia Pacific region, as well as acquisition experience in both Australia and China. Dr Jones is also a non-executive director of Pacific Environment Limited (appointed July 3, 2009, appointed Chairman February 16, 2010). Dr Jones chairs the Company's Human Resources, Remuneration and Nomination Committee.

DR VIJOLETA BRAACH-MAKSVYTIS, Bsc (Hons), Phd, MAICD

Joined the Board in March 2008. Dr Braach-Maksvytis is an innovation strategist with more than 20 years experience in organisational change, formation of cross-sectoral and global partnerships, the commercialisation of technology, and intellectual property strategy. Previous roles include Head of the Office of the Chief Scientist of Australia, Science Executive and Director Global Development for CSIRO, and most recently, Deputy Vice Chancellor Innovation and Development at the University of Melbourne, and is currently an advisor in the area of social innovation.

Dr Braach-Maksvytis pioneered nanotechnology in Australia and holds over 20 patents in the field. Dr Braach-Maksvytis is a Member of the Australian Federal Government's Green Car Innovation Fund Committee, on the advisory board of the Intellectual Property Research Institute of Australia, and is also a member of a number of other public interest boards.

MR TERRY DEWAYNE STINSON, BBA (Hons)

Managing Director and Chief Executive Officer. Joined the Board on June 21, 2008. Mr Stinson has been a senior executive with Siemens VDO, Europe's largest engineering conglomerate (recently purchased by Continental Corporation), with direct responsibility for sales in excess of US\$300 million per annum in their Gasoline Systems, Fuel Systems and Fuel Components operations in the United States, Germany, Italy, China and support operations in every country where automobiles are manufactured. Mr Stinson has also served as a representative Director for Siemens VDO on the Synerject JV Board. Prior to that, he held the position of VP Manufacturing for Outboard Marine Corporation, a privately held \$US1 billion multinational outboard marine propulsion and boat company.

Under an Executive Service Agreement, Mr Stinson's total fixed remuneration ("TFR") will be \$350,000, with annual cash bonuses of up to 60% of the TFR payable on achievement of stringent performance targets to be set by the Board.

Mr Stinson will also participate in the Company's performance based Executive Long Term Share Plan and the Performance Rights Plan.

Participation in the Executive Long Term Share Plan is subject to shareholders approval each year. The Executive Long Term Share Plan currently provides for the issue of shares based on the Company achieving a Total Shareholder Return, over a 3 year performance period, at or above the 50<sup>th</sup> percentile of a peer group of companies.

Shareholders have approved Mr Stinson's participation in the Performance Rights Plan under which Mr Stinson was awarded 11,500,000 performance rights. The performance rights have been granted in seven tranches, each tranche with a different specified share price target as set out below:

Tranche	Number of performance rights	Share price target
1	2,000,000	\$0.25
2	2,000,000	\$0.50
3	2,000,000	\$0.75
4	2,000,000	\$1.00
5	1,250,000	\$2.00
6	1,250,000	\$3.00
7	1,000,000	\$5.00

Mr Stinson will only be permitted to exercise a performance right if:

- the Company attains the specified share price target (see table above) within eight years from the date of grant of the performance right; and
- the specified share price target is also achieved at the end of two years from the date the target is first achieved (“Vesting Date”) based on the Company’s average closing share price over a 90 day period up to and including the Vesting Date.

The combined potential annual value of the Executive Long Term Share Plan and the Performance Rights Plan will be set at a maximum of 70% of the TFR.

The service agreement is for an indefinite period and may be terminated at any time by the Company on 12 months notice (other than for reasons of serious misconduct). Mr Stinson is required to provide three months notice of termination.

Details of each Director’s remuneration are shown below.

	Year	Short Term			Post	Share Based Payments			Total
		Salary and Director’s Fees	Cash Bonuses	Non-Monetary Benefits	Employment	Employer Superannuation Contributions	Employee Share Plans	Performance Rights Plan	
		\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>									
<b>Non-executive</b>									
W Peter Day <i>Chairman (Non-executive)</i>	2010	96,376	—	—	96,376	8,674	—	—	105,050
	2009	96,376	—	—	96,376	8,674	—	—	105,050
	2008	88,080	—	—	88,080	7,273	—	—	95,353
Donald W J Bourke <i>Chairman (Non-executive)</i>	2010	—	—	—	—	—	—	—	—
	2009	—	—	—	—	—	—	—	—
	2008	11,120	—	—	11,120	1,001	—	—	12,121
J Grahame Young <i>Director (Non-executive)</i>	2010	52,358	—	—	52,358	4,712	—	—	57,070
	2009	52,358	—	—	52,358	4,712	—	—	57,070
	2008	52,358	—	—	52,358	4,712	—	—	57,070
John R Marshall <i>Director (Non-executive)</i>	2010	—	—	—	—	—	—	—	—
	2009	—	—	—	—	—	—	—	—
	2008	55,050	—	—	55,050	—	—	—	55,050
Mervyn T Jones <i>Director (Non-executive)</i>	2010	55,092	—	—	55,092	4,958	—	—	60,050
	2009	52,940	—	—	52,940	4,764	—	—	57,704
	2008	11,655	—	—	11,655	1,049	—	—	12,704
Vijoleta Braach-Maksvytis <i>Director (Non-executive)</i>	2010	50,505	—	—	50,505	4,545	—	—	55,050
	2009	50,505	—	—	50,505	4,545	—	—	55,050
	2008	11,655	—	—	11,655	1,049	—	—	12,704
<b>Executive</b>									
Rodney A Houston <i>Director and Chief Executive Officer</i>	2010	—	—	—	—	—	—	—	—
	2009	—	—	—	—	—	—	—	—
	2008	291,908	—	—	291,908	33,132	71,930	—	396,970
Terry D Stinson <i>Director and Chief Executive Officer</i>	2010	321,101	140,000	—	461,101	38,532	58,383	49,283	607,299
	2009	321,101	—	—	321,101	38,532	25,133	33,019	417,785
	2008	36,948	—	—	36,948	3,325	—	—	40,273
Total Consolidated, all specified directors	2010	575,432	140,000	—	715,432	61,421	58,383	49,283	884,519
	2009	573,280	—	—	573,280	61,227	25,133	33,019	692,659
	2008	558,774	—	—	558,774	51,541	71,930	—	682,245

Currently, senior management of Orbital who are not directors are as follows:

<u>Name and Date of Commencement</u>	<u>Position and Experience</u>
Keith Anthony Halliwell August 14, 2000	Chief Financial Officer. Mr. Halliwell has 25 years international experience as a professional accountant. Prior to his appointment he was Chief Financial Officer of another listed public company in Australia. Mr Halliwell is also a Director of Synerject.
Brian Anthony Fitzgerald February 22, 1982	Director, Orbital Autogas Systems. Mr. Fitzgerald has held a number of senior management positions within the group. Mr. Fitzgerald has overall responsibility for Orbital Autogas Systems.
Geoff Paul Cathcart March 14, 1994	Director, Consulting Services and Engineering. Dr. Cathcart has held a number of senior management positions within the engineering department. Dr. Cathcart has overall responsibility for the consulting services and engineering departments. Dr Cathcart is also a Director of Synerject.

Details of each Key Management Personnel's remuneration are shown below.

	<u>Year</u>	<u>Short Term</u>				<u>Post Employment</u>	<u>Share Based Payments</u>		<u>Total</u>
		<u>Salary and Director's Fees</u>	<u>Cash Bonuses</u>	<u>Non-Monetary Benefits</u>	<u>Total</u>	<u>Employer Superannuation Contributions</u>	<u>Employee Share Plans</u>	<u>Total</u>	
						<u>\$</u>			
<b>Key Management Personnel</b>									
Keith A Halliwell	2010	245,701	79,884	—	325,585	27,439	46,982	400,006	
<i>Chief Financial Officer</i>	2009	245,956	—	—	245,956	27,098	45,723	318,777	
	2008	234,715	7,500	—	242,215	26,121	47,710	316,046	
B Anthony Fitzgerald	2010	225,629	73,781	—	299,410	27,076	39,917	366,403	
<i>Director, Orbital Autogas Systems</i>	2009	227,564	—	—	227,564	24,497	37,353	289,414	
	2008	203,117	7,500	—	210,617	20,651	36,690	267,958	
Geoff P Cathcart	2010	186,998	59,850	—	246,848	16,669	31,172	294,689	
<i>Director, Consulting Services &amp; Engineering</i>	2009	186,998	—	—	186,998	16,669	24,690	228,357	
	2008	175,600	7,500	—	183,100	15,918	21,247	220,265	
Total Consolidated, all key management personnel	2010	658,328	213,515	—	871,843	71,184	118,071	1,061,098	
	2009	660,518	—	—	660,518	68,264	107,766	836,548	
	2008	613,432	22,500	—	635,932	62,690	105,647	804,269	

## ***Compensation***

Details of total remuneration of Directors and executive officers of the Company and the consolidated entity are as follows:

	2010	2009	2008
	\$	\$	\$
Short-term employee benefits	1,587,275	1,233,798	1,194,706
Post-employment benefits	132,605	129,491	114,231
Equity compensation benefits	225,737	165,918	177,577
	<u>1,945,617</u>	<u>1,529,207</u>	<u>1,486,514</u>

For fiscal 2010 the aggregate amount of compensation paid and accrued to the directors and senior management of Orbital as a group, inclusive of retirement and share plans, was A\$1.946 million.

All permanent employees of Orbital (including executive directors and officers) are entitled to become members of Orbital's retirement plans. Such employees and Orbital contribute various percentages of gross salary and wages. For the fiscal year ended June 30, 2010 the aggregate amount of compensation paid or accrued by Orbital for the retirement plans of directors and officers totalled A\$0.133 million.

## ***Board Practices***

The directors (excluding the Managing Director) are subject to retirement by rotation, with one-third retiring each year (or the number nearest to one-third of the number of directors if not a multiple of three), and may not continue to hold office without re-election after the third Annual General Meeting of shareholders following their last election by the shareholders. Eligible retiring directors may offer themselves for re-election by the shareholders. Directors may be appointed by the Board of Directors up to the total number permitted. Such directors hold office until the next Annual General Meeting of shareholders and may be re-elected by the shareholders at such meeting. The service agreement between the Company and the Chief Executive Officer provides for a cash payment equal to one year's remuneration in the event of termination by the Company other than by reason of the Chief Executive Officer's serious misconduct or material breach of the agreement. No other officer's service contract provides for benefits to such person upon termination, other than in the event of redundancy. No retirement or termination benefits are payable to non-executive Directors.

## ***Corporate Governance***

The following outlines the main Corporate Governance practices of the Company that were in place throughout the financial year:

### ***Board of Directors and its Committees***

The Board's primary role is to protect and enhance long-term shareholder value by providing strategic guidance to the Company and effective oversight of management.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board is also responsible for reviewing and ratifying systems of risk management and internal compliance controls. Details of the Board's charter are located on the Company's website ([www.orbitalcorp.com.au](http://www.orbitalcorp.com.au)).

- **Board Processes**

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Audit Committee, and a Human Resources, Remuneration and Nomination Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored. The Board has also established a framework for the management of the consolidated entity including a system of internal control and the establishment of appropriate ethical standards.

The full Board currently holds six scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the managing director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

- Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

- Composition of the Board

The names and qualifications of the Directors of the Company in office at the date of this Report are detailed above.

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise;
- An independent non-executive director as Chairman;
- A majority of independent non-executive directors; and
- The role of Chief Executive Officer (CEO) and Chairman should not be exercised by the same individual.

An independent director is a non-executive director who:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- is not a material\* supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material\* contractual relationship with the company or another group member other than as a Director of the company;
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company.

\* No non-executive Director is a supplier to or customer of the consolidated entity, nor does any non-executive Director have a contractual relationship with the consolidated entity (other than as a Director of the Company) and therefore the Board has not had to consider any materiality threshold.

- Directors and Officers Dealing in Company Shares

The Company's policy with respect to Directors and Officers dealing in the Company's shares or options states that:

- Directors and Officers are prohibited from dealing in the Company's securities at any time when they possess information which, if publicly disclosed, would be likely to affect the market price of the Company's securities;
- Directors and Officers are prohibited from short term trading in the Company's securities;
- Directors must obtain the written approval of the Chairman before undertaking any transactions involving the Company's securities; and
- Directors and Officers are prohibited from undertaking transactions in the Company's securities during the period from one month prior to the proposed release of the Company's annual or half-year result until two days after that release.

A copy of the policy is available on the Company's website.

- Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned must not be present at the meeting whilst the item is considered or vote on the matter. The Board has procedures in place to assist Directors to disclose potential conflicts of interest.

- Human Resources, Remuneration and Nomination Committee

The role of the Human Resources, Remuneration and Nomination Committee is to review and make recommendations to the Board on the remuneration packages and policies applicable to the Chief Executive Officer, senior executives and Directors themselves. It also plays a role in evaluation of the performance of the Chief Executive Officer and management succession planning. This role also includes responsibility for share schemes, incentive performance packages, superannuation entitlements, fringe benefits policies and professional indemnity and liability insurance policies. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The Committee also oversees the appointment and induction process for directors. It reviews the composition of the Board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. When a vacancy exists or there is a need for particular skills, the Committee, in consultation with the Board, determines the selection criteria based on the skills deemed necessary. Potential candidates are identified by the Committee with advice from an external consultant, where appropriate. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. The Nomination Committee is also responsible for the selection, appointment and succession planning process of the Company's Chief Executive Officer.

Members of the Human Resources, Remuneration and Nomination Committee during the year were Dr M T Jones (Chairman), Mr W P Day, Mr J G Young, and Dr V Braach-Maksvytis.

The Human Resources, Remuneration and Nomination Committee meet as and when required. The Committee has a documented charter, approved by the Board. The charter may be viewed on the Company's website.

The performance of all Directors is reviewed by the Chairman each year. Directors whose performance is unsatisfactory are asked to retire.

#### *Remuneration Report*

- Principles of compensation

Remuneration is referred to as compensation throughout this report.

This Remuneration Report outlines the director and executive remuneration arrangements of the Group. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and the senior executives of the Group.

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to directors, secretary and senior executives of the Company.

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value and company performance;
- have a significant portion of executive remuneration 'at risk'; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Data is obtained from independent surveys to ensure that compensation throughout the Group is set at market rates having regard to experience and performance. In this regard, formal performance appraisals are conducted at least annually for all employees. Compensation packages may include a mix of fixed compensation, performance-based compensation and equity-based compensation.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel.

#### ***Fixed compensation***

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the remuneration committee through a process that considers segment and overall performance of the Group. In addition, data from independent surveys is reviewed to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

#### ***Performance-linked compensation***

Performance linked compensation includes both medium-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The medium-term incentive (MTI), which has replaced the short term incentive, is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as ordinary shares of Orbital Corporation Limited under the rules of the various Share Plans.

In considering the Group's performance and benefits for shareholders, the Human Resources, Remuneration and Nomination Committee has regard to the following indices in respect of the current financial year and the previous four financial years.

Profit after tax, Pro-rata Consolidated Sales and Operating Cash Flows are considered in setting the MTI as they are considered important medium term performance targets. Dividends, changes in share price, and return of capital are included in the Total Shareholder Return ("TSR") calculation which is the performance criterion, along with EPS, for the LTI.

Company performance for the current year and last 4 years is as follows:

	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Profit after tax	4,516	(2,451)	469	1,333	515
Pro-rata consolidated sales	61,081	63,867	59,875	65,004	49,786
Operating cash flows	(4,372)	(856)	73	(182)	(1,868)
Dividends paid	—	—	—	—	—
Change in share price (\$)	(0.050)	(0.035)	(0.190)	0.209	(0.014)
Return of capital	—	—	—	—	—

#### ***Medium-term Incentives***

Executive directors and senior executives may receive bonuses based on the achievement of key performance indicators ("KPI's") related to the performance of the Group over the medium term. The three KPI's chosen by the Human Resource, Remuneration and Nomination Committee on October 20, 2009 relate to 1) Profit after tax, 2) Pro-rata Consolidated Sales, and 3) Operating Cash Flows. These three measures are chosen as they directly align the individual's reward to the Group's strategy and performance.

The medium term incentives are based on the following minimum thresholds 1). Profit (after provision for bonuses), 2). Pro-rata Consolidated Sales >\$100 million, and 3). Positive Operating Cash Flow.

The bonus elements 2 and 3 can only be paid if element 1 is achieved. Achievement of the KPI's may result in bonuses of between 0 – 180% of total fixed remuneration. The maximum bonus is only payable if the stretch targets on all KPI's are achieved. No bonus is awarded where performance falls below a minimum. No bonus is awarded unless a target is achieved which is higher than that which has already been achieved and rewarded.



Estimates of the minimum and maximum possible total value of the award are as follows:

<u>Name</u>	<u>Position</u>	<u>Amount (Min – Max)</u>
Terry Stinson	Chief Executive Officer	0 - \$630,000
Keith Halliwell	Chief Financial Officer	0 - \$359,478
Tony Fitzgerald	Director, Orbital Autogas Systems	0 - \$332,013
Geoff Cathcart	Director, Consulting Services and Engineering	0 - \$269,325
David Worth	Chief Engineer	0 - \$166,971
Ian Veitch	Company Secretary	0 - \$ 72,114

As a result of the KPI in relation to profit after tax being achieved in fiscal 2010 the following medium term incentives are payable for fiscal 2010:

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Terry Stinson	Chief Executive Officer	\$140,000
Keith Halliwell	Chief Financial Officer	\$ 79,884
Tony Fitzgerald	Director, Orbital Autogas Systems	\$ 73,781
Geoff Cathcart	Director, Consulting Services and Engineering	\$ 59,850
David Worth	Chief Engineer	\$ 37,105
Ian Veitch	Company Secretary	\$ 16,025

No bonus will be paid unless the Board is satisfied that Orbital has sufficient cash reserves.

On October 21, 2010, the participants of the Medium Term Incentive (MTI) Scheme irrevocably waived their rights to the MTI bonuses relating to fiscal 2010. The Company will record a reversal of the present liability for the cash bonus by reflecting a credit to the Company's Income Statement of \$400,000 in fiscal 2011.

### ***Long-term Incentives***

#### *Employee Share Plan No.1*

Senior executives (together with all other eligible employees) are each offered shares in the Company, at no cost to the employees, to the value of \$1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. Executive Directors do not participate in Share Plan No.1.

#### *Executive Long Term Share Plan*

Executives may also be offered rights in the Company's Executive Long Term Share Plan under which offered shares will be granted for no consideration subject to the satisfaction of performance conditions over a 3 year period or subject to Board discretion for other qualifying reasons. The performance conditions, which are based 50% FY2010 offer (100%: FY2009 and FY2008 offers) on the relative ranking of the Total Shareholder Return ("TSR") of the Company to a group of selected peers, and 50% FY2010 offer (0%: FY 2009 and FY2008 offer) on Earnings Per Share (EPS), apply to determine the number of shares (if any) to be granted to the Executives.

TSR is the percentage increase in a company's share price plus reinvested dividends over a given period and reflects the increase in value delivered to shareholders over that period. The peer group to which the Company's TSR will be compared will comprise the 50 smallest companies, other than resource companies and property and investment trust companies, within the S&P / ASX 300 Index. These companies have a similar market capitalisation to the Company. The TSR performance criterion was chosen as it is widely accepted as one of the best indicators of shareholder wealth creation as it includes share price growth, dividends and other capital adjustments. In addition, this criterion provides a readily obtained objective means of measuring the Group's performance against its peer group.

The Company's TSR ranking at the end of the Performance Period, when compared to the TSR of the peer group will determine the percentage of shares originally offered which will be granted to the Executive.

The following table sets out the relevant percentages based on various percentile rankings of the Company:

Company Performance (TSR Ranking)	% of offered shares issued to each executive
Up to the 50th percentile	0%
At or above the 50th percentile but below the 75th percentile	50% to 99% (on a straight line basis)
At or above the 75th percentile but below the 90th percentile	100%
At or above the 90th percentile	125%

No shares will be granted under the FY2009 or FY2008 offers unless the Company's TSR is at or above the 50th percentile.

No shares will be granted under the FY2010 offer unless the Company's TSR is at or above the 50th percentile or the EPS for the year ended June 30, 2012 is at or above 1.5 cents per share.

TSR Performance targets under the LTI were met in FY2010 and as a result 911,400 (2009: 891,000) shares were issued to KMPs.

At the Company's Annual General Meeting in October 2009, shareholders approved the above plan in relation to the ongoing remuneration of Executive Directors and senior executives.

#### *Performance Rights Plan*

The Company also introduced a Performance Rights Plan in 2009 as part of its long-term incentive arrangements for senior executives, which was approved by shareholders in October 2009.

Under the Performance Rights Plan, performance rights will only be issued if the terms and conditions detailed below are satisfied.

A performance right is a right to acquire one fully paid ordinary share in the Company. Until they are exercised, performance rights:

- (a) do not give the holder a legal or beneficial interest in shares of the Company; and
- (b) do not enable participating executives to receive dividends, rights on winding up, voting rights or other shareholder benefits.

Performance rights issued under the Performance Rights Plan will be exercisable if:

- (a) a performance hurdle is met over the periods specified by the Board; or
- (b) the Board allows early exercise on cessation of employment; or
- (c) it is determined by the Board in light of specific circumstances.

The terms and conditions of the offer of Performance Rights made during the year ended June 30, 2009 are as follows:

- (a) Mr T D Stinson will be awarded 11,500,000 performance rights;
- (b) the grant of performance rights will be in seven tranches, each tranche with a different specified share price target as set out below:

Tranche	Number of performance rights	Share price target
1	2,000,000	\$0.25
2	2,000,000	\$0.50
3	2,000,000	\$0.75
4	2,000,000	\$1.00
5	1,250,000	\$2.00
6	1,250,000	\$3.00
7	1,000,000	\$5.00

The target share prices were chosen as they directly align the directors reward with group strategy.

- (c) the acquisition price and exercise price of the performance rights will be nil.
- (d) Mr T D Stinson will only be permitted to exercise a performance right if:
  - the Company attains the specified share price target (see table above) within eight years from the date of grant of the performance right; and

- the specified share price target is also achieved at the end of two years from the date the target is first achieved (“Vesting Date”) based on the Company’s average closing share price over a 90 day period up to and including the Vesting Date; and
- (e) if the specified share price target is either not achieved within eight years from the date of grant, or if so achieved, not also achieved at the end of the Vesting Date, the performance right will lapse.

No performance rights were granted during the year ended June 30, 2010.

### *Service Agreements*

The service contract for the Chief Executive Officer is unlimited in term, but capable of termination on 12 months notice by the Company. The Company has the right to terminate the contract immediately by making payment equal to 12 months pay in lieu of notice. The Chief Executive Officer has the right to terminate the contract on 3 months notice. The Chief Executive Officer has no entitlement to termination payment in the event of removal for misconduct.

Contractual arrangements between the Company and other senior executives are also unlimited in term and provide for termination on one month’s notice (or payment in lieu) in accordance with the Company’s standard conditions. On termination of employment, executive directors and senior executives are also entitled to receive their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

### *Non-executive Directors*

Total remuneration for all non-executive Directors, last voted upon by shareholders at the 2001 Annual General Meeting, is not to exceed \$400,000 per annum. When setting fees and other compensation for non-executive Directors, the Board seeks independent advice and applies Australian and international benchmarks. The Chairman’s base fee is \$100,000 per annum, plus a further fee of \$5,050 per annum for membership of the Audit Committee. Other non-executive Directors’ base fees are \$50,000 per annum. An additional fee of \$5,050 per annum is payable for membership (other than as Chairman) of the Audit Committee. The Chairman of that Committee receives an additional fee of \$7,070 per annum. The Chairman of the Human Resources, Remuneration and Nomination Committee receives an additional fee of \$5,000 per annum for that position.

Non-executive Directors do not receive performance related remuneration.

### *Audit Committee*

The role of the Audit Committee is to give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining accounting policies for inclusion in the financial report. The Committee has a documented charter, approved by the Board. The charter is available on the Company’s website. All members of the Committee must be independent, non-executive directors.

Members of the Audit Committee during the year were Mr J G Young (Chairman), Mr W P Day, Dr M T Jones, and Dr V Braach-Maksvytis. The external auditors, Chief Executive Officer, Chief Financial Officer, Company Secretary and other financial and accounting staff are invited to Audit Committee meetings at the discretion of the Committee. The Chief Executive Officer and Chief Financial Officer declared in writing to the Board that the Company’s financial reports for the year ended June 30, 2010 present a true and fair view, in all material respects, of the Company’s financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

The responsibilities of the Audit Committee include, liaising with external auditors and ensuring that the annual and half-year statutory audits/reviews are conducted in an effective manner; reviewing and ensuring management implement appropriate and prompt remedial action for any deficiencies identified; monitoring compliance with Australian and international taxation requirements, the Australian and United States corporations laws and Stock Exchange Listing Rules; and improving quality of the accounting function.

The Audit Committee reviews the performance of the external auditors on an annual basis and meets with them to discuss audit planning matters, statutory reporting and as required for any special reviews or investigations deemed necessary by the Board. The Audit Committee also assesses whether non-audit services provided by the external auditor are consistent with maintaining the external auditor’s independence and provides advice to the Board whether the provision of such services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The Audit Committee charter provides for rotation of the external audit partner every five years.

### *Risk Management*

The Board oversees the establishment, implementation and review of the Company's risk management systems, which have been established by management for assessing, monitoring and managing operational, financial reporting and compliance risks for the consolidated entity. Responsibility for establishing and maintaining effective risk management strategies rests with senior management, accountable to the Chief Executive Officer and the Audit Committee of the Board. The Audit Committee reviews the risk management and internal control structure implemented by management so as to obtain reasonable assurance that the consolidated entity's assets are safeguarded and that reliable financial records are maintained. The Chief Executive Officer and Chief Financial Officer have declared, in writing to the Board, that they have evaluated the effectiveness of the Company's financial disclosure controls and procedures and have concluded that they are operating efficiently and effectively. Operational and other compliance risk management has also been reviewed and found to be operating efficiently and effectively. Details of the Company's risk management policy are available on the Company's website.

- Risk Profile

Risks to the consolidated entity arise from matters such as competitive technologies that may be developed, delays in government regulation, reduction in development and testing expenditure by the Company's customers, the impact of exchange rate movements on royalty receipts, environmental issues, occupational safety and health and financial reporting.

- Internal Control Framework

The Board recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, an organisational structure that provides an appropriate division of responsibility, and the careful selection and training of qualified personnel.

Established practices ensure:

- Capital expenditure commitments are subject to authority level approval procedures
- Financial exposures are controlled by the use of forward exchange contracts where appropriate
- Occupational safety and health issues are monitored by a management committee
- Financial reporting accuracy and compliance with regulatory requirements
- Compliance with environmental regulation

To ensure that its engineering services are of the highest standard, the consolidated entity has obtained ISO 9001 accreditation for research, design and development services to the world's producers of powertrain and engine management systems and the provision of general engineering services.

Orbital Autogas Systems are certified TS16949 and ISO14001 for its automotive component manufacturing capabilities.

Where risks, such as natural disasters, cannot be adequately mitigated using internal controls, those risks are transferred to third parties through insurance coverage to the extent considered appropriate.

- Financial Reporting

The Chief Executive Officer and Chief Financial Officer are required to, at least annually, evaluate internal control over financial reporting and disclose in writing to the Company's Auditors and the Audit Committee:

1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarise and report financial information; and
2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. No such deficiencies, weaknesses or frauds have been detected.

Monthly financial results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

- Environmental Regulation

The consolidated entity holds a number of permits, licences and registrations for environmental regulation under both Australian Commonwealth and State legislation. These permits, licences and registrations are primarily for the storage of fuels and chemicals and the disposal of waste and are reviewed by the consolidated entity on an on-going basis. The Directors are not aware of any serious breaches during the period covered by this report.

#### *Ethical Standards*

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board has approved a Code of Conduct, applicable to all Directors and employees of the consolidated entity, providing for the conduct of business in accordance with the highest ethical standards and sound corporate governance. The Code also incorporates the Company's policy on trading in the Company's securities. A Code of Ethics, relating to Accounting Practice and Financial Reporting, has also been adopted by the Board and applies specifically to the Chief Executive Officer, Chief Financial Officer and senior finance officers of the Company who influence financial performance. The Code of Ethics is complementary to the Code of Conduct, copies of both of which are available on the Company's website.

#### *Continuous Disclosure and Communication with Shareholders*

The Board of Directors aims to ensure that shareholders are informed of all major developments affecting the consolidated entity's state of affairs. The Board has adopted a policy to identify matters that may have a material effect on the price of the Company's securities and to notify the Australian Stock Exchange ("ASX") as required.

This policy on Release of Price Sensitive Information is overseen and coordinated by the Company Secretary. All directors, officers and members of the Company's management committee are required to forward details of any potentially price sensitive information to the Company Secretary, who is also to be made aware, in advance, of proposed information disclosures (including information to be presented at private briefings) to enable consideration of the continuous disclosure requirements. Proposed announcements are to be approved by at least one of either the Managing Director or the Chairman prior to release to the ASX. The Company Secretary is responsible for administering communications with the ASX.

Information is communicated to shareholders as follows:

- The annual financial report is distributed to all shareholders (and to American Depositary Share (ADS) holders) on request in accordance with Corporation Act 2001 requirements and includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, in addition to other disclosures required by the Corporations Act 2001 and US Securities Law;
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year financial report is prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001 and is lodged with Australian and United States regulatory bodies and stock exchanges. Financial reports are sent to any shareholder or ADS holder who requests them; and
- Continuous disclosure of material information to the stock exchanges, media outlets and via the Company's website. We encourage all shareholders to register email contact details on our website to enable concurrent electronic communication. All announcements made to market are placed on the Company's website immediately after release to the Australian Stock Exchange.

The Board encourages participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. The Company's external auditor is requested to attend annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

Shareholders are requested to vote on the appointment of Directors, the aggregate remuneration of non-executive directors, the granting of shares to directors and changes to the Constitution. A copy of the Constitution is available to any shareholder who requests it.

The Company's policy on Release of Price Sensitive Information and its policy on communication with shareholders are available on the Company's website.

### *Employees*

Details of the number, category and location of employees of the Orbital Group in the last three years are as follows:

<u>Category</u>	<u>June 2010</u>		<u>June 2009</u>		<u>June 2008</u>	
	<u>Aus</u>	<u>US</u>	<u>Aus</u>	<u>US</u>	<u>Aus</u>	<u>US</u>
<b>Executive</b>	4	—	4	—	4	—
<b>Orbital Autogas Systems</b>	15	—	13	—	8	—
<b>Administration</b>	15	—	13	—	16	—
<b>Engineers</b>	39	—	32	—	37	—
<b>Technicians</b>	27	—	29	—	30	—
<b>Others</b>	2	—	2	—	2	—
<b>Total</b>	102	—	93	—	97	—

The management and employees of the Group are not associated with any particular labour union.

### *Share Ownership*

Details of share ownership by Directors and senior managers at October 31, 2010 are as follows:

<u>Director</u>	<u>Ordinary Shares</u>
W P Day	100,000
T D Stinson	2,500,880
J G Young	748,537
M T Jones	180,000
<u>Senior Managers</u>	
K A Halliwell	1,367,336
B A Fitzgerald	1,032,420
G P Cathcart	480,910

Directors and senior managers do not have different voting rights from other shareholders.

### *Employee Share Plan - 2008 Offer*

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2008 have been offered shares in the Company to the value of A\$1,000 (determined on the basis of the weighted average market price of the Company's shares as traded on the Australian Stock Exchange in the five trading days before that date). No shares have been offered to employees under the No. 2 Plan. On October 31, 2008, a total of 1,673,358 fully paid ordinary shares were issued to employees under the No. 1 Plan.

### *Executive Long Term Share Plan - 2008 Offer*

At the Company's Annual General Meeting on October 22, 2008, shareholders approved the participation of the Managing Director, Mr Terry Stinson, in the Company's Executive Long Term Share Plan. Under this Plan, a performance related offer of shares has been made to the Managing Director and eligible executives of the Company. Mr Stinson has been offered up to 1,625,000 fully paid ordinary shares.

Shares offered under the Plan will only be granted, at no cost to participants, if performance conditions are met or if, on cessation of employment, there is a Qualifying Reason. The performance conditions are the same as those in the 2007 year under the Plan (referred to above). The comparison will be made over a three year "Performance Period" commencing on September 1, 2008 and ending on August 31, 2011.

### *Performance Rights Plan – 2008 Offer*

Under the Performance Rights Plan, performance rights will only be issued if the terms and conditions detailed below are satisfied.

A performance right is a right to acquire one fully paid ordinary share in the Company. Until they are exercised, performance rights:

- (a) do not give the holder a legal or beneficial interest in shares of the Company; and
- (b) do not enable participating executives to receive dividends, rights on winding up, voting rights or other shareholder benefits.

### ***Terms and conditions***

It is proposed that the performance rights will be subject to performance hurdles which would have to be satisfied over particular periods specified by the Board. The relevant performance hurdles would need to be met over those specified periods before the performance rights become exercisable.

When issuing an invitation under the Performance Rights Plan, the Board has a discretion to determine the terms and conditions of an award of performance rights to ensure that they are appropriate for the relevant executive (including the number of performance rights to be awarded, the relevant performance hurdles and the length of the periods in which those performance hurdles must be satisfied).

### ***Exercise of performance rights***

Performance rights issued under the Performance Rights Plan will be exercisable if:

- (a) a performance hurdle is met over the periods specified by the Board; or
- (b) the Board allows early exercise on cessation of employment (see “Cessation of employment” below); or
- (c) it is determined by the Board in light of specific circumstances.

Where an event occurs (such as a takeover bid, a scheme of arrangement or the winding up of the Company) and the performance rights are granted in tranches and are subject to separate performance hurdles, and the participant has exceeded the last performance hurdle but has not yet met the next performance hurdle, the participant may be permitted to exercise a proportion of his or her performance rights associated with the next performance hurdle relative to the extent to which the participant has achieved that next performance hurdle.

### ***Cessation of employment***

Performance rights lapse immediately (even if they have otherwise become exercisable) on termination for misconduct or any other reason justifying termination without notice.

In the case of death, total permanent disablement, redundancy, retirement, or where employment has terminated by reason of the Company selling a business:

- (a) performance rights which have otherwise become exercisable remain exercisable up to the end of the exercise period; and
- (b) the Board has a discretion to treat the remaining performance rights of the participant as exercisable and to set the exercise period for them.

In all other cases where employment ceases, performance rights lapse immediately unless they have otherwise become exercisable, in which case they lapse at the end of 30 days.

### ***Disposal restriction***

Shares will be issued directly to executives once they have exercised their performance rights. Executives will not be permitted to dispose of those shares until the earlier of:

- (a) the expiry of a period to be determined by the Board in its offer;
- (b) 10 years after the performance rights were granted;
- (c) cessation of that executive's employment with the Orbital Group;
- (d) an event occurs such as a takeover bid for or winding up of the Company or
- (e) the Board (in its absolute discretion) releasing the executive from the restriction.

### ***Under the Performance Rights Plan:***

- (a) Mr T D Stinson will be awarded 11,500,000 performance rights;
- (b) the grant of performance rights will be in seven tranches, each tranche with a different specified share price target as set out below:

<b>Tranche</b>	<b>Number of performance rights</b>	<b>Share price target</b>
1	2,000,000	\$0.25
2	2,000,000	\$0.50
3	2,000,000	\$0.75
4	2,000,000	\$1.00
5	1,250,000	\$2.00
6	1,250,000	\$3.00
7	1,000,000	\$5.00

- (c) the acquisition price and exercise price of the performance rights will be nil;
- (d) Mr T D Stinson will only be permitted to exercise a performance right if:
  - the Company attains the specified share price target (see table above) within eight years from the date of grant of the performance right; and
  - the specified share price target is also achieved at the end of two years from the date the target is first achieved (“**Vesting Date**”) based on the Company's average closing share price over a 90 day period up to and including the Vesting Date (if the specified share price target is not achieved at the end of the Vesting Date, the performance right will lapse); and
- (e) Mr T D Stinson is currently the only person entitled to participate in the Performance Rights Plan.

### ***Employee Share Plan - 2009 Offer***

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2009 have been offered shares in the Company to the value of A\$1,000 (determined on the basis of the weighted average market price of the Company's shares as traded on the Australian Stock Exchange in the five trading days before that date). No shares have been offered to employees under the No. 2 Plan. On December 14, 2009, a total of 1,445,894 fully paid ordinary shares were issued to employees under the No. 1 Plan.

### ***Executive Long Term Share Plan - 2009 Offer***

At the Company's Annual General Meeting on October 21, 2009, shareholders approved the participation of the Managing Director, Mr Terry Stinson, in the Company's Executive Long Term Share Plan. Under this Plan, a performance related offer of shares has been made to the Managing Director and eligible executives of the Company. Mr Stinson has been offered up to 5,906,250 fully paid ordinary shares.



Shares offered under the Plan will only be granted, at no cost to participants, if performance conditions are met or if, on cessation of employment, there is a Qualifying Reason. The number of shares that the executive actually receives depends on two performance hurdles, as set out below:

- (a) 3,281,250 of the shares offered will be issued depending on the performance of the Company relative to a group of selected peers (being the 50 smallest companies by market capitalisation (other than resource companies and property and investment trust companies) within the S&P / ASX 300 Index. The peer group is ranked in terms of Total Shareholder Return (“TSR”). TSR is the percentage increase in a company’s share price plus reinvested dividends over a three year period commencing on September 1, 2009 and ending on August 31, 2012 (“**Performance Period**”).

The following table sets out the relevant percentages of an executive’s Personal Allotment which will be issued at the conclusion of the Performance Period based on the TSR ranking of the Company relative to the peer group:

Company Performance (TSR Ranking)	% of Personal Allotment issued to each executive
Up to the 50th percentile	0%
At or above the 50th percentile but below the 75th percentile	50% to 99% (on a straight-line basis).
At or above the 75th percentile but below the 90th percentile	100%
At or above the 90th percentile	125%

- (b) 2,625,000 of the shares offered will be issued if the Company achieves earnings in excess of 1.5 cents per share for the year ending June 30, 2012.

*Executive Long Term Share Plan – 2010 Offer*

At the Company’s Annual General Meeting on October 28, 2010, shareholders approved the participation of the Managing Director, Mr Terry Stinson, in the Company’s Executive Long Term Share Plan. Under this Plan, a performance related offer of shares has been made to the Managing Director and eligible executives of the Company. Mr Stinson has been offered up to 8,750,000 fully paid ordinary shares.

Shares offered under the Plan will only be granted, at no cost to participants, if performance conditions are met or if, on cessation of employment, there is a Qualifying Reason. The number of shares that the executive actually receives depends on two performance hurdles, as set out below:

- (a) 4,861,111 of the shares offered will be issued depending on the performance of the Company relative to a group of selected peers (being the 50 smallest companies by market capitalisation (other than resource companies and property and investment trust companies) within the S&P / ASX 300 Index. The peer group is ranked in terms of Total Shareholder Return (“TSR”). TSR is the percentage increase in a company’s share price plus reinvested dividends over a three year period commencing on September 1, 2010 and ending on August 31, 2013 (“**Performance Period**”).

The following table sets out the relevant percentages of an executive’s Personal Allotment which will be issued at the conclusion of the Performance Period based on the TSR ranking of the Company relative to the peer group:

Company Performance (TSR Ranking)	% of Personal Allotment issued to each executive
Up to the 50th percentile	0%
At or above the 50th percentile but below the 75th percentile	50% to 99% (on a straight-line basis).
At or above the 75th percentile but below the 90th percentile	100%
At or above the 90th percentile	125%

- (b) 3,888,889 of the shares offered will be issued if the Company achieves earnings in excess of 1.1 cents per share for the year ending June 30, 2013.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Major Shareholders

Orbital's ordinary shares currently constitute the entire outstanding capital of the Company. As of October 31, 2010, Orbital had issued and outstanding 481,973,944 fully paid ordinary shares. Orbital is not directly or indirectly controlled by another corporation or by any foreign government and there are no arrangements known to Orbital, the operation of which may at a subsequent date result in a change in control of Orbital.

There is only one shareholder who has greater than 5% of the Company's issued capital. The details of the shareholder are:

<u>Name</u>	<u>Number of shares held</u>	<u>% of shares</u>
Equity Trustees Limited SGH PI Smaller Co's (as notified on June 13, 2007)	29,332,832	6.20%

There has been no significant change in the composition of major shareholders.

The Executive Officers and Directors of Orbital as a group own 6,210,083 ordinary shares which represent 1.29% of that class.

Major shareholders do not have different voting rights from other shareholders.

### Shareholder Locations

There are 481,973,944 ordinary shares in the Company on issue at October 31, 2010, 73% of which are held by 5,224 shareholders located in Australia.

There are 641,741 ADS's (representing 102,678,560 ordinary shares in the Company) on issue at October 31, 2010 held by 166 registered holders located in the United States of America.

### Related Party Transactions

There were no related party transactions with Directors during fiscal 2010 (nil in both fiscal 2009 and 2008).

The aggregate amounts receivable from (net of provisions for doubtful debts)/ payable to wholly owned controlled entities by the Company at October 31, 2010 and June 30 in each of the preceding two years are as follows:

	<u>October 31, 2010</u> <u>(A\$000's)</u>	<u>2010</u> <u>(A\$000's)</u>	<u>2009</u> <u>(A\$000's)</u>	<u>2008</u> <u>(A\$000's)</u>
Receivables - Non-current	28,382	28,364	28,063	17,375
Borrowings - Non-current	11,933	13,090	13,549	6,431

The largest amounts outstanding during the periods covered were as follows:

	<u>2010</u> <u>(A\$000's)</u>	<u>2009</u> <u>(A\$000's)</u>	<u>2008</u> <u>(A\$000's)</u>
Receivables - Non-current	28,570	28,063	17,375
Borrowings - Non-current	13,370	13,549	8,582

The Company is the only publicly listed entity within the consolidated group and acts as the parent to its wholly owned subsidiaries. The Company does not carry on any operating activities or hold any operational assets. The Company acts as the treasury for the consolidated group managing the flows of cash and capital within the consolidated group. The loans to/from subsidiaries are the result of the Company performing the treasury function for the consolidated group.

During fiscal 2010, nil interest expense (fiscal 2009: nil; fiscal 2008: nil) was recognised by the Company in relation to these loans. The interest rate charged during the year was nil (2009 and 2008: nil)

Details of dealings with other related parties, being Synerject LLC, are as follows:

The aggregate amounts receivable from / payable to Synerject LLC by the Orbital Group at October 31, 2010 and June 30 in each of the preceding two years are:

	<u>October 31, 2010</u> <u>(A\$000's)</u>	<u>2010</u> <u>(A\$000's)</u>	<u>2009</u> <u>(A\$000's)</u>	<u>2008</u> <u>(A\$000's)</u>
Receivables - Current	1	3	14	16
Payables - Current	11	110	—	—

During fiscal 2010, the Orbital Group provided engineering services to Synerject LLC to the value of A\$nil (2009: A\$0.081 million) and purchased goods and services from Synerject LLC to the value of A\$0.190 million (2009: A\$0.140 million). All trading transactions are in the ordinary course of business and on normal commercial terms and conditions. Included above are unsecured working capital advances which are interest free and repayable on demand.

## **ITEM 8. FINANCIAL INFORMATION**

### ***Consolidated Financial Statements and Other Financial Information***

Refer pages F-1 through F-59 included herein.

### ***Significant Changes***

There have been no significant changes to the operations of the Group since the date of the annual financial statements.

### ***Legal Proceedings***

Orbital does not presently have any legal proceedings pending with significant effects on the Company's financial position or profitability.

### ***Dividend Policy***

Orbital's Board of Directors annually reviews the Group's ability to pay dividends, which may be declared out of current year profits or retained earnings of the Company. The Company does not anticipate being in a position to pay a dividend in the 2011 fiscal year.

## ITEM 9. THE OFFER AND LISTING

### *Nature Of Trading Market*

Orbital's ordinary shares are traded on the ASX. The ASX is a nationally operated stock exchange with an Automated Trading System in the capital city of each Australian state.

The ordinary shares are also traded in the United States in the form of ADSs evidenced by American Depositary Receipts ("ADRs") issued by The Bank of New York Mellon as depositary under a deposit agreement dated April 16, 2010. Each ADS represents one hundred and sixty ordinary shares. The ADSs have traded on the Over the Counter Bulletin Board (OTCBB) with effect from July 1, 2004, under the symbol "OBTMY". Prior to that time, the ADSs were traded on the New York Stock Exchange (NYSE) but were delisted as a result of Orbital's non-compliance with NYSE's continued listing requirements relating to market capitalization and stockholders' equity.

The following table sets forth, for the periods indicated, the high and low closing sale prices per share and the high and low day trade volume of Orbital's fully paid ordinary shares based upon information provided by the ASX Automated Trading System, and the high and low closing sale prices per ADS and the high and low day trade volume as reported on the OTCBB. Note that effective April 19, 2010 the ratio of ordinary shares to ADSs was changed from 1 : 40 to 1 : 160. Please note that the ADS prices quoted below for dates prior to April 19, 2010 have not been restated to account for the change of ratio of ordinary shares to ADSs.

	Ordinary Shares				American Depositary Shares				
	High Price	High Volume	Low Price	Low Volume	High Price	High Volume	Low Price	Low Volume	
2004-05	A\$0.160	2,728,797	A\$0.085	20,000	US\$ 4.40	31,810	US\$2.60	0	
2005-06	A\$0.125	3,221,730	A\$0.085	20,000	US\$ 4.40	31,810	US\$2.60	0	
2006-07	A\$0.345	3,760,493	A\$0.090	1,270	US\$11.17	51,400	US\$2.75	0	
2007-08	A\$0.380	6,794,414	A\$0.100	4,864	US\$13.00	32,000	US\$3.90	0	
2008-09	A\$0.115	7,330,005	A\$0.030	1,574	US\$ 4.50	52,600	US\$0.78	0	
2009-10	A\$0.080	8,644,033	A\$0.025	0	US\$ 6.00	17,000	US\$1.36	0	
2008-09	Q1	A\$0.115	7,330,005	A\$0.055	10,000	US\$ 4.50*	52,600	US\$1.95	0
	Q2	A\$0.068	1,460,659	A\$0.036	2,611	US\$ 2.10	26,800	US\$0.90	0
	Q3	A\$0.062	1,358,585	A\$0.030*	1,574	US\$ 1.34	29,900	US\$0.78*	0
	Q4	A\$0.115*	1,653,000	A\$0.036	3,014	US\$ 3.40	17,500	US\$0.81	0
2009-10	Q1	A\$0.080*	1,149,440	A\$0.048	0	US\$ 2.50	2,600	US\$1.45	0
	Q2	A\$0.068	984,000	A\$0.048	0	US\$ 2.50	1,800	US\$1.70	0
	Q3	A\$0.059	8,644,033	A\$0.039	0	US\$ 2.10	5,000	US\$1.36*	0
	Q4	A\$0.044	2,042,656	A\$0.025*	0	US\$ 6.00*	17,000	US\$1.36	0
May 2010	A\$0.040	1,211,250	A\$0.030	0	US\$ 5.50	4,500	US\$4.07	0	
Jun 2010	A\$0.032	1,933,999	A\$0.025	0	US\$ 4.15	2,800	US\$3.45	0	
Jul 2010	A\$0.035	1,933,585	A\$0.026	0	US\$ 4.32	1,000	US\$3.72	0	
Aug 2010	A\$0.040	846,154	A\$0.029	0	US\$ 4.90	3,600	US\$4.18	0	
Sept 2010	A\$0.037	1,095,329	A\$0.025	9,260	US\$ 4.75	3,200	US\$3.90	0	
Oct 2010	A\$0.031	1,095,329	A\$0.025	0	US\$ 4.48	4,000	US\$3.89	0	

\* Denotes annual high and low closing market prices in the relevant year.

On October 31, 2010, the closing sale price of the ordinary shares on the ASX was A\$0.028 per ordinary share and the closing sale price of the ADSs on the OTCBB on that date was US\$4.12 per ADS. On October 31, 2010, 641,741 ADSs, representing 102,678,560 ordinary shares, or approximately 21% of the outstanding ordinary shares, were outstanding and were held by 166 holders of record including nominee companies holding on behalf of beneficial shareholders.

On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of shares on the basis that every ten shares be consolidated into one share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share.

The indicative timetable for the consolidation is set out below.

<u>Event</u>	<u>Date</u>
Announcement of the proposed consolidation	September 14, 2010
Record date to determine eligibility to vote at the annual general meeting	October 26, 2010
Annual general meeting for approval (amongst other things) of the consolidation	October 28, 2010
Announcement of approval of the consolidation	October 28, 2010
Last day for ASX trading of shares on a pre-consolidated basis	October 29, 2010
Trading in consolidated shares, on a deferred settlement basis, starts	November 01, 2010
Last day for the Company to register share transfers on a pre-consolidated basis	November 08, 2010
First day for the Company to register share transfers on a consolidated basis and first day for the Company to issue holding statements for shares and options on a consolidated basis	November 09, 2010
Announcement that despatch of the new holding statements has occurred	November 12, 2010
Deferred settlement trading ends	November 12, 2010
Normal T+3 trading in consolidated shares starts	November 15, 2010

## **ITEM 10. ADDITIONAL INFORMATION**

### ***Memorandum and Articles (Constitution)***

No objects and purposes of the Company are stated or, under Australian law, are required to be stated, in the Company's Constitution.

At the Company's Annual General Meeting on October 26, 2004 shareholders voted to adopt a new Constitution for the Company – refer Exhibit 1.1.

Under the Company's Constitution:

- a Director may not vote in relation to any contract or proposed contract or arrangement in which the Director has, directly or indirectly, a material interest;
- the maximum total of fees payable to Directors is required to be approved by the Company in general meeting;
- the Directors may at any time exercise all the powers of the Company to borrow money, except to the extent that such powers are required by law or the Listing Rules of Australian Stock Exchange Limited to be exercised by the Company in general meeting;
- a Director may not hold office in contravention of the Corporations Act 2001 (Aust.); and
- a Director is not required to have a share qualification.

The Company has fully paid ordinary shares on issue. Dividends, as declared by Directors and which are only payable from profits, are payable on all fully paid ordinary shares equally. Except as otherwise provided by statute, all dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.

At meetings of shareholders, each shareholder present in person or by proxy or representative has, on a show of hands, one vote and, on a poll, each shareholder present in person or by proxy or representative has one vote in respect of each fully paid share held by that shareholder. Nothing in the Company's Constitution discriminates against any existing or prospective holder of shares in the Company as a result of such shareholder owning a substantial number of shares.

Changes to the rights of shareholders in relation to a particular class of shares may only be made with the consent in writing of the holders of three-quarters of the issued shares of that class or if authorised by a special resolution passed at a separate meeting of the holders of that class of share. The Company does not currently have different classes of shares.

Details of requirements for Directors to stand for re-election are set out at "Item 6. Directors, Senior Management and Employees – Board Practices".

In accordance with the Company's Constitution, any Director may whenever that Director thinks fit convene a general meeting of shareholders of the Company. Under the Corporations Act 2001, the Directors must call and arrange to hold a general meeting on the signed written request of either members with at least 5% of the votes that may be cast at the general meeting or at least 100 members who are entitled to vote at the general meeting. The request must state any resolution to be proposed at the meeting. The Directors must call the meeting within 21 days after the request is given to the Company and the meeting is to be held not later than 2 months after the request is given to the Company.

Shareholders must be given at least 28 days written notice of a meeting of the Company's shareholders, which notice may be given personally or by post and must set out:

- the place, date and time of the meeting;
- the general nature of the meeting's business;
- the resolution, if a special resolution is proposed; and
- a shareholder's right to appoint a proxy.

The persons entitled to attend a general meeting of the Company shall be the shareholders (in person, by proxy or representative), the directors, the Company's auditor and such other person or persons as the meeting may approve.

There are no limitations under the Constitution of Orbital to the right of non-residents to hold or vote ordinary shares.

Takeovers of Australian companies by foreign interests are subject to review and approval by the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975. The statute applies to any acquisition or proposed acquisition of 15% or more of the outstanding shares of an Australian company by one foreign person or group of associated foreign persons or any acquisition or proposed acquisition which results in one foreign person or group of associated foreign persons controlling 15% or more of total voting power. In addition, the statute applies to any acquisition or proposed acquisition by non-associated foreign persons resulting in foreign persons controlling, in the aggregate, 40% or more of total voting power or ownership.

### ***Material Contracts***

Other than the Executive Service Agreement (incorporated by reference to our registration statement on Form 20-F filed on December 21, 2009), there are no material contracts (other than contracts entered into in the ordinary course of business) to which the Company or any member of the Orbital Group is a party in the two years immediately prior to publication of this document.

### ***Exchange Controls***

Under existing Australian legislation, the Reserve Bank of Australia does not prohibit the import and export of funds, and generally no governmental permission is required for Orbital to move funds in and out of Australia. However, for the movement of funds to and from “tax havens”, as specified by current regulations, a tax clearance certificate must be obtained. The United States is not a declared tax haven. Accordingly, at the present time, remittances of any dividends, interest or other payments by Orbital to non-resident holders of Orbital’s securities in the United States are not restricted by exchange controls.

### ***Taxation***

The following is a summary of material United States federal income and Australian tax consequences of the ownership of ordinary shares or ADSs by US Holders. Except as otherwise noted, the statements of Australian and United States tax laws set out below are based on the laws in force, as of the date of this Annual Report, and are subject to any changes in United States or Australian law, and in any double taxation convention between the United States and Australia, occurring after that date possibly with retrospective effect.

On September 27, 2001, a Protocol was signed to amend the double tax convention between Australia and the United States. The Protocol provides for reductions in withholding taxes on certain dividends, interest and royalties. In particular, no withholding tax will be chargeable in the source country on dividends payable to a listed public company from an 80% or more beneficially owned subsidiary. The rate of withholding tax on royalties will be reduced from 10% to 5%. The Protocol was formally ratified on May 13, 2003 and has effect from July 1, 2003 in relation to withholding taxes and from income tax years beginning on or after July 1, 2004 for other taxes covered by the Protocol.

For purposes of this discussion, a US Holder is any beneficial owner of ADSs or ordinary shares that is:

- a citizen or resident of the United States;
- a corporation organised under the laws of the United States or any state;
- an estate the income of which is subject to United States federal income tax without regard to its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

### ***Australian Taxation***

The following summary outlines the Australian income tax implications to non-resident holders of ADSs and ordinary shares who held ADSs or ordinary shares as capital assets. The summary is not exhaustive of all possible tax considerations, and holders of ADSs and ordinary shares are advised to satisfy themselves as to the overall tax consequences regarding the application of any relevant Double Taxation Agreement, by consulting their own tax advisers. The summary is based on legislation and case law applicable at the date of this report. Future legislative changes and developments in case law interpretation may impact upon the taxation position set out below.

### *Residency*

A natural person will be a resident of Australia if that person has been in Australia for more than 183 days in a year of income, unless that person has a usual place of abode outside of Australia and does not intend to take up residency in Australia.

A corporation will be a resident of Australia if it is incorporated in Australia, or if not being incorporated in Australia, carries on business in Australia, and has either its central management and control in Australia, or its voting power is controlled by shareholders who are residents of Australia.

### *Taxation of Dividends*

Dividends paid by an Australian resident corporation may be paid as franked or unfranked dividends. Australian corporations are required to provide shareholders with notices detailing the extent to which dividends are franked or unfranked, and the deduction, if any, of dividend withholding tax. To the extent to which those dividends are paid out of profits which have been subject to Australian company tax, they will be franked dividends. Fully franked dividends paid to a non-resident will be exempt from Australian dividend withholding tax. Unfranked or partially franked dividends will be subject to Australian dividend withholding tax to the extent the dividends are unfranked. The rate of withholding tax on dividends is discussed below.

Shareholders who elect to participate in a dividend reinvestment plan in effect elect to invest their dividends in an allotment of ordinary shares. As is the case with a cash dividend, the receipt of these additional ordinary shares will represent assessable income to an Australian resident shareholder, and will carry franking credits to the same extent as any cash dividend.

The Australian Government provides a taxation incentive in the form of 125% tax deduction for companies which incur expenditure on research and development activities. This incentive has contributed to Orbital's past level of accumulated carry forward tax losses, which were available for off-set against future income. The availability of these carry forward losses has impacted the amount of tax Orbital has paid and accordingly, the ability of Orbital to pay franked dividends.

Bonus shares issued to existing shareholders out of a share capital account are not dividends for Australian income tax purposes, and are therefore not subject to dividend withholding tax.

### *Withholding Tax on Dividends*

The double taxation treaty between Australia and the United States limits the Australian dividend withholding tax on the unfranked portion of dividends paid to a US resident who is beneficially entitled to the dividend to 15%, unless the shareholder carries on business in Australia through a permanent establishment, or performs independent personal services from a fixed base in Australia, and his share holding is effectively connected with the permanent establishment or fixed base, in which case a 30% withholding tax applies. From July 1, 2003 where a US resident holds at least 10%, but less than 80%, of the voting power of an Australian company, withholding tax on the unfranked portion of a dividend will be 5%.

A withholding tax exemption is available where a dividend paid by the company is paid out of profits which include certain dividends received from foreign companies.

### *Capital Gains Tax ("CGT")*

The sale of ADSs and ordinary shares may be subject to Australian CGT where the ADSs or the ordinary shares are held by:

- natural persons or corporations who are residents of Australia;
- non-residents of Australia who, together with their associates, beneficially hold or, at any time during the five years prior to the sale, held 10% or more of the issued capital of the company, or options or rights to acquire ADSs or ordinary shares; or
- non-residents and are used in carrying on a trade or business through a permanent establishment in Australia.

Australian CGT is generally payable upon the profit arising from the sale of assets acquired after September 19, 1985. For assets that are sold prior to September 21, 1999 the profit is calculated as the disposal proceeds less the costs, indexed for inflation for assets held for at least twelve months. Capital losses are not subject to indexation and can only be offset against capital gains.

For assets that are sold after September 21, 1999 the taxation treatment depends on whether the assets were sold by an individual or a company. Special rules also apply to Australian complying superannuation funds.



For assets that were acquired prior to September 21, 1999 by an individual, and held for at least one year, the individual taxpayer now has a choice of including in assessable income either:

- 50% of the profit on sale; or
- 100% of the difference between the disposal price and the indexed cost base as at September 30, 1999.

For assets acquired on or after September 21, 1999 by an individual, and held for at least one year, the individual will only be taxed on 50% of the difference between the disposal price and the original cost.

For assets that are sold after September 21, 1999, the capital gain is calculated as the disposal proceeds less the costs, indexed for inflation to September 30, 1999 for assets held for at least one year. Companies are not eligible for the 50% discount treatment.

Where the asset is held for less than one year, 100% of the gain will be assessable for both individuals and companies.

Assets acquired before September 19, 1985 generally remain free from tax. Capital losses are not available in respect of assets acquired before this date.

Ordinary shares issued to a shareholder who is a resident for Australian tax purposes, through participation in the dividend reinvestment plan will be deemed to be acquired when issued and will be subject to Australian CGT upon disposal as discussed above, regardless of the date of acquisition of the relevant original shares participating in the plan.

#### *Stamp Duty*

No Australian stamp duty will be payable on the issue or stock market transfer of an ADS, provided the ADS is registered on a register kept by or on behalf of the person who issued the ADS in the United States, and the ADS is registered on the register:

- for at least six months before the transfer, or on or before March 14, 1997; or
- since they were issued; and
- the transfer of the ADS must be made by an order lodged with a broker who is a member of the New York or NASDAQ stock exchanges; or
- be solely for the purpose of facilitating settlement of a transfer described above.

From July 1, 2001, no Australian stamp duty is payable on the transfer of Orbital's ordinary shares.

#### *United States Federal Income Taxation*

The following is a summary of the material United States Federal income tax consequences resulting from the ownership and disposition of ADSs or ordinary shares by US Holders. This summary applies only to holders who hold ADSs or ordinary shares as capital assets and does not apply to holders of ADSs or ordinary shares that are subject to special rules, such as holders that:

- are generally exempt from United States Federal income tax,
- actually or constructively own ten percent or more of the voting shares of the Company,
- are dealers in ADSs or ordinary shares,
- are traders in securities that elect to use a mark to market method of accounting,
- are banks or life insurance companies,
- acquired ADSs or ordinary shares under employee share plans or otherwise as compensation,
- are liable for alternative minimum tax,
- hold ADSs or ordinary shares as part of a straddle or a hedging or conversion transaction, or
- have a functional currency that is not the US dollar.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, as well as on the Convention between the United States of America and Australia (the "Treaty"). These laws are subject to change, possibly on a retrospective basis.

This summary is also based in part on representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with its terms. Beneficial owners of ADSs or ordinary shares are advised to consult their tax advisers as to the Australian, United States and other tax consequences resulting from the ownership and disposition of ADSs and ordinary shares, including state and local tax consequences.

For United States Federal income tax purposes, holders of ADRs evidencing ADSs will generally be treated as owners of the ordinary shares underlying such ADRs. Exchanges of ordinary shares for ADRs, and ADRs for ordinary shares, generally will not be subject to United States federal income tax.

#### *Taxation of Dividends*

Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, US Holders will include in gross income the gross amount of any dividend paid, before reduction for Australian withholding taxes, by Orbital out of its current or accumulated earnings and profits, as determined for United States federal income tax purposes. Dividends paid to non-corporate US Holders in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable at a maximum rate of 15 percent provided that the US Holder holds the ADSs or ordinary shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid with respect to the shares or ADSs generally will be qualified dividend income.

US Holders must include any Australian tax withheld from the dividend payment in this gross amount even though they do not in fact receive it. The dividend is taxable to a US Holder when such US Holder, in the case of ordinary shares, or the Depositary, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations.

The amount of the dividend distribution to be included in income of a US Holder will be the US dollar value of the Australian dollar payments made, determined at the spot Australian dollar/US dollar rate on the date the dividend distribution is included in the income of the US Holder, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of the US Holder’s basis in the ordinary shares or ADSs and thereafter as capital gain.

Subject to foreign tax credit limitations, the Australian tax withheld in accordance with the double taxation treaty between Australia and the United States and paid over to Australia will be creditable against the US Holder’s United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15 percent tax rate. Dividends will be income from sources outside the United States. Dividends paid in taxable years beginning after December 31, 2006 will, depending on the US Holder’s circumstances, be “passive” or “general” income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to US Holders.

It is possible that we are or will be at least 50% owned by persons treated as United States persons under the US tax code. Under Section 904(h) of the US tax code, dividends paid by a non-U.S. corporation that is at least 50% owned by US persons may be treated as US source income rather than non-US source income for foreign tax credit purposes to the extent the non-US corporation has more than an insignificant amount of US source income. The effect of this rule, if applicable in future years, may be to treat a portion of the dividends paid by us as United States source income for foreign tax credit purposes. Such treatment may adversely affect a shareholder’s ability to use foreign tax credits.

Distributions of additional ordinary shares to US Holders with respect to their ordinary shares or ADSs that are made as part of a pro rata distribution to all shareholders of the company will generally not be subject to United States federal income tax.

US Holders of ADSs or ordinary shares that elect, under either the bonus share election plan or the dividend reinvestment plan, to receive additional ordinary shares at a discount rather than cash dividends will be treated for United States Federal income tax purposes as having received a dividend equal to the fair market value of the additional ordinary shares received.

### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, upon a sale or other disposition of ordinary shares or ADSs, a US Holder will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the US dollar value of the amount realized and the US Holder's tax basis, determined in US dollars, in the ordinary shares or ADSs sold or otherwise disposed of. Capital gain of a noncorporate US Holder is generally taxed at preferential rates where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### *Passive Foreign Investment Company Rules*

Orbital believes that ordinary shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change based upon future developments or changes in Orbital's gross income or the value of its assets. If Orbital were to be treated as a PFIC, unless a US Holder elects to be taxed annually on a mark-to-market basis with respect to the ordinary shares or ADSs, gain realized on the sale or other disposition of ordinary shares or ADSs would in general not be treated as capital gain. The US Holder would be treated as if such holder had realized such gain and certain "excess distributions" ratably over the holder's holding period for the ordinary shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, ordinary shares or ADSs will be treated as stock in a PFIC if Orbital was a PFIC at any time during the US Holder's holding period in the ordinary shares or ADSs. Dividends that a US Holder receives from Orbital will not be eligible for the special tax rates applicable to qualified dividend income if Orbital is treated as a PFIC with respect to a US Holder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

### *Documents on Display*

The Company files annual and semi-annual reports and other information with the Securities and Exchange Commission ("SEC"). You may read and copy documents that have been filed with the SEC at the SEC's public reference room located at 100 F Street NW, Washington DC 20549. Please telephone the SEC at 1-800-SEC-0330 to obtain information on the operation of the public reference room. Such materials can also be obtained on the SEC's internet site at [www.sec.gov](http://www.sec.gov).

Copies of certain of the documents referred to in this annual report on Form 20-F may be on Orbital's website ([www.orbitalcorp.com.au](http://www.orbitalcorp.com.au)) and may also be inspected on request at the Company's registered office.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### *Market Exposures*

We are exposed to market risks, including changes in interest rates, changes in foreign currency exchange rates, and credit risk. To manage the volatility relating to these risks, we take advantage of natural offsets to the extent possible. For example, whenever possible we have cash expenses in the same countries and currencies as we generate our cash flows. In appropriate circumstances, and where we are unable to naturally offset our exposure to these risks, we enter into derivative transactions to synthetically reduce the exposures. The purpose of these hedging instruments is to create a corresponding, but opposite, movement in the underlying value of the cash flow being hedged. We enter into these transactions only in accordance with internal policies set by our directors. We do not hold or enter into derivative financial instruments for trading purposes.

A summary of market risk factors is generally discussed below. For additional quantitative and qualitative information about these market risks, refer to note 4 “Financial Risk Managements Objectives and Policies” in our audited consolidated financial statements.

### *Interest rate risk*

The Group’s exposure to market interest rates relates primarily to the Group’s cash and cash equivalents on deposit with Australian banks.

The primary goal of the Group is to maximize returns on surplus cash, using deposits with maturities of less than 90 days. Management continually monitors the returns on funds invested. The Group also had a term deposit of greater than 90 days and less than 365 days that had been pledged as security to the Group’s bankers for a trade finance facility.

### *Foreign currency risk*

As a result of the investment in Synerject LLC, an associate, the Group’s statement of financial position can be affected significantly by movements in the US\$/A\$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Approximately 17% of the Group’s sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 26% of costs are denominated in currencies other than the functional currency of the operating entity making the expenditure.

With respect to 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. The Group does not hold foreign currency positions for trading purposes.

### *Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group’s exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group does not hold any credit derivatives to offset its credit exposure, however the Group does hold receivable insurance where appropriate.

It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by management. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis.

There are no significant concentrations of credit risk within the Group and financial instruments are only invested with a major financial institution to minimise the risk of default of counterparties.

*Liquidity risk*

The Group established a trade finance facility with its bankers during fiscal 2010. The Group's does not have any other bank overdrafts, bank loans, preference shares, finance leases or committed available credit lines as at June 30, 2010.

The only external borrowing of the Group are the trade finance facility repayable on terms not exceeding 180 days and the interest free Western Australian Government loan of \$14.3 million repayable in installments commencing in May 2010.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None

**ITEM 15. CONTROLS AND PROCEDURES**

*(a) Disclosure Controls and Procedures:*

Orbital has carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of Orbital, of the effectiveness of the design and operation of Orbital's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report. Based upon that evaluation, Orbital's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2010, Orbital's disclosure controls and procedures were effective.

*(b) Management's Report on Internal Control Over Financial Reporting:*

Orbital's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Securities Exchange Act of 1934 defines internal control over financial reporting in Rule 13a-15(f) and 15d-15(f) as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Orbital's management assessed the effectiveness of its internal control over financial reporting as of June 30, 2010. In making this assessment, Orbital's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework. Based upon its assessment, Orbital's management concluded that, as of June 30, 2010, its internal control over financial reporting is effective based upon those criteria.

***(c) Attestation Report of the Registered Public Accounting Firm:***

The Group is a non-accelerated filer and as such Ernst & Young, an Independent Registered Public Accounting Firm that audited the consolidated financial statements included in this annual report on Form 20-F, is not required to issue an Attestation Report for Fiscal 2010.

***(d) Changes in Internal Control Over Financial Reporting:***

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's audit committee is made up of the four non-executive directors of the Company's Board. Mr W P Day qualifies as an audit committee financial expert as defined under the rules of the SEC. His responsibilities are, however, the same as those of the other Audit Committee members. The SEC has determined that an audit committee member who is designated as an audit committee financial expert will not be deemed to be an "expert" for any other purpose as a result of being identified as an audit committee financial expert. Mr Day is a Fellow of CPA Australia, Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Institute of Chartered Accountants in United Kingdom. He is currently a member of the International Accounting Standards Board's Joint International Group on Financial Statements, a former Chairman of the Australian Accounting Standards Board and was Deputy Chairman of the Australian Securities and Investments Commission.

**ITEM 16B. CODE OF ETHICS**

The Company has adopted a Code of Ethics relating to Accounting Practice and Financial Reporting. The Code applies specifically to the Company's Chief Executive Officer, Chief Financial Officer and senior finance officers of the Company who influence financial performance. The Code of Ethics is available on the Company's website at [www.orbitalcorp.com.au](http://www.orbitalcorp.com.au) or a copy may be obtained free of charge by writing to the Company Secretary, PO Box 901 Balcatta, Western Australia, Australia 6914.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the Company's auditor, Ernst & Young are as follows:

<u>Services Rendered</u>	<u>2010</u>		<u>2009</u>	
	<u>Fees (\$A)</u>	<u>%</u>	<u>Fees (\$A)</u>	<u>%</u>
Audit Fees	374,420	96.0%	278,950	82.4
Audit – Related Fees	—	—	—	—
Tax Fees (1)	10,055	2.6%	10,000	2.9
All Other Fees (2)	5,627	1.4%	49,726	14.7

- (1) Taxation services relate to services performed for preparation and lodgement of tax returns, advice in relation to consolidation under Australian income tax law, tax compliance, tax advice and preparation and lodgement of Research & Development Claims.
- (2) All other fees relate to services performed for executive remuneration consultancy services.

***Pre-approval Policies and Procedures***

Orbital's Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by the Company's auditors, Ernst & Young. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the Audit Committee's approval of the scope of the engagement of the auditor or on an individual basis. Any proposed services exceeding general pre-approved levels require specific approval of the Chairman of the Audit Committee. The policy prohibits retaining the auditor to perform the prohibited non-audit functions as defined for the purposes of section 201 of the Sarbanes-Oxley Act.

All services performed by Ernst & Young and other Ernst & Young member firms as detailed above received Audit Committee approval prior to provision of those services. No services were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not Applicable

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not Applicable

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not Applicable

**ITEM 16G. CORPORATE GOVERNANCE**

Not Applicable

**PART III****ITEM 17. FINANCIAL STATEMENTS**

Not Applicable



**ITEM 18. FINANCIAL STATEMENTS**

See pages F-1 through F-59 included herein.

**ITEM 19. EXHIBITS**

*(a) Financial Statements and Financial Statement Schedules*

The following financial statements together with the Reports of Independent Registered Public Accounting Firms thereon, are filed as part of the Annual Report.

<u>Report of Independent Registered Public Accounting Firm for the years ended June 30, 2010, 2009 and 2008</u>	F-1
<u>Consolidated Income Statements for the years ended June 30, 2010, 2009 and 2008</u>	F-2
<u>Consolidated Statements of Comprehensive Income for the years ended June 30, 2010, 2009 and 2008</u>	F-3
<u>Consolidated Statements of Changes in Equity for the years ended June 30, 2010, 2009 and 2008</u>	F-4
<u>Consolidated Statements of Financial Position as at June 30, 2010 and 2009</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2010, 2009 and 2008</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7

*(b) Financial Statements – Synerject LLC (1)(2)*

The following financial statements together with the Report of Independent Registered Public Accounting Firm thereon, are incorporated herein by reference from Item 19.(b) of our Annual Report on Form 20-F for the fiscal year ended June 30, 2009 filed on December 21, 2009.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at June 30, 2009 and 2008

Consolidated Statements of Income for the years ended June 30, 2009, 2008 and 2007

Consolidated Statements of Members' Equity (Deficit) and Comprehensive Income for the years ended June 30, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended June 30, 2009, 2008 and 2007

Notes to the Consolidated Financial Statements

- (1) The financial statements of Synerject LLC are provided pursuant to Rule 3-09 of Regulation S-X
- (2) Subsequent to its fiscal year ended June 30, 2009, Synerject LLC has changed its fiscal year end to December 31. The listed financial statements are the latest set of audited financial statements available for Synerject LLC

*(c) Exhibits*

- 1.1 Constitution of Orbital Corporation Limited dated October 26, 2004 (incorporated herein by reference from Item 19.(c)1.1 of our Annual Report on Form 20-F for the fiscal year ended June 30, 2004 filed on December 30, 2004.)
- 12.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## GLOSSARY OF TECHNICAL TERMS

“Chassis dynamometer”	Equipment used to apply a load to a vehicle in order to measure its power or to simulate actual operating characteristics.
“Direct injection” or “DI”	In a gasoline engine, direct injection means fuel injection directly into the combustion chamber. Most automotive gasoline engines with fuel injection inject into the intake manifold, not the combustion chamber.
“Dynamometer”	A piece of equipment used to apply a load to an engine in order to measure its power or to simulate actual operating characteristics.
“Emissions”	Refers generally to the polluting exhaust gases of an engine which are subject to governmental legislation (usually HC, CO and NO <sub>x</sub> ).
“EFI”	Electronic Fuel Injection is when the fuel delivery per engine cycle is calculated by the Engine Management System from various inputs (eg engine speed, load, airflow) to enable precise fuel metering/delivery to the intake manifold of the engine for improved combustion, fuel economy and emission control.
“Four-stroke”	A “four-stroke cycle” or sometimes called the “Otto cycle”. A type of internal combustion engine operating cycle requiring two full engine revolutions (two up and two down piston movements) per combustion event in an engine.
“Fuel Rail Assembly”	The fuel rail assembly is an assembly, typically a cast modular, or extruded assembly that houses the fuel injector, interfaces the fuel injector to the air injector and provides fuel and air services to the injectors. Frequently the air and fuel regulators will be incorporated into the fuel rail assembly.
“Horsepower”	A unit of measure of power in the U.S. and Imperial system. The metric equivalent of horsepower is Kilowatt. One Kilowatt is equivalent to 1.34hp.
“FlexDi”	A general term to describe the fuel injection and combustion process developed and marketed by Orbital.
“FlexDi Technology”	A collective term to describe the proprietary and non-proprietary technology involved in the Orbital Combustion Process and the technology that contributes to enhance the performance of engines that employ the FlexDi Technology. The proprietary technology or intellectual property includes patents, patent applications, copyrights and confidential know-how and trade secrets.
“LPG”	Liquid Petroleum Gas
“LLi” or “Liquid”	An Orbital developed Liquid Injection System for LPG fuel systems.
“Orbital™ Engine”	A vane-type rotary internal combustion engine originally invented by Orbital’s founder, Ralph Sarich. Orbital is no longer exploiting this technology.
“Production validation”	The process of engineering development carried out prior to the decision to produce a product in commercial quantities. Production validation tests attempt to simulate actual commercial use.
“Stoichiometric”	The chemically correct or theoretical proportions of reactants (fuel and air) in order for complete combustion to occur. Complete combustion is a process which burns all the carbon (C) to (CO <sub>2</sub> ), all hydrogen (H) to (H <sub>2</sub> O) and all sulphur (S) to (SO <sub>2</sub> ). If there are unburned components in the exhaust gas such as C, H <sub>2</sub> , CO the combustion process is uncompleted
“Two-stroke”	In full, a “two-stroke cycle”. A type of internal combustion engine operating cycle requiring one full engine revolution (one up and one down piston movement) per combustion event in an engine.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ORBITAL CORPORATION LIMITED  
(Registrant)

Date: November 30, 2010

**/s/ Keith Anthony Halliwell**

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**Keith Anthony Halliwell**  
Chief Financial Officer

**ORBITAL CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
FOR THE YEAR ENDED 30 JUNE 2010**



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Orbital Corporation Limited

We have audited the accompanying consolidated statements of financial position of Orbital Corporation Limited and subsidiaries (the "Company") as of June 30, 2010 and 2009, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of three years in the period ended June 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of Synerject LLC ("Synerject"), a significant investee of the Company which is accounted for by use of the equity method (see note 16 to the consolidated financial statements), as of and for the years ended June 30, 2009 and 2008. The Company's investment in Synerject was A\$11,264,000 and A\$13,109,000, respectively, as of June 30, 2009 and 2008 and its share of profit of Synerject was A\$1,846,000 and A\$2,357,000, respectively, for the years ended June 30, 2009 and 2008. Those statements were prepared in accordance with accounting principles generally accepted in the United States of America and were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Synerject, on the basis of accounting principles generally accepted in the United States of America, as of and for the years ended June 30, 2009 and 2008, is based solely on the report of the other auditors. We have applied auditing procedures to the adjustments to reflect the investment in Synerject and share of profit of Synerject in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We did not audit the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orbital Corporation Limited and subsidiaries at June 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young  
Perth, Australia

30 November 2010

Liability limited by a scheme approved  
Under Professional Standards Legislation

**CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE 2010, 2009 AND 2008**

	NOTE	CONSOLIDATED		
		2010 \$'000	2009 \$'000	2008 \$'000
Engineering services income		<b>9,621</b>	8,798	11,681
Sale of goods		<b>6,203</b>	6,264	—
Licence and royalty income		<b>1,199</b>	1,115	2,684
Other revenue	7	<b>242</b>	336	574
<b>Total Revenue</b>		<b>17,265</b>	16,513	14,939
Other income	8	<b>8,759</b>	4,370	372
Raw materials and consumables used	9(d)	<b>(5,245)</b>	(6,284)	—
Change in inventories of finished goods and work in progress	9(d)	<b>638</b>	1,387	—
Employee benefits expenses	9(a)	<b>(10,792)</b>	(9,820)	(9,812)
Depreciation and amortisation		<b>(1,004)</b>	(1,094)	(1,272)
Engineering consumables and contractors		<b>(2,085)</b>	(1,534)	(924)
Travel and accommodation		<b>(866)</b>	(1,187)	(1,013)
Communications and computing		<b>(791)</b>	(715)	(649)
Patent costs		<b>(338)</b>	(431)	(404)
Insurance costs		<b>(441)</b>	(404)	(388)
Audit, compliance and listing costs		<b>(560)</b>	(693)	(817)
Finance costs	9(b)	<b>(755)</b>	(726)	(886)
Other expenses	9(c)	<b>(1,531)</b>	(1,532)	(1,479)
Share of profit from equity accounted investment	16	<b>1,874</b>	1,846	2,357
<b>Profit/(loss) before income tax</b>		<b>4,128</b>	(304)	24
Income tax (expense)/benefit	10(a)	<b>388</b>	(2,147)	445
<b>Profit/(loss) for the year attributable to the members of the parent entity</b>		<b>4,516</b>	(2,451)	469
<b>Earnings per share:</b>				
Basic earnings per share (in cents)	11	<b>9.39</b>	(5.13)	0.97
Diluted earnings per share (in cents)	11	<b>9.29</b>	(5.13)	0.97
Earnings per ADS:				
Basic earnings per ADS (in cents)	11	<b>150.24</b>	(82.13)	15.59
Diluted earnings per ADS (in cents)	11	<b>148.64</b>	(82.13)	15.59

The consolidated income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages F-7 to F-59.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED  
30 JUNE 2010, 2009 AND 2008**

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
<b>Net profit/(loss) for the period</b>	<b>4,516</b>	<b>(2,451)</b>	<b>469</b>
<b>Other comprehensive income</b>			
Foreign currency translation	<b>(1,169)</b>	3,680	(1,627)
Share of cash flow hedge reserve for equity accounted investment	<u>—</u>	<u>72</u>	<u>(35)</u>
Other comprehensive income for the year, net of tax	<b>(1,169)</b>	<b>3,752</b>	<b>(1,662)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>3,347</u></b>	<b><u>1,301</u></b>	<b><u>(1,193)</u></b>
<b>Total comprehensive income for the period attributable to owners of the parent</b>	<b><u>3,347</u></b>	<b><u>1,301</u></b>	<b><u>(1,193)</u></b>

The consolidated statements of comprehensive income are to be read in conjunction with the notes to the consolidated financial statements set out on pages F-7 to F-59.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2010, 2009  
AND 2008**

	Share Capital \$'000	Retained Profits/ (Accumulated Losses) \$'000	Employee Equity Benefits Reserve \$'000	Foreign Currency Translation Reserve \$'000	Cash Flow Hedge Reserve \$'000	Total \$'000
<b>At 1 July 2007</b>	225,560	(208,242)	775	(1,654)	(37)	16,402
Profit for period	—	469	—	—	—	469
Other comprehensive income	—	—	—	(1,627)	(35)	(1,662)
Total comprehensive income for the period	—	469	—	(1,627)	(35)	(1,193)
<b>Transactions with owners in their capacity as owners</b>						
Shares issued in accordance with share plan	87	—	(87)	—	—	—
Share based payments	73	—	208	—	—	281
<b>Balance at 30 June 2008</b>	<u>225,720</u>	<u>(207,773)</u>	<u>896</u>	<u>(3,281)</u>	<u>(72)</u>	<u>15,490</u>
<b>At 1 July 2008</b>	225,720	(207,773)	896	(3,281)	(72)	15,490
Loss for period	—	(2,451)	—	—	—	(2,451)
Other comprehensive income	—	—	—	3,680	72	3,752
Total comprehensive income for the period	—	(2,451)	—	3,680	72	1,301
<b>Transactions with owners in their capacity as owners</b>						
Cancelled share capital	(207,000)	207,000	—	—	—	—
Shares issued in accordance with share plan	248	—	(248)	—	—	—
Share based payments	87	—	236	—	—	323
<b>Balance at 30 June 2009</b>	<u>19,055</u>	<u>(3,224)</u>	<u>884</u>	<u>399</u>	<u>—</u>	<u>17,114</u>
<b>At 1 July 2009</b>	19,055	(3,224)	884	399	—	17,114
Profit for period	—	4,516	—	—	—	4,516
Other comprehensive income	—	—	—	(1,169)	—	(1,169)
Total comprehensive income for the period	—	4,516	—	(1,169)	—	3,347
<b>Transactions with owners in their capacity as owners</b>						
Shares issued in accordance with share plan	117	—	(117)	—	—	—
Share based payments	89	—	250	—	—	339
<b>Balance at 30 June 2010</b>	<u>19,261</u>	<u>1,292</u>	<u>1,017</u>	<u>(770)</u>	<u>—</u>	<u>20,800</u>

The consolidated statements of changes in equity are to be read in conjunction with the notes to the consolidated financial statements set out on pages F-7 to F-59.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2010 AND 2009**

		2010 <u>\$'000</u>	2009 <u>\$'000</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	3,608	6,623
Other financial assets	13	—	3,500
Trade and other receivables	14	5,084	5,080
Inventories	15	<u>3,722</u>	<u>3,084</u>
<b>Total Current Assets</b>		<b><u>12,414</u></b>	<b><u>18,287</u></b>
<b>Non-Current Assets</b>			
Investment in associate	16	11,534	11,264
Deferred tax assets	17	5,215	5,054
Property, plant & equipment	18	7,911	7,397
Intangibles and goodwill	19	<u>1,525</u>	<u>533</u>
<b>Total Non-Current Assets</b>		<b><u>26,185</u></b>	<b><u>24,248</u></b>
<b>Total Assets</b>		<b><u>38,599</u></b>	<b><u>42,535</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	20	2,676	3,841
Interest bearing borrowings	21	2,056	1,520
Employee benefits	23	2,420	1,033
Deferred revenue	24	316	—
Government grants	27	225	—
Other provisions	25	<u>173</u>	<u>92</u>
<b>Total Current Liabilities</b>		<b><u>7,866</u></b>	<b><u>6,486</u></b>
<b>Non-current liabilities</b>			
Long term borrowings	26	7,604	14,873
Employee benefits	23	455	1,302
Government grants	27	<u>1,874</u>	<u>2,760</u>
<b>Total Non-Current Liabilities</b>		<b><u>9,933</u></b>	<b><u>18,935</u></b>
<b>Total Liabilities</b>		<b><u>17,799</u></b>	<b><u>25,421</u></b>
<b>Net Assets</b>		<b><u>20,800</u></b>	<b><u>17,114</u></b>
<b>Equity</b>			
Share capital	28	19,261	19,055
Reserves	29	247	1,283
Retained profits/(Accumulated losses)	29	<u>1,292</u>	<u>(3,224)</u>
<b>Total Equity</b>		<b><u>20,800</u></b>	<b><u>17,114</u></b>

The consolidated statements of financial position are to be read in conjunction with the notes to the consolidated financial statements set out on pages F-7 to F-59.



**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2010, 2009 AND 2008**

	NOTE	CONSOLIDATED		
		2010 \$'000	2009 \$'000	2008 \$'000
<b>Cash Flows from Operating Activities</b>				
Cash receipts from customers		17,947	21,385	10,728
Cash paid to suppliers and employees		(22,925)	(23,137)	(12,176)
Cash used in operations		(4,978)	(1,752)	(1,448)
Interest received		242	336	574
Interest paid		(107)	—	—
Income taxes paid		(206)	(681)	(11)
<b>Net cash used in operating activities</b>	34	<b>(5,049)</b>	<b>(2,097)</b>	<b>(885)</b>
<b>Cash Flows from Investing Activities</b>				
Dividend received from associate		677	4,577	958
Proceeds from sale of property, plant & equipment		44	—	8
Acquisition of property, plant & equipment		(1,394)	(3,226)	(727)
Costs incurred in acquisition of business		—	—	(111)
Acquisition of business		—	—	(1,758)
Costs incurred on development of intangibles		(1,128)	(170)	—
Redemption/(acquisition) of short term deposits		3,500	(3,500)	—
<b>Net cash provided by/(used in) investing activities</b>		<b>1,699</b>	<b>(2,319)</b>	<b>(1,630)</b>
<b>Cash Flows from Financing Activities</b>				
Proceeds from borrowings		536	1,520	—
Repayment of borrowings		(200)	—	—
<b>Net cash provided by financing activities</b>		<b>336</b>	<b>1,520</b>	<b>—</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,014)</b>	<b>(2,896)</b>	<b>(2,515)</b>
Cash and cash equivalents at 1 July		6,623	8,804	11,287
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(1)	715	32
<b>Cash and cash equivalents at 30 June</b>	12	<b>3,608</b>	<b>6,623</b>	<b>8,804</b>

**Non-Cash Investing Activities**

On 31 March 2009, the Group executed contracts that offset the requirement for the payment of US\$4,000,000 to maintain a 50% interest in Synerject with the entitlement to receive US\$4,000,000 for the sale of an 8% interest in Synerject.

There were no other non-cash investing or financing activities for the years ended 30 June 2008, 2009 and 2010.

Refer to note 6 for details of non-cash operating items.

The consolidated statements of cash flows are to be read in conjunction with the notes to the consolidated financial statements set out in pages F-7 to F-59.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE 2010, 2009 AND 2008

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. REPORTING ENTITY

Orbital Corporation Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is 4 Whipple Street, Balcatta, Western Australia. The consolidated financial report of the Company for the year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the “Group”) and the Group’s investment accounted for using the equity method.

The consolidated financial report was authorised for issue by the directors on 26 August 2010.

### 2. BASIS OF PREPARATION

#### *(a) Statement of Compliance*

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### *(b) Basis of Measurement*

The consolidated financial statements have been prepared on the historical cost basis.

#### *(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### *(d) Use of Estimates and Judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### *(a) New Accounting Standards and Interpretations*

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following relevant new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving disclosures about financial instruments* (IFRS 7)
- AASB 8 *Operating Segments* (IFRS 8)
- AASB 3 *Business Combinations* (revised 2008) (IFRS 3)
- AASB 101 *Presentation of Financial Statements (revised 2007)* (IAS 1 (revised))
- AASB 123 *Borrowing Costs (revised 2007)* (IAS 23 (revised))
- AASB 2008-1 *Amendments to Australian Accounting Standard [AASB 2] – Share-based Payment: Vesting Conditions and Cancellations* (IFRS 2 (revised))

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) *New Accounting Standards and Interpretations (continued)*

- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (IAS Improvements Project)
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]* (IAS Improvements Project)
- AASB 2008-7 *Amendments to Australian Accounting Standards—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (IAS 27 (Revised))
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)* (IAS 27 (revised))
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (IAS Improvements Project)
- AASB 2009-6 *Amendments to Australian Accounting Standards* (IAS Improvements Project)

These Standards and Interpretations are applicable to 30 June 2010 year ends.

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements of the Group, its impact is described below:

#### ***AASB 2009-2 Amendments to Australian Accounting Standards – Improving disclosures about financial instruments (IFRS 7)***

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 4. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 4.

#### ***AASB 127 Consolidated and Separate Financial Statements (revised) (IFRS 27)***

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

#### ***AASB 8 Operating Segments (IFRS 8)***

AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 6, including the related revised comparative information.

#### ***AASB 101 Presentation of Financial Statements (IAS 1 (revised))***

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) *New Accounting Standards and Interpretations (continued)*

##### ***AASB 123 Borrowing Costs (IAS 23(Revised))***

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 July 2009. The Group did not capitalise any borrowing costs in the current year.

##### ***AASB 3 Business Combinations (revised 2008)(IFRS 3)***

The revised standard introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

##### ***AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

##### ***Annual Improvements Project***

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- ***AASB 120 Accounting for Government Grants and Disclosures of Government Assistance:*** loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as interest was already being imputed on interest-free loans.
- ***AASB 123 Borrowing Costs:*** the definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with AASB 139. The Group has amended its accounting policy accordingly which did not result in any change in its statement of financial position.
- ***AASB 128 Investment in Associates:*** an investment in an associate is a single asset for the purpose of conducting the impairment test, including any reversal of impairment. Any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases. The Group has amended its impairment accounting policy accordingly. The amendment had no impact on the Group's financial position or performance.
- ***AASB 136 Impairment of Assets:*** when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The Group has amended its disclosures accordingly in note 19. The amendment also clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### *(b) Basis of Consolidation*

##### *(i) Subsidiaries*

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

##### *(ii) Associate*

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements. The associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profit or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from the associate reduce the carrying amount of the investment.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(b) Basis of Consolidation (continued)*

When the Group's share of losses in the associate equals or exceeds its interest in the associate, including any unsecured long-term receivables or loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### *(iii) Transactions Eliminated on Consolidation*

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity with adjustments made to the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold or, if not consumed or sold, when the Group's interest in such entities is disposed of.

#### *(c) Foreign Currency*

##### *(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date (except those representing the Group's net investment in subsidiaries and its associate – see below) are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

##### *(ii) Financial statements of foreign operations*

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity described as 'foreign currency translation reserve'.

##### *(iii) Net investment in foreign operations*

Exchange differences arising from the translation of balances representing the net investment in foreign operations are taken to the foreign currency translation reserve. They are released into the income statement upon disposal.

#### *(d) Financial Instruments*

##### *(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) *Financial Instruments (continued)*

##### ***Trade receivables***

Subsequent to initial recognition, trade receivables are stated at their amortised cost, less impairment losses. Normal settlement terms are 30 to 60 days. The collectability of debts is assessed at balance date and specific allowance is made for any doubtful accounts. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

##### ***Cash***

Cash and cash equivalents comprise cash balances, at call deposits and bank-endorsed bills of exchange at discounted value.

##### ***Other financial assets***

Other financial assets comprise term deposits with financial institutions with maturities between 90 days and 365 days. Subsequent to initial recognition other financial assets are stated at amortised cost.

##### ***Trade payables***

Liabilities are recognised for amounts due to be paid in the future for goods or services received. Subsequent to initial recognition, trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

##### ***Interest bearing borrowings***

Included in current liabilities is an amount owing under a trade finance facility utilised for the import of inventory. The trade finance facility provides loans of up to 180 days with interest payable at maturity. The loans are initially recognised at the fair value of consideration received plus transaction costs and subsequently stated at amortised cost with any difference between cost and repayment value being recognised in the income statement over the period of the borrowings on an effective interest basis.

##### ***Long term borrowings***

Included in non-current liabilities is an amount owing to the Government of Western Australia resulting from a loan of \$14,346,164 restructured in January 2010. The loan is interest-free with annual repayments commencing in May 2010 and concluding in May 2025

The non-interest bearing loan from the Government of Western Australia was recognised initially at fair value and subsequently stated at amortised cost using the effective interest method. The difference between the fair value and face value of the loan is accounted for as a government grant as disclosed in note 26.

#### (ii) *Derivative financial instruments*

The Group may use derivative financial instruments to hedge its exposure to foreign exchange fluctuations and interest rate movements. In accordance with its treasury policy, the Group entity does not hold the derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Changes in the fair value of the derivative financial instrument that are not designated as cash flow hedging instruments are recognised in profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(d) Financial Instruments (continued)*

##### *Cash flow hedges*

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

#### *(e) Property, Plant and Equipment*

##### *(i) Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

##### *(ii) Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### *(iii) Depreciation and Amortisation*

Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated/amortised on a straight line basis over their estimated useful lives. The depreciation rates used in the current and comparative period for each class of asset are as follows: Buildings 2.5%; Plant and Equipment 6.67% to 33.3%. Assets are depreciated or amortised from the date of acquisition.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

##### *(iv) Valuation*

Land and buildings are independently valued every three years on a market value basis of valuation. The Directors then use these valuations to assess the recoverable amount of land and buildings.

##### *(v) Asset Sales*

The net profit or loss from asset sales are included as other income or expenses of the Group. The profit or loss on disposal of assets is brought to account at the date that an unconditional contract of sale is signed. The profit or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

#### *(f) Intangibles*

##### *(i) Research and Development*

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Intangibles (continued)

Expenditure on intangibles which may be capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

#### (ii) Patents, Licences and Technologies

Patents, licences and technology development and maintenance costs, not qualifying for capitalisation, are expensed as incurred.

#### (iii) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

#### (g) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### (h) Impairment

##### (i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(h) Impairment (continued)*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### *(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *(ii) Goodwill*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

#### *(i) Share capital*

##### *(i) Issued Capital*

Share capital is recognised at the fair value of the consideration received.

##### *(ii) Dividends*

Dividends are recognised as a liability in the period in which they are declared.

##### *(iii) Transaction Costs*

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

#### *(j) Employee Benefits*

##### *(i) Short-term benefits*

The provisions for employee entitlements to wages, salaries and annual leave, to be settled within 12 months of year end represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers' compensation and payroll tax. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) *Employee Benefits (continued)*

##### (ii) *Long Service Leave*

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to balance sheet date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on the Group's experience with staff departures and is discounted using the rates attached to national government securities at balance sheet date, which most closely match the terms of maturity of the related liabilities.

##### (iii) *Defined Contribution Superannuation Fund*

Obligations for contributions to the defined contribution superannuation fund are recognised as an expense in the income statement as incurred.

##### (iv) *Share-based payment transactions*

Employees have been offered the right to take up shares in the Company under three plans (i) the Employee Share Plan No.1 provides \$1,000 of shares per annum and is subject to qualification by length of service, (ii) the Executive Long Term Share Plan ("ELTSP") is subject to qualification by length of service and achievement of corporate performance targets related to returns to shareholders, and (iii) the Performance Rights Plan is subject to qualification by length of service and achievement of share price targets.

The fair value of rights granted to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value of the shares granted under the Employee Share Plan No.1 is based on the market price of the shares on the date of issue. The fair value of the ELTSP is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the performance-based shares. The fair value of the shares granted is measured using a Monte-Carlo simulation model. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where forfeiture is only due to market conditions that are not met. The fair value of the Performance Rights is measured at grant date taking into account the share price targets and spread over the expected life of the rights.

#### (k) *Provisions - Warranties*

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for warranty is recognised when the underlying products are sold. The provision is based on historical claim data.

#### (l) *Revenue Recognition*

Revenues are recognised and measured at the fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

##### (i) *Revenue from Rendering of Services*

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the extent of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or the costs incurred or to be incurred cannot be measured reliably.

Revenue received in advance represents cash payments received from customers in accordance with contractual commitments prior to the performance of the service.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(l) Revenue Recognition (continued)*

##### *(ii) Sale of goods*

Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed.

##### *(iii) Licence and royalties*

Revenue earned under various licence, royalty and other agreements is recognised on an accrual basis upon the satisfactory completion of contracted technical specifications. Additional revenue may be earned after a fixed time interval or after delivery of a prototype engine and/or hardware meeting specified performance targets, provided the licence agreements are not terminated. Under the terms of the licence agreements, licensees are not specifically obliged to commence production and sale of engines using OCP Technology and may terminate the agreements upon notice to Orbital. If a licensee were to terminate its licence agreement with Orbital, the licensee would forfeit the licence and any technical disclosure fees paid through to the date of termination. Revenue under royalty agreements is recognised when such amounts become due and payable.

##### *(iv) Interest Revenue*

Revenue is recognised as interest accrues using the effective interest method.

##### *(v) Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

#### *(m) Operating leases*

##### *(i) Operating lease payments*

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

#### *(n) Finance expense*

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

#### *(o) Income Tax*

##### *(i) Current income tax expense and liability*

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

##### *(ii) Deferred income tax expense and liability*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(o) Income Tax (continued)*

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.

#### *(iii) Tax Consolidation*

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Orbital Corporation Limited.

#### *(p) Operating segments - refer note 6*

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's executive management team (the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

#### *(q) Goods and services tax*

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amounts of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### *(r) Earnings per share*

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) Earnings per share (continued)

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### (s) Government grants

Government grants are recognised in the Statement of Financial Position as a liability when the grant is received. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants received on compensation for expenses and losses already incurred or for the purpose of giving immediate financial support are recognised immediately in profit and loss for the period.

When the grant relates to a discount on services to be rendered in the future, the fair value is credited to deferred revenue and is released to the income statement over the periods that the discounted services are rendered.

When the grant relates to an asset (investment grants relating to the construction of a heavy duty engine test facility), the fair value is credited to deferred income and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

#### (t) New standards and interpretations not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-5 (IAS annual improvement project)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] [IFRS 5, 8, IAS 1, 7, 17, 18, 36, 39]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:  The amendment to AASB 117 (IAS 17) removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.  The amendment to AASB 101 (IAS 1) stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.	1 January 2010	1 July 2010

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) *New standards and interpretations not yet effective (continued)*

Reference	Title	Summary	Application date of standard	Application date for Group
		<p>The amendment to AASB 107 (IAS 7) explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.</p> <p>The amendment to AASB 118 (IAS 18) provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:</p> <ul style="list-style-type: none"> <li>• has primary responsibility for providing the goods or service;</li> <li>• has inventory risk;</li> <li>• has discretion in establishing prices;</li> <li>• bears the credit risk.</li> </ul> <p>The amendment to AASB 136 (IAS 36) clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.</p> <p>The main change to AASB 139 (IAS 39) clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.</p> <p>The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.</p>		
AASB 2009-8 (IFRS 2)	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] [IFRS 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 <i>Share-based Payment</i> and supersedes Interpretation 8 <i>Scope of AASB 2</i> and Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i> .	1 January 2010	1 July 2010



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(t) New standards and interpretations not yet effective (continued)*

<u>Reference</u>	<u>Title</u>	<u>Summary</u>	<u>Application date of standard</u>	<u>Application date for Group</u>
		<p>The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.</p> <p>The amendments clarify the scope of AASB 2 (IFRS 2) by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p>		
AASB 9 and AASB 2009-11 (IFRS 9)	<p>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 &amp; 1038 and Interpretations 10 &amp; 12] [IAS 1, 3, 4, 5, 7, IFRS 1, 2, 8, 12, 18, 21, 27, 28, 31, 32, 36, 39, 23, 38]</p>	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> <li>• two categories for financial assets being amortised cost or fair value</li> <li>• removal of the requirement to separate embedded derivatives in financial assets</li> <li>• strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows</li> <li>• an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition</li> <li>• reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes</li> <li>• changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income</li> </ul>	1 January 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 124 (Revised)  (IAS 24 (Revised))	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: <ul style="list-style-type: none"> <li>(a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;</li> <li>(b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and</li> <li>(c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.</li> </ul> <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	1 July 2011
AASB 2009-12  (IFRS 5, 8) (IAS 8, 10, 12, 19, 33, 37, 39, 23 & 31)	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 (IFRS 8) <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.	1 January 2011	1 July 2011

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

*(t) New standards and interpretations not yet effective (continued)*

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-4  (IAS annual improvement project)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 (IFRS 7) disclosures and the nature and extent of risks associated with financial instruments.  Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.  Provides guidance to illustrate how to apply disclosure principles in AASB 134 (IAS 34) for significant events and transactions  Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.  The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	1 July 2010

The directors have not determined the impact of the above new and amended accounting standards.

### 4. FINANCIAL RISK MANAGERMENTS OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise cash and short-term deposits, receivables, payables, and financial liabilities.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 4. FINANCIAL RISK MANAGERMENTS OBJECTIVES AND POLICIES (continued)

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group from time-to-time enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of revenue. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

#### *Risk Exposures and Responses*

##### *Interest rate risk*

The Group's exposure to market interest rates relates primarily to the Group's cash, cash equivalents on deposit and term deposits with Australian banks.

The primary goal of the Group is to maximize returns on surplus cash, using deposits with maturities of less than 90 days. Management continually monitors the returns on funds invested. The Group also had a term deposit of greater than 90 days and less than 365 days that has been pledged as security to the Group's bankers for a trade finance facility.

At balance date, the Group had the following mix of financial assets and financial liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
<b>Financial assets</b>			
Cash and cash equivalents	3,608	6,623	8,804
Other financial assets - short term deposits	—	3,500	—
	<b>3,608</b>	<b>10,123</b>	<b>8,804</b>
<b>Financial liabilities</b>			
Interest bearing liabilities	—	—	—

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

*At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:*

	Post tax profit Higher/(Lower)			Other comprehensive income Higher/(Lower)		
	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
<b>Consolidated</b>						
+1% (100 basis points)	36	66	88	—	—	—
-.5% (50 basis points)	(18)	(33)	(44)	—	—	—
<b>Parent</b>						
+1% (100 basis points)	—	—	—	—	—	—
-.5% (50 basis points)	—	—	—	—	—	—

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 4. FINANCIAL RISK MANAGERMENTS OBJECTIVES AND POLICIES (continued)

The movements in profit are due to higher/lower interest revenue from variable rate cash balances. The sensitivity is the same in 2010 as in 2009 because the only balances affected by interest rates are cash and interest-bearing loan balances.

#### *Foreign currency risk*

As a result of the investment in Synerject LLC, an associate, the Group's balance sheet can be affected significantly by movements in the US\$/A\$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Approximately 17% of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 26% of costs are denominated in currencies other than the functional currency of the operating entity making the expenditure.

With respect to 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. The Group does not hold foreign currency positions for trading purposes.

*At 30 June 2010, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:*

	CONSOLIDATED		
	2010	2009	2008
	\$'000	\$'000	\$'000
<b>Financial assets</b>			
Cash and cash equivalents	195	172	172
Trade and other receivables	308	190	939
	503	362	1,111

*At 30 June 2010, the Group had the following exposure to European Currency Units that is not designated in cash flow hedges:*

	CONSOLIDATED		
	2010	2009	2008
	\$'000	\$'000	\$'000
<b>Financial assets</b>			
Cash and cash equivalents	23	82	62
Trade and other receivables	48	389	13
	71	471	75

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date:

*At 30 June 2010, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:*

	Post Tax Profit Higher/(Lower)			Other comprehensive income Higher/(Lower)		
	2010	2009	2008	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>						
AUD/USD/EURO +10%	(46)	(33)	(102)	—	—	—
AUD/USD/EURO -5%	26	19	96	—	—	—

The movements in profit in 2010 are more sensitive than in 2009 due to the higher level of US Dollar and Euro financial assets at balance date.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 4. FINANCIAL RISK MANAGERMENTS OBJECTIVES AND POLICIES (continued)

#### *Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure, however the Group does hold receivable insurance where appropriate.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by management. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis.

There are no significant concentrations of credit risk within the Group and financial instruments are only invested with a major financial institution to minimise the risk of default of counterparties. An ageing of receivables is included in note 14.

#### *Liquidity risk*

The Group's established a trade finance facility with its bankers during the reporting period. The Group does not have any other bank overdrafts, bank loans, preference shares, finance leases or committed available credit lines at 30 June 2010.

The only external borrowing of the Group are the trade finance facility repayable on terms not exceeding 180 days and the interest free Western Australian Government loan of \$14,346,164 repayable in yearly instalments from May 2010 to May 2025.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2010. For all obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010. The Group's approach to managing liquidity is to ensure, as far as is possible, that it will always have sufficient liquidity to meet its liabilities when due and payable without incurring unacceptable losses or risks.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 4. FINANCIAL RISK MANAGERMENTS OBJECTIVES AND POLICIES (continued)

*The remaining contractual maturities of the Group's financial liabilities are:*

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
6 months or less	2,676	5,411	7,322
6-12 months	240	—	—
1-5 years	2,143	19,000	—
Over 5 years	11,763	—	19,000
	<b>16,822</b>	<b>24,411</b>	<b>26,322</b>

#### *Fair value*

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

#### *(a) Significant accounting judgements*

##### *Impairment of non-financial assets other than goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period. The review of plant & equipment identified a number of unique items of equipment with no likely future cash generating potential and as such \$314,000 was written off during the comparative year. Value in use models, based on approved budgets and forecasts, have been used to assess impairments of each cash generating unit.

##### *Capitalised development costs*

Development costs are only capitalised when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### (a) Significant accounting judgements (continued)

##### *Taxation*

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

#### (b) Significant accounting estimates and assumptions

##### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of shares granted under the Employee Share Plan No.1 is the market value on the date of issue. The fair value of the Executive Long Term Share Plan rights is determined by an external valuer using a monte-carlo simulation model, with the assumptions detailed in note 35. The fair value of the performance rights is determined by an external valuer using a monte-carlo simulation model, with assumptions detailed in note 35. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

##### *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. No impairment loss has been recognised in the current year in respect of goodwill.

##### *Product warranty*

In determining the level of provision required for product warranties the Group has made judgements in respect of the expected performance of the product, number of customers who will actually use the product warranty and how often, and the costs of fulfilling the performance of the product warranty. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in note 25.

##### *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

##### *Revenue from Rendering of Services*

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the extent of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or the costs incurred or to be incurred cannot be measured reliably.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 6. OPERATING SEGMENTS

#### *Identification of reportable segments*

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of service line manager and country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

#### *Types of products and services*

##### *Engineering services (consultancy)*

The engineering services business provides consultancy services to original equipment manufacturers, engine manufacturers and government departments. The engineering services provided include research, design, development, calibration, improvement, production support, performance testing, emissions testing and certification.

##### *Alternative fuels (sale of goods)*

The alternative fuels business provides LPG fuel systems to an Australian automobile manufacturer, LPG retrofit installers and also operates a spare parts business for LPG fuel systems.

##### *Royalties and licences (intellectual property rights)*

The royalties and licences business receives revenue from licensee of Orbital technologies. Applications utilising Orbital technologies include outboard engines, autorickshaws and scooters.

#### *Accounting policies*

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Corporate management and finance and administration overhead expenses.
- Share of profit from equity accounted investment.
- Finance costs - including adjustments on provisions due to discounting.
- Cash and cash equivalents.
- Borrowings.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Inter-segment pricing is determined on an arm's length basis.

#### *Geographical information*

The engineering services and royalties and licences segments are managed on a worldwide basis. The alternative fuels segment is managed on an Australian basis.

In presenting geographical information revenue is based on the geographical location of customers and non-current assets are based on the geographical location of the assets.

Revenue is derived predominantly from the provision of engineering services, the sale of LPG fuel systems and the sale of intellectual property rights to Orbital's OCP technology. The consolidated entity operates predominantly in the automotive, marine and motorcycle engine markets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

6. OPERATING SEGMENTS (continued)

Major customers

The Group has a number of customers to which it provides both products and services. The alternative fuels segment supplies an Australian automobile manufacturer (Ford Australia) with LPG fuel systems that accounted for 22.9% of external revenue (2009: 26.8%). The next most significant customer (Changan Automotive) which accounted for 12.1% (2009: 0.6%) of external revenue was in the engineering services segment. No other customer accounts for more than 10% of revenue.

(a) Operating segments

	Consulting Services			Alternative Fuels			Royalties and licences			Consolidated		
	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
<b>Segment Revenue - external customers</b>	<b>9,621</b>	<b>8,798</b>	<b>11,681</b>	<b>6,203</b>	<b>6,264</b>	<b>—</b>	<b>1,199</b>	<b>1,115</b>	<b>2,684</b>	<b>17,023</b>	<b>16,177</b>	<b>14,365</b>
Unallocated other revenue										<b>242</b>	<b>336</b>	<b>574</b>
<b>Total Revenue</b>										<b>17,265</b>	<b>16,513</b>	<b>14,939</b>
<b>Segment profit/(loss)</b>	<b>1,031</b>	<b>319</b>	<b>2,406</b>	<b>(1,727)</b>	<b>(739)</b>	<b>—</b>	<b>37</b>	<b>(1,130)</b>	<b>771</b>	<b>(659)</b>	<b>(1,550)</b>	<b>3,177</b>
Unallocated expenses - net (ii)										<b>(4,027)</b>	<b>(3,556)</b>	<b>(4,624)</b>
Gain on restructure of WA Government Loan										<b>7,695</b>	<b>—</b>	<b>(886)</b>
Finance costs										<b>(755)</b>	<b>(722)</b>	<b>—</b>
Profit on sale of interest in jointly controlled entity										<b>—</b>	<b>3,678</b>	<b>—</b>
Share of profit from equity accounted investment										<b>1,874</b>	<b>1,846</b>	<b>2,357</b>
<b>Net profit/(loss) before related income tax</b>										<b>4,128</b>	<b>(304)</b>	<b>24</b>
Income tax benefit/(expense)										<b>388</b>	<b>(2,147)</b>	<b>445</b>
<b>Profit after tax attributable to members</b>										<b>4,516</b>	<b>(2,451)</b>	<b>469</b>

	Consulting Services			Alternative Fuels			Royalties and licences			Consolidated		
	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
<b>Non-cash (revenue) and expenses</b>												
Depreciation and amortisation	<b>737</b>	<b>1,074</b>	<b>1,272</b>	<b>267</b>	<b>20</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,004</b>	<b>1,094</b>	<b>1,272</b>
Equity settled employee compensation	<b>127</b>	<b>122</b>	<b>117</b>	<b>49</b>	<b>8</b>	<b>—</b>	<b>1</b>	<b>1</b>	<b>—</b>	<b>177</b>	<b>131</b>	<b>117</b>
Other non-cash (income)/expenses	<b>(345)</b>	<b>72</b>	<b>17</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>354</b>	<b>(345)</b>	<b>72</b>	<b>371</b>
<b>Segment non-cash expenses</b>	<b>519</b>	<b>1,268</b>	<b>1,406</b>	<b>316</b>	<b>28</b>	<b>—</b>	<b>1</b>	<b>1</b>	<b>354</b>	<b>836</b>	<b>1,297</b>	<b>1,760</b>
Equity settled employee compensation										<b>163</b>	<b>192</b>	<b>164</b>
Amortisation of non-interest bearing loans										<b>626</b>	<b>722</b>	<b>886</b>
Gain on restructure of WA Government Loan										<b>(7,695)</b>	<b>—</b>	<b>—</b>
Share of profit from equity accounted investment										<b>(1,874)</b>	<b>(1,846)</b>	<b>(2,357)</b>
Foreign exchange translation (gain)/loss										<b>97</b>	<b>(564)</b>	<b>175</b>
<b>Total non-cash (revenue) and expenses</b>										<b>(7,847)</b>	<b>(199)</b>	<b>628</b>

- (i) Licence and royalty costs include direct patent costs and research and development.
- (ii) Unallocated expenses (net) include corporate management and finance and administration overhead expenses net of unallocated other income. In FY10, unallocated expenses include \$595,000 of due diligence and capital raising expenses for a proposed acquisition which did not proceed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

6. OPERATING SEGMENTS (continued)

(a) Operating segments (continued)

	Consulting Services		Alternative Fuels		Royalties and licences		Consolidated	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Segment Assets</b>	<b>10,695</b>	<b>11,232</b>	<b>6,784</b>	<b>4,518</b>	<b>763</b>	<b>344</b>	<b>18,242</b>	<b>16,094</b>
<i>Unallocated assets</i>								
Cash							3,608	6,623
Other financial assets							—	3,500
Equity accounted investment in associate							11,534	11,264
Deferred tax asset							5,215	5,054
<b>Consolidated Total Assets</b>							<b>38,599</b>	<b>42,535</b>
<b>Segment Liabilities</b>	<b>7,348</b>	<b>8,484</b>	<b>2,847</b>	<b>2,196</b>	<b>—</b>	<b>—</b>	<b>10,195</b>	<b>10,680</b>
<i>Unallocated liabilities</i>								
Income tax liabilities							—	(132)
Borrowings							7,604	14,873
<b>Consolidated Total Liabilities</b>							<b>17,799</b>	<b>25,421</b>
<b>Consolidated Net Assets</b>							<b>20,800</b>	<b>17,114</b>
<b>Segment acquisitions of non current assets</b>	<b>827</b>	<b>3,052</b>	<b>1,695</b>	<b>344</b>	<b>—</b>	<b>—</b>	<b>2,522</b>	<b>3,396</b>

Acquisitions of non-current assets represent acquisitions of property, plant and equipment of \$1,394,000 and development of intangibles of \$1,128,000

(b) Geographic information

	Americas			Europe			Asia			Australia			Consolidated		
	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
<b>Revenue - external customers</b>	<b>4,032</b>	<b>3,523</b>	<b>2,982</b>	<b>282</b>	<b>1,844</b>	<b>909</b>	<b>3,665</b>	<b>2,295</b>	<b>5,740</b>	<b>9,044</b>	<b>8,515</b>	<b>4,734</b>	<b>17,023</b>	<b>16,177</b>	<b>14,365</b>
<b>Non-current assets</b>	<b>16,749</b>	<b>16,318</b>	<b>18,603</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,436</b>	<b>7,930</b>	<b>5,937</b>	<b>26,185</b>	<b>24,248</b>	<b>24,540</b>

7. OTHER REVENUE

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
Interest revenue	242	336	574

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**8. OTHER INCOME**

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
Gain/(loss) on sale of property, plant and equipment	41	—	(3)
Automotive Competitiveness and Investment Scheme credits (a)	538	120	201
Net foreign exchange gains	—	564	—
Government grant arising on restructure of non interest bearing loan (refer note 26)	7,695	—	—
Grant income	330	—	144
Gain on sale of interest in investment accounted for using the equity method (refer note 16(e))	—	3,678	—
Other	155	8	30
	<u>8,759</u>	<u>4,370</u>	<u>372</u>

- (a) The Group receives Automotive Competitiveness and Investment Scheme credits from the Federal Government for qualifying research and development activities and accounts for these as government grants.

**9. EXPENSES**

*(a) Employee benefits expense*

Salaries and wages	8,761	8,019	7,994
Contributions to defined contributions superannuation funds	914	890	800
Equity settled transactions	339	323	281
(Decrease)/Increase in liability for annual leave	(110)	5	40
(Decrease)/Increase in liability for long service leave	98	(60)	100
Other associated personnel expenses	790	643	597
	<u>10,792</u>	<u>9,820</u>	<u>9,812</u>

*(b) Finance costs*

Interest on borrowings	129	4	—
Non-cash interest expense WA Government Loan	626	722	687
Non-cash interest expense on deferred settlement pertaining to investment accounted for using the equity method	—	—	199
	<u>755</u>	<u>726</u>	<u>886</u>

*(c) Other expenses*

Occupancy	786	666	474
Administration	284	217	244
Marketing	97	29	46
Investor relations	88	74	44
(Write-back)/allowance for impairment of receivables	(114)	174	379
Net foreign exchange losses	97	—	175
Loss on sale of property, plant and equipment	—	322	—
Other	293	50	117
	<u>1,531</u>	<u>1,532</u>	<u>1,479</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

9. EXPENSES (continued)

(d) Cost of sales

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
Raw materials and consumables used	5,245	6,284	—
Change in inventories	(638)	(1,387)	—
	<u>4,607</u>	<u>4,897</u>	<u>—</u>

(e) Lease payments included in income statement

Minimum lease payments - operating lease	<u>171</u>	<u>75</u>	<u>93</u>
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(f) Research and development costs

Research and development costs charged directly to the income statement:

- LPI development	275	564	—
- Other research & development	877	1,246	1,147
	<u>1,152</u>	<u>1,810</u>	<u>1,147</u>

10. TAXATION

(a) Recognised in the income statement

<b>Current income tax</b>			
Current year (expense)/benefit	79	(165)	295
Prior year under provided	(108)	(251)	—
	<u>(29)</u>	<u>(416)</u>	<u>295</u>
<b>Deferred tax</b>			
Relating to originating and reversing temporary differences	(2,826)	(147)	—
(Expense)/benefit on derecognition/recognition of tax losses	3,243	(398)	150
Expense on derecognition of tax losses arising from the disposal of an interest in Synerject	—	(1,186)	—
	<u>417</u>	<u>(1,731)</u>	<u>150</u>
<b>Total income tax (expense)/benefit in income statement</b>	<u>388</u>	<u>(2,147)</u>	<u>445</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

10. TAXATION (continued)

(b) Numerical reconciliation between tax benefit and pre-tax net profit

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
(Loss)/Profit before tax	4,128	(304)	24
Income tax using the statutory tax rates	(1,238)	91	(7)
<u>Australian</u>			
- Non deductible expenditure	(1,193)	(1,886)	(236)
- Non assessable items	444	1,938	—
- Deferred tax assets not brought to account in prior years now recognised	1,987	(143)	243
<u>Foreign</u>			
- Net withholding tax recouped/(paid)	202	(30)	456
- United States of America Federal and State taxes	(123)	(135)	(161)
- Under provided for in prior periods	(108)	(251)	—
- Deferred tax asset recognised/(derecognised)	417	(1,731)	150
Income tax (expense)/benefit on pre-tax net profit	<u>388</u>	<u>(2,147)</u>	<u>445</u>

(c) Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Orbital Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002. Orbital Corporation Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**11. EARNINGS PER SHARE**

*Basic earnings per share*

The calculation of basic earnings per share at 30 June 2010 was based on the profit/(loss) attributable to ordinary shareholders of \$4,515,451 (2009: loss \$2,451,250; 2008: profit \$469,199) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 48,086,676 shares (2009: 47,756,379 shares; 2008: 47,418,256 shares), calculated as follows:

	CONSOLIDATED		
	2010	2009	2008
Profit/(loss) attributable to ordinary shareholders	\$ <u>4,515,451</u>	\$ <u>(2,451,250)</u>	\$ <u>469,199</u>
<b>Weighted average number of ordinary shares (1)</b>	Number	Number	Number
Issued ordinary shares at 1 July	47,888,505	47,456,319	47,312,682
Effect of shares issued for the ELTSP	119,736	210,203	91,068
Effect of shares issued for the ESP No.1	78,435	89,857	14,506
Weighted average number of ordinary shares at 30 June	<u>48,086,676</u>	<u>47,756,379</u>	<u>47,418,256</u>
Effect of potential dilutive ordinary shares	539,125	—	732,500
Weighted average number of potential dilutive ordinary shares at 30 June	<u>48,625,801</u>	<u>47,756,379</u>	<u>48,150,756</u>
<b>Earnings per share</b>	Cents	Cents	cents
Basic earnings per share	<u>9.39</u>	<u>(5.13)</u>	<u>0.97</u>
Diluted earnings per share	<u>9.29</u>	<u>(5.13)</u>	<u>0.97</u>
<b>Earnings per ADS</b>			
Basic earnings per ADS	<u>150.24</u>	<u>(82.13)</u>	<u>15.59</u>
Diluted earnings per ADS	<u>148.64</u>	<u>(82.13)</u>	<u>15.59</u>

Shares granted to employees (including Key Management Personnel) as described in note 35 are considered to be potential ordinary shares and have been included in the determination of the diluted earnings per share to the extent they are dilutive. These potential ordinary shares have not been included in the determination of basic earnings per share. In the current year, 539,125 (pre-consolidation: 5,391,250) potential shares which are issuable under the ELTSP have been included in the diluted earnings per share calculation. The 1,150,000 (pre-consolidation: 11,500,000) performance rights have not been included in the diluted earnings per share calculation as they are contingent on future performance. Of the total ELTSP rights outstanding, 1,315,875 (pre-consolidation: 13,158,750) rights, which are contingent on achieving future KPIs, have been excluded from the diluted earnings per share calculation.

On April 19, 2010 the ratio of ordinary shares to ADS's was changed from 40:1 to 160:1.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 11. EARNINGS PER SHARE (continued)

#### (1) Share Consolidation

On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of ordinary shares on the basis that every ten ordinary shares be consolidated into one ordinary share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share. The share consolidation became effective on October 28, 2010.

The effect of the share consolidation has been retroactively applied to the number of shares outstanding and Earnings per share calculations above.

On October 28, 2010 the ratio of ordinary shares to ADS's was changed from 160:1 to 16:1 to maintain the relativities between the ordinary shares and ADS's following the share consolidation. The effect of the ratio change has been retroactively applied to the Earnings per ADS calculations above.

### 12. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Cash at bank	148	220
Cash at bank - US dollars	195	172
Cash at bank - European currency units	23	82
At call deposits - financial institutions	3,242	3,657
Bank bills	—	2,492
	<b>3,608</b>	<b>6,623</b>

All bank bills are endorsed by the Group's banker and are for terms of no more than 90 days.

### 13. OTHER FINANCIAL ASSETS

Short term deposits - financial institutions	—	3,500
	—	3,500

Short term deposits represents term deposits with financial institutions for periods greater than 90 days and less than 365 days earning interest at the respective term deposit rates at time of lodgement.

Due to the short term nature of the deposits carrying value approximates fair value. Short term deposits are only invested with a major financial institution to minimise the risk of default of counterparties.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

14. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<b>Current</b>		
Trade receivables	4,138	4,777
Allowance for impairment loss (a)	(116)	(230)
	<u>4,022</u>	<u>4,547</u>
Accrued royalties	734	344
Accrued interest	—	11
Taxation instalments	141	—
Other receivables	71	69
Prepayments	116	109
	<u>5,084</u>	<u>5,080</u>

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment allowance account of \$116,000 (2009: \$230,000) has been recognised by the Group at balance date. Movement in this allowance account has been included in the other expenses item.

Movements in the allowance for impairment loss were as follows:

At 1 July	(230)	(428)
Write-back/(charge) for the year	114	(174)
Amounts written off	—	372
At 30 June	<u>(116)</u>	<u>(230)</u>

At 30 June, the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days PDNI*	+91 days PDNI*	+91 days CI*
2010 Consolidated	4,138	2,494	1,009	419	100	116
2009 Consolidated	4,777	3,421	609	38	479	230

\* Past due not impaired ('PDNI')  
Considered impaired ('CI')

Receivables past due but not considered impaired are \$519,000 (2009:\$517,000). Payment terms on these amounts have not been re-negotiated. Management has been in contact with each relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**14. TRADE AND OTHER RECEIVABLES (continued)**

*(c) Foreign exchange and interest rate risk*

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 4.

**15. INVENTORIES**

	<u>CONSOLIDATED</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Materials and production supplies - at lower of cost and net realisable value	<u>3,722</u>	<u>3,084</u>

*(a) Inventory expense*

Inventories recognised as an expense for the year ended 30 June 2010 totalled \$4,607,000 (2009: \$4,897,000) for the Group. This expense has been included in the Income Statement as changes in inventories and raw materials and consumables used.

**16. INVESTMENT IN ASSOCIATE**

*(a) Interest in Synerject LLC*

On 31 March 2009 the Group sold an 8% share of Synerject LLC to Continental Corporation. The sale of the interest to Continental Corporation resulted in a loss of joint control of Synerject, as such the investment is now recognised and disclosed as an investment in an associate.

The principal activities of Synerject LLC are the marketing, sale and manufacture, including research and development in the area of engine management systems and components in the marine, recreational, motorcycle and utility markets.

The Group accounts for the investment in Synerject using the equity method.

The Group has the following interests in Synerject:

<u>Name</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>Financial Year end</u>	<u>30 June Ownership</u>	
				<u>2010</u>	<u>2009</u>
Synerject LLC	Manufacture of engine management systems	USA	31 December	42%	42%

Summarised financial information relating to Synerject at 30 June 2010 is as follows:

	<u>Revenues</u> (100%) <u>US\$'000</u>	<u>Gross Profit</u> (100%) <u>US\$'000</u>	<u>Profit</u> (100%) <u>US\$'000</u>	<u>Current Assets</u> (100%) <u>US\$'000</u>	<u>Non-Current Assets</u> (100%) <u>US\$'000</u>	<u>Current Liabilities</u> (100%) <u>US\$'000</u>	<u>Non-Current Liabilities</u> (100%) <u>US\$'000</u>	<u>Net assets</u> (100%) <u>US\$'000</u>
30 June 2010	93,477	20,161	4,744	36,890	9,181	21,749	7,939	16,383
30 June 2009	74,635	18,368	3,662	28,524	10,368	19,264	5,805	13,823
30 June 2008	81,020	18,961	2,400	25,905	11,936	17,862	3,033	16,946

  

	<u>Revenues</u> (100%) <u>A\$'000</u>	<u>Gross Profit</u> (100%) <u>A\$'000</u>	<u>Profit</u> (100%) <u>A\$'000</u>	<u>Share of Synerject's net profit recognised</u> <u>A\$'000</u>	<u>Current Assets</u> (100%) <u>A\$'000</u>	<u>Non-Current Assets</u> (100%) <u>A\$'000</u>	<u>Current Liabilities</u> (100%) <u>A\$'000</u>	<u>Non-Current Liabilities</u> (100%) <u>A\$'000</u>	<u>Net assets as reported by Synerject</u> (100%) <u>A\$'000</u>	<u>Share of Synerject's net assets equity accounted</u>
30 June 2010	107,904	23,273	5,476	1,874	42,821	10,657	25,246	9,215	19,017	11,534
30 June 2009	102,198	25,149	5,014	1,846	34,875	12,676	23,553	7,097	16,901	11,264
30 June 2008	89,872	21,031	2,662	2,357	26,778	12,338	18,464	3,135	17,517	13,109

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**16. INVESTMENT IN ASSOCIATE (continued)**

*(b) Movements in the carrying amount of the Group's interest in Synerject*

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
Beginning of year	11,264	13,109	12,974
Share of profits after tax	1,874	1,846	2,357
Share of reserves	(357)	(318)	308
Dividends received	(677)	(4,577)	(958)
Sale of interest	—	(2,253)	—
Unrealised foreign exchange movements	(570)	3,457	(1,572)
End of year	<u>11,534</u>	<u>11,264</u>	<u>13,109</u>

*(c) Results of Synerject*

Share of Synerject's profit before income tax	2,363	2,322	1,353
Share of income tax expense	(87)	(293)	(65)
Share of Synerject's net profit - as disclosed by Synerject	2,276	2,029	1,288
Adjustments:			
- dissimilar accounting treatment with respect to revenue recognition	(402)	—	—
- dissimilar accounting treatment with respect to development expenditure	(354)	(477)	810
- dissimilar accounting treatment with respect to intangibles	354	294	259
Share of jointly controlled entity's net profit accounted for using the equity method	<u>1,874</u>	<u>1,846</u>	<u>2,357</u>

*(d) Commitments*

Share of Synerject's capital commitments contracted but not provided for or payable:

Within one year	649	618	341
One year or later and no later than five years	1,349	1,603	889
Later than 5 years	741	1,190	787
	<u>2,739</u>	<u>3,411</u>	<u>2,017</u>

*(e) Gain on sale of interest in Synerject*

Proceeds on disposal	—	5,931	—
Carrying value of investment in Synerject disposed of	—	2,253	—
Gain on sale of interest	<u>—</u>	<u>3,678</u>	<u>—</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**17. DEFERRED TAX ASSETS AND LIABILITIES**

*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

<u>Consolidated</u>	<u>Deferred Tax Assets</u>		<u>Deferred Tax Liabilities</u>		<u>Net</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Tax value of US loss carry-forwards recognised	5,215	5,054	—	—	5,215	5,054
Other net temporary differences	2,197	217	(2,197)	(217)	—	—
Net tax assets	<u>7,412</u>	<u>5,271</u>	<u>(2,197)</u>	<u>(217)</u>	<u>5,215</u>	<u>5,054</u>

*Unrecognised deferred tax assets*

Deferred tax assets have not been recognised in respect of the following items:

	<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
<u>Australia (net at 30%)</u>		
Tax losses	18,150	17,311
Timing difference from provision for capital loss on investment	1,934	1,934
Other net temporary differences (a)	(982)	1,844
	<u>19,102</u>	<u>21,089</u>
<u>United States of America (net at 34%)</u>		
Tax losses	13,652	14,528
Other net temporary differences	5,075	5,647
	<u>18,727</u>	<u>20,175</u>

*(a) Other net temporary differences*

Annual leave	259	310
Long service leave	401	390
Staff bonus	173	—
Revenue in advance	189	1,361
Other	193	(97)
Government loan	(2,023)	—
Accelerated depreciation: plant & equipment	(174)	(120)
	<u>(982)</u>	<u>1,844</u>

Under the tax laws of the United States, tax losses that cannot be fully utilised for tax purposes during the current year may be carried forward, subject to some statutory limitations, to reduce taxable income in future years. At 30 June 2010, the available tax carry forward losses of US\$45,034,834 (2009: US\$47,106,771) expire between the years 2010 and 2024.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**17. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

*(a) Other net temporary differences (continued)*

Movement in temporary differences during the year

	<b>Consolidated</b>			<b>Balance 30-Jun-09 \$'000</b>
	<b>Balance 1-Jul-08 \$'000</b>	<b>Recognised in income \$'000</b>	<b>Recognised in equity \$'000</b>	
Tax value of loss carry-forwards recognised	5,494	(1,731)	1,291	5,054
Net tax assets	<u>5,494</u>	<u>(1,731)</u>	<u>1,291</u>	<u>5,054</u>

	<b>Consolidated</b>			<b>Balance 30-Jun-10 \$'000</b>
	<b>Balance 1-Jul-09 \$'000</b>	<b>Recognised in income \$'000</b>	<b>Recognised in equity \$'000</b>	
Tax value of loss carry-forwards recognised	5,054	417	(256)	5,215
Net tax assets	<u>5,054</u>	<u>417</u>	<u>(256)</u>	<u>5,215</u>

- (b) The amounts recognised through equity represent the foreign exchange differences arising on the translation of the foreign subsidiary.

**18. PROPERTY, PLANT AND EQUIPMENT**

	<b>CONSOLIDATED</b>	
	<b>2010 \$'000</b>	<b>2009 \$'000</b>
<i>Freehold land</i>		
At cost	<u>1,091</u>	1,091
<i>Buildings</i>		
At cost	3,057	3,057
Less: accumulated depreciation	<u>(1,137)</u>	<u>(1,055)</u>
	<u>1,920</u>	2,002
<i>Plant and equipment</i>		
At cost	22,336	20,992
Less: accumulated depreciation	<u>(17,436)</u>	<u>(16,688)</u>
	<u>4,900</u>	4,304
Total property, plant and equipment - net book value	<u>7,911</u>	<u>7,397</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. PROPERTY, PLANT AND EQUIPMENT (continued)

*Reconciliations*

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	<u>CONSOLIDATED</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
<i>Freehold land</i>		
Carrying amount at beginning of year	<u>1,091</u>	1,091
Carrying amount at end of year	<u>1,091</u>	<u>1,091</u>
<i>Buildings</i>		
Carrying amount at beginning of year	<u>2,002</u>	2,083
Depreciation	<u>(82)</u>	<u>(81)</u>
Carrying amount at end of year	<u>1,920</u>	<u>2,002</u>
<i>Plant and equipment</i>		
Carrying amount at beginning of year	<u>4,304</u>	2,412
Additions and transfers	<u>1,394</u>	224
Assets under construction	<u>—</u>	3,003
Disposals	<u>(3)</u>	<u>(322)</u>
Depreciation	<u>(795)</u>	<u>(1,013)</u>
Carrying amount at end of year	<u>4,900</u>	<u>4,304</u>
<i>Total</i>		
Carrying amount at beginning of year	<u>7,397</u>	5,586
Carrying amount at end of year	<u>7,911</u>	<u>7,397</u>

All property, plant and equipment of the Group are subject to floating charges from the Group's banker (see note 22) and from the Government of Western Australia (see note 26).

19. INTANGIBLES AND GOODWILL

Goodwill acquired in business combination	<u>363</u>	363
Capitalised development expenditure	<u>1,162</u>	170
	<u>1,525</u>	<u>533</u>

*Reconciliations*

Reconciliations of the carrying amounts for capitalised development expenditure

Carrying amount at beginning of year	<u>170</u>	—
Additions and transfers	<u>1,128</u>	170
Amortisation	<u>(136)</u>	—
Carrying amount at end of year	<u>1,162</u>	<u>170</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. INTANGIBLES AND GOODWILL (continued)

#### *Goodwill*

The goodwill arose on the acquisition of Boral Alternative Fuel Systems on 26 June 2008.

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Using a value in use calculation based on management's three year forecast, there is no impairment of goodwill at balance date. No reasonably possible changes in the key inputs would lead to impairment.

#### *Capitalised development expenditure*

Expenditure on development activities relating to next generation LPG fuel systems have been capitalised as the product is technically and commercially feasible and the Group has sufficient resources to complete development.

### 20. TRADE PAYABLES AND OTHER LIABILITIES

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
<b>Current</b>		
Trade creditors and accruals	2,047	2,063
Revenues received in advance	629	1,778
	2,676	3,841

#### *(a) Fair value*

Due to the short term nature of trade payables and other liabilities, their carrying value is assumed to approximate their fair value.

#### *(b) Interest rate, foreign exchange and liquidity risk*

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.

### 21. INTEREST BEARING LOANS AND BORROWINGS

<b>Current</b>		
Loans and advances - secured (a)	2,056	1,520

#### *(a) Security*

A first ranking mortgage debenture with fixed and floating charges over the whole of the assets has been granted to the Company's banker for the establishment of the credit facilities and forward exchange contracts totalling \$3,800,000 (2009: \$4,605,000).

#### *(b) Maturity*

All loans and advances have a maturity of no greater than 180 days.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 21. INTEREST BEARING LOANS AND BORROWINGS (continued)

*(c) Interest*

Interest calculations are based on fixed interest rates applicable at the date of drawdown and payable on maturity. The average interest rate on borrowings outstanding at reporting date is 8.00% (2009: 6.72%).

*(d) Fair value*

Due to the short term nature of these loans, their carrying value is assumed to approximate their fair value.

*(e) Interest rate, foreign exchange and liquidity risk*

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.

### 22. FINANCING ARRANGEMENTS

The consolidated entity has standby arrangements with Westpac Banking Corporation to provide support facilities:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<b>Total facilities available</b>		
Forward exchange contracts facility	350	170
Trade finance facility	2,500	3,500
Corporate credit card facility	200	185
Multi-option credit facility	750	750
	<b>3,800</b>	<b>4,605</b>
<b>Facilities utilised at balance date</b>		
Forward exchange contracts facility	—	—
Trade finance facility	2,056	1,520
Corporate credit card facility	29	32
Multi-option credit facility	—	—
	<b>2,085</b>	<b>1,552</b>
<b>Facilities not utilised at balance date</b>		
Forward exchange contracts facility	350	170
Trade finance facility	444	1,980
Corporate credit card facility	171	153
Multi-option credit facility	750	750
	<b>1,715</b>	<b>3,053</b>

A first ranking mortgage debenture with fixed and floating charges over the whole of the assets has been granted to the Company's banker for the establishment of the credit facilities and forward exchange contracts totalling \$3,800,000 (2009: \$4,605,000).

### 23. EMPLOYEE BENEFITS

(a) Current	2,420	1,033
(b) Non-Current	455	1,302
(c) Aggregate Liability for employee entitlements	<b>2,875</b>	<b>2,335</b>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**23. EMPLOYEE BENEFITS (continued)**

The present value of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
Assumed rate of increase in wage and salary rates	<b>3.5%</b>	2.5%
Discount rate at 30 June	<b>5.2%</b>	5.7%
Settlement term (years)	<b>10</b>	10
<b>Number of employees</b>		
Number of employees at year end	<b><u>102</u></b>	<u>93</u>

**24. DEFERRED REVENUE**

*(a) Current*

	<b>\$'000</b>	<b>\$'000</b>
Deferred revenue for operation of heavy duty engine testing facility	<b><u>316</u></b>	<u>—</u>

*(b) Movement in deferred revenue*

At 1 July	—	—
Transferred from government grants (see note 27)	<b>512</b>	—
Released to the income statement	<b>(196)</b>	—
At 30 June	<b><u>316</u></b>	<u>—</u>

In June 2008 the Group received funding of \$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. The terms of the Grant included providing the Commonwealth with preferential access to the facility at a discount to the commercial rate. This discount to commercial rates of \$512,000 has been transferred from government grants (see note 27) and recorded as deferred revenue.

The deferred revenue will be recognised as income over the periods in which the Commonwealth utilises the Heavy Duty Engine Testing Facility at discounted rates.

**25. OTHER PROVISIONS**

*(a) Current*

Warranties	<b>119</b>	92
Other	—	—
	<b><u>54</u></b>	<u>—</u>
	<b><u>173</u></b>	<u>92</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 25. OTHER PROVISIONS (continued)

#### (b) Reconciliations

Reconciliations of the carrying amounts for each class of provisions are set out below:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<i>Warranties - current</i>		
Carrying amount at beginning of year	92	90
Arising during the year	67	33
Utilised	(40)	(31)
Carrying amount at end of year	119	92
<i>Other provisions - current</i>		
Carrying amount at beginning of year	—	36
Provision made during the year	54	(36)
Carrying amount at end of year	54	—

### 26. LONG TERM BORROWINGS

<b>Non-Current</b>		
Loans and advances - secured (a)	7,604	14,873
	7,604	14,873

- (a) The Government of Western Australia had previously provided the company with a fully utilised loan facility of \$19,000,000 under the terms of a "Development Agreement". During the year Orbital reached agreement with the WA Government through the Department of Commerce for the Restructure of the Non-Interest Bearing Loan.

Under the agreed restructure the original loan has been terminated and replaced by a new loan of \$14,346,000 with the following terms and conditions.

- Term - 2010 to 2025.
- Repayments - Commencing May 2010 at \$200,000 per annum.
- Repayments - Increasing annually to a maximum of \$2,100,000 per annum in 2023.
- Interest free.

The restructured loan's net fair value at 27 January 2010 utilising a market interest rate of 6.52% was \$7,558,000 which compares to the carrying value of the old loan of \$15,253,000 at that date. In accordance with the Accounting Standards, the benefit of the interest free government loan amounting to \$7,695,000 has been accounted for as a government grant.

This loan facility is secured by way of a second ranking floating debenture over the whole of the assets and undertakings of the Company.

The non-interest bearing loan from the Government of Western Australia was initially recognised at fair value and subsequently stated at amortised cost with any difference between cost and repayment value being recognised in the income statement over the period of the borrowings on an effective interest basis.

The fair value of the loan 2010: \$7,184,041 (2009:\$14,789,797) is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2010: 7.17% (2009: 5.22%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

27. GOVERNMENT GRANTS

	<u>CONSOLIDATED</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
<b>Current liabilities</b>		
Investment grant for construction of heavy duty engine testing facility	225	—
<b>Non-current liabilities</b>		
Investment grant for construction of heavy duty engine testing facility	<u>1,874</u>	<u>2,760</u>
<b>Total government grants deferred</b>	<u><u>2,099</u></u>	<u><u>2,760</u></u>

(a) Movement in government grants

At 1 July	2,760	—
Received during the year	—	2,760
Transferred to deferred revenue	(512)	—
Released to the income statement	(149)	—
At 30 June	<u><u>2,099</u></u>	<u><u>2,760</u></u>

In June 2008 the Group received funding of \$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. The Group will fund the maintenance and operation of the facility until at least financial year 2014/2015 and provide the Commonwealth with preferential access to the facility.

The terms of the Grant included providing the Commonwealth with preferential access to the facility at a discount to the commercial rate. This discount to commercial rates of \$512,000 has been transferred to deferred revenue (see note 24) and recorded as deferred revenue.

The government grant will be recognised as income over the periods and in the proportions in which depreciation on the heavy duty engine test facility is charged.

28. SHARE CAPITAL

Ordinary shares	<u><u>19,261</u></u>	<u><u>19,055</u></u>
	<u>Number</u>	<u>\$'000</u>
<b>Movement in ordinary shares on issue</b>		
At 1 July 2007	473,126,818	225,560
Shares issued pursuant to employee share plans	<u>1,436,374</u>	<u>160</u>
At 30 June 2008	474,563,192	225,720
Shares issued pursuant to employee share plans	4,321,858	335
Cancelled share capital (a)	<u>—</u>	<u>(207,000)</u>
At 30 June 2009	478,885,050	19,055
Shares issued pursuant to employee share plans	<u>3,088,894</u>	<u>206</u>
At 30 June 2010	<u><u>481,973,944</u></u>	<u><u>19,261</u></u>

Holdings of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**28. SHARE CAPITAL (continued)**

*(a) Cancelled share capital*

At the Annual General Meeting of Shareholders held on 22 October 2008, shareholders approved the reduction of share capital of \$207,000,000 by way of a credit from share capital to accumulated losses to recognise that the accumulated losses were permanently lost.

*(b) Capital management*

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital, provides a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as contributed shareholder equity and has no current plans to change the share capital.

**29. RETAINED PROFITS/(ACCUMULATED LOSSES) AND RESERVES**

*(a) Movements in retained profits/(accumulated losses) were as follows:*

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance 1 July	(3,224)	(207,773)
Cancelled share capital	—	207,000
Net profit/(loss)	4,516	(2,451)
Balance 30 June	<u>1,292</u>	<u>(3,224)</u>

*(b) Other reserves*

<b>Consolidated</b>	<b>Employee Equity Benefits Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Cash Flow Hedge Reserve \$'000</b>	<b>Total \$'000</b>
Balance 1 July 2008	896	(3,281)	(72)	(2,457)
Equity-settled transaction-employee shares	236	—	—	236
Transfer to share capital	(248)	—	—	(248)
Other comprehensive income	—	3,680	72	3,752
Balance at 30 June 2009	<u>884</u>	<u>399</u>	<u>—</u>	<u>1,283</u>
Balance 1 July 2009	884	399	—	1,283
Equity-settled transaction-employee shares	250	—	—	250
Transfer to share capital	(117)	—	—	(117)
Other comprehensive income	—	(1,169)	—	(1,169)
Balance at 30 June 2010	<u>1,017</u>	<u>(770)</u>	<u>—</u>	<u>247</u>

*(c) Nature and purpose of reserves*

*Employee equity benefits reserve*

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP's, as part of their remuneration. Refer to note 35 for further details of these plans.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 29. RETAINED PROFITS/(ACCUMULATED LOSSES) AND RESERVES (continued)

#### (c) Nature and purpose of reserves (continued)

##### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

##### Cash flow hedge reserve

This reserve records the Group's portion of Synerject LLC's gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

### 30. CONSOLIDATED ENTITY

	Note	Class of Shares	Consolidated Entity Interest		
			2010 %	2009 %	2008 %
<b>Ultimate Parent Entity</b>					
- Orbital Corporation Limited					
<i>Controlled Entities, incorporated and carrying on business in:</i>					
<b>Australia</b>					
- Orbital Australia Pty Ltd		Ord	100	100	100
- Orbital Australia Manufacturing Pty Ltd		Ord	100	100	100
- OEC Pty Ltd	(a)	Ord	100	100	100
- S T Management Pty Ltd	(a)	Ord	100	100	100
- OFT Australia Pty Ltd	(a)	Ord	100	100	100
- Investment Development Funding Pty Ltd	(a)	Ord	100	100	100
- Power Investment Funding Pty Ltd	(a)	Ord	100	100	100
- Orbital Environmental Pty Ltd	(a)	Ord	100	100	100
- Orbital Share Plan Pty Ltd	(b)	Ord	100	100	N/A
<b>United States of America</b>					
- Orbital Holdings (USA) Inc.	(a)	Ord	100	100	100
- Orbital Fluid Technologies Inc.		Ord	100	100	100
- Orbital Engine Company (USA) Inc.	(a)	Ord	100	100	100
<b>United Kingdom</b>					
- Orbital Engine Company (UK) Ltd	(a)	Ord	100	100	100

(a) Dormant for the years ended 30 June 2010 and 30 June 2009.

(b) Orbital Share Plan Pty Ltd was established on 22 September 2008 and acts as the trustee of the Orbital Executive Long Term Share Plans.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**31. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED**

	2010 \$'000	2009 \$'000
Current assets	22	517
Total assets	<u>41,494</u>	<u>44,550</u>
Current liabilities	—	13,549
Total liabilities	<u>20,694</u>	<u>28,422</u>
Issued capital	19,261	19,055
Retained profits/(accumulated losses)	522	(3,811)
Employee equity benefits reserve	1,017	884
Total shareholders' equity	<u>20,800</u>	<u>16,128</u>
Profit or loss of the parent entity	4,270	315
Total comprehensive income of the parent entity	<u>4,270</u>	<u>315</u>

**Guarantee**

Orbital Corporation Limited has provided a guarantee to Westpac Banking Corporation for all liabilities and obligations of Orbital Australia Pty Ltd. See note 22 for details of Orbital Australia Pty Ltd's outstanding liabilities to Westpac Banking Corporation.

**32. RELATED PARTIES**

**(a) Identity of related parties**

The Group has a relationship with its subsidiaries (see note 30), investment accounted for using the equity method (see note 16), and with its key management personnel (refer to disclosures for key management personnel, see note 33).

**(b) Controlled Entities**

Details of interest in controlled entities are set out in Note 30.

**(c) Other Related Parties**

Details of dealings with other related parties, being joint venture entity Synerject LLC, are set out below:

**(i) Receivables and Payables**

The aggregate amounts receivable from/payable to Synerject LLC by the Group at balance date are:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<b>Receivables</b>		
Current	<u>3</u>	<u>14</u>
<b>Payables</b>		
Current	<u>110</u>	<u>—</u>

**(ii) Transactions**

During the year the Group provided engineering services to Synerject LLC of \$nil (2009: \$81,000) and purchased goods and services to the value of \$190,000 (2009: \$140,000) from Synerject LLC. All transactions are in the ordinary course of business and on normal commercial terms and conditions.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 33 KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

#### *Non-executive directors*

Mr WP Day (Chairperson)  
Mr JG Young  
Dr MT Jones  
Dr V Braach-Maksvytis

#### *Executive directors*

Mr TD Stinson (Managing Director & Chief Executive Officer)

#### *Executives*

Mr KA Halliwell (Chief Financial Officer)  
Mr BA Fitzgerald (Director, Orbital Autogas Systems)  
Dr GP Cathcart (Director, Consulting Services and Engineering)

#### *Key management personnel compensation*

The key management personnel compensation included in 'employee benefits expense' (see note 9) are as follows:

	CONSOLIDATED		
	2010	2009	2008
	\$	\$	\$
Short-term employee benefits	1,587,275	1,233,798	1,194,706
Post-employment benefits	132,605	129,491	114,231
Equity compensation benefits	225,737	165,918	177,577
	<u>1,945,617</u>	<u>1,529,207</u>	<u>1,486,514</u>

#### *Individual directors and executives compensation disclosures*

No director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interest at year-end.

#### *Loans to key management personnel and their related parties.*

The Group have not made any loans to key management personnel or their related parties since the end of the previous financial year and there were no loans to any key management person or their related parties at year-end

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

33 KEY MANAGEMENT PERSONNEL (continued)

*Movements in shares*

The movement during the reporting period in the number of ordinary shares in Orbital Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1-Jul-09	Purchases	Granted as compensation		Sales	Other(a)	Held at 30-Jun-10
			ESP #1	ELTSP			
<b>Non-executive directors</b>							
Mr WP Day	100,000	—	—	—	—	—	100,000
Mr JG Young	748,537	—	—	—	—	—	748,537
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Dr MT Jones	180,000	—	—	—	—	—	180,000
<b>Executive directors</b>							
Mr TD Stinson (c)	1,201,000	1,100,000	—	—	—	(120)	2,300,880
<b>Executives</b>							
Mr KA Halliwell	941,890	—	16,246	409,200	—	—	1,367,336
Mr BA Fitzgerald	675,174	—	16,246	341,000	—	—	1,032,420
Dr GP Cathcart	303,464	—	16,246	161,200	—	—	480,910
	Held at 1-Jul-08	Purchases	Granted as compensation		Sales	Other(b)	Held at 30-Jun-09
			ESP #1	ELTSP			
<b>Non-executive directors</b>							
Mr WP Day	100,000	—	—	—	—	—	100,000
Mr JG Young	248,537	500,000	—	—	—	—	748,537
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Dr MT Jones	—	180,000	—	—	—	—	180,000
Mr JR Marshall	66,880	—	—	—	—	(66,880)	—
<b>Executive directors</b>							
Mr TD Stinson	—	1,201,000	—	—	—	—	1,201,000
<b>Executives</b>							
Mr KA Halliwell	499,656	—	19,234	423,000	—	—	941,890
Mr BA Fitzgerald	304,940	—	19,234	351,000	—	—	675,174
Dr GP Cathcart	167,230	—	19,234	117,000	—	—	303,464
	Held at 1-Jul-07	Purchases	Granted as compensation		Sales	Other(b)	Held at 30-Jun-08
			ESP #1	ELTSP			
<b>Non-executive directors</b>							
Mr WP Day	—	100,000	—	—	—	—	100,000
Mr DWJ Bourke	133,333	—	—	—	—	(133,333)	—
Mr JG Young	183,537	65,000	—	—	—	—	248,537
Mr JR Marshall	66,880	—	—	—	—	—	66,880
<b>Executive directors</b>							
Dr RA Houston	108,371	—	3,238	300,000	—	(411,609)	—
<b>Executives</b>							
Mr KA Halliwell	196,418	—	3,238	300,000	—	—	499,656
Mr BA Fitzgerald	101,702	—	3,238	200,000	—	—	304,940
Dr GP Cathcart	95,154	—	3,238	85,000	(16,162)	—	167,230

(a) As a result of a change to the ratio of ADSs to ordinary shares the equivalent ordinary shares of Mr Stinson were rounded down to the nearest multiple of 160.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**33 KEY MANAGEMENT PERSONNEL (continued)**

- (b) Represents shareholding at time that individual ceased to be a Director.  
(c) Mr Stinson's shareholding of 2,300,880 is represented by 6,618 ADSs and 1,242,000 ordinary shares.

***Movements in ELTSP rights***

The movement during the reporting period in the number of ELTSP rights to ordinary shares in Orbital Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	<u>Held at 1-Jul-09</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Held at 30-Jun-10</u>
<b>Executive directors</b>						
Mr TD Stinson	1,300,000	5,250,000	—	—	—	6,550,000
<b>Executives</b>						
Mr KA Halliwell	1,630,000	2,665,000	—	(409,200)	(250,800)	3,635,000
Mr BA Fitzgerald	1,420,000	2,460,000	—	(341,000)	(209,000)	3,330,000
Dr GP Cathcart	830,000	1,995,000	—	(161,200)	(98,800)	2,565,000

	<u>Held at 1-Jul-08</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Held at 30-Jun-09</u>
<b>Executive directors</b>						
Mr TD Stinson	—	1,300,000	—	—	—	1,300,000
<b>Executives</b>						
Mr KA Halliwell	1,400,000	700,000	—	(423,000)	(47,000)	1,630,000
Mr BA Fitzgerald	1,110,000	700,000	—	(351,000)	(39,000)	1,420,000
Dr GP Cathcart	560,000	400,000	—	(117,000)	(13,000)	830,000

	<u>Held at 1-Jul-07</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Other</u>	<u>Held at 30-Jun-08</u>
<b>Executive directors</b>						
Dr RA Houston	1,835,000	410,000	—	(300,000)	(1,945,000)	—
<b>Executives</b>						
Mr KA Halliwell	1,430,000	270,000	—	(300,000)	—	1,400,000
Mr BA Fitzgerald	1,140,000	170,000	—	(200,000)	—	1,110,000
Dr GP Cathcart	475,000	170,000	—	(85,000)	—	560,000

***Movements in performance rights***

The movement during the reporting period in the number of performance rights to ordinary shares in Orbital Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	<u>Held at 1-Jul-09</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Held at 30-Jun-10</u>
<b>Executive directors</b>						
Mr TD Stinson	11,500,000	—	—	—	—	11,500,000
<b>Executive directors</b>						
Mr TD Stinson	—	11,500,000	—	—	—	11,500,000

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**34. NOTES TO THE STATEMENTS OF CASH FLOWS**

*Reconciliation of cash flows from operating activities*

	NOTE	CONSOLIDATED		
		2010 \$'000	2009 \$'000	2008 \$'000
Profit/(loss) after income tax		4,516	(2,451)	469
<i>Adjustments for:</i>				
(Profit)/Loss on sale of property, plant and equipment	8, 9	(41)	322	3
Depreciation	18	877	1,094	1,272
Amortisation	19	136	—	—
Amortisation of deferred revenue and government grants		(345)	—	—
Allowance for doubtful debts		(114)	174	379
Bad debts written off		—	(372)	—
Amortisation of non-interest bearing loans		626	722	886
Gain on restructure of non-interest bearing loans		(7,695)	—	—
Amounts set aside to warranty and other provisions		(133)	(34)	(552)
Profit on sale of interest in equity accounted investment		—	(3,678)	—
Share of net profit of equity accounted investment		(1,874)	(1,846)	(2,357)
Employee compensation expense		339	323	281
Non cash changes in tax balances		(417)	2,697	(613)
Net foreign exchange (gains)/losses		97	(564)	175
Net cash provided by/(used in) operating activities before changes in assets and liabilities		(4,028)	(3,613)	(57)
<i>Changes in assets and liabilities during the year:</i>				
Decrease/(increase) in receivables		28	2,316	(3,032)
Decrease/(increase) in inventories		(638)	(1,387)	5
Increase in intangibles		—	(12)	—
Increase in government grants		—	—	2,760
(Decrease)/increase in payables		(951)	654	(401)
(Decrease)/increase in employee provisions		540	(55)	(160)
		(1,021)	1,516	(828)
Net cash used in operating activities		(5,049)	(2,097)	(885)

**35. SHARE-BASED PAYMENT PLANS**

*(a) Recognised share-based payment expenses*

The expense recognised for employee services received during the year is shown in the table below:

Expense arising from equity-settled share-based payment transactions	339	323	281
--	-----	-----	-----

The share-based payment plans are described below. The performance hurdles for the Executive Long Term Share Plan were changed during the current year. Entitlements to shares are based 50% of Total Shareholder Return and 50% on Earnings Per Share. Prior to the current year the performance hurdles were based 100% on Total Shareholder Return.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**35. SHARE-BASED PAYMENT PLANS (continued)**

**(b) Employee share Plan No. 1**

Under Employee Share Plan No. 1 each eligible employee is offered fully paid ordinary shares to the value of \$1,000 per annum. During the year there were 1,445,894 (2009: 1,673,358) shares issued under Plan 1 to eligible employees at a market value on the day of issue of \$89,000 (2009: \$87,000).

**(c) Executive Long Term Share Plan (“ELTSP”)**

Executives may also be offered shares in the Company’s Executive Long Term Share Plan under which offered shares will be granted subject to the satisfaction of performance conditions over a 3 year period or subject to Board discretion for other qualifying reasons.

The number of shares that the executive actually receives depends on two performance hurdles, as set out below:

- (a) 50% of the shares offered will be issued depending on the performance of the Company relative to a group of selected peers (being the 50 smallest companies by market capitalisation (other than resource companies and property and investment trust companies) within the S&P / ASX 300 Index). The peer group is ranked in terms of Total Shareholder Return (“TSR”). TSR is the percentage increase in a company’s share price plus reinvested dividends over a three year period commencing on 1 September 2009 and ending on 31 August 2012 (“Performance Period”).

The following table sets out the relevant percentages of an executive’s Personal Allotment which will be issued at the conclusion of the Performance Period based on the TSR ranking of the Company relative to the peer group:

Company Performance (TSR Ranking)	% of Personal Allotment issued to each executive
Up to the 50th percentile	0%
At or above the 50th percentile but below the 75th percentile	50% to 99% (on a straight-line basis).
At or above the 75th percentile but below the 90th percentile	100%
At or above the 90th percentile	125%

- (b) 50% of the shares offered will be issued if the Company achieves earnings in excess of 1.5 cents per share for the year ending 30 June 2012.

No shares will be granted unless the Company’s TSR is at or above the 50th percentile. In 2010 1,643,000 (2009: 2,648,500) rights were issued in accordance with the terms of the plan.

At the Company’s Annual General Meeting in October 2009, shareholders approved the above plan in relation to the ongoing remuneration of Executive Directors and senior executives.

During the year, a total of 14,360,000 rights under the plan were offered to 7 executives (2009: 4,100,000 rights offered to 10 executives).

*Summary of rights granted under the ELTSP*

	2010 No.	2009 No.	2008 No.
Outstanding at the beginning of the year	7,800,000	7,435,000	7,175,000
Granted during the year	14,360,000	4,100,000	1,460,000
Forfeited during the year	(960,000)	(907,500)	—
Vested during the year and shares issued	(1,643,000)	(2,648,500)	(1,200,000)
Expired during the year	(1,007,000)	(179,000)	—
Outstanding at the end of the year	<u>18,550,000</u>	<u>7,800,000</u>	<u>7,435,000</u>

The outstanding balance as at 30 June 2010 is represented by:

- 935,000 rights with a fair value at grant date of \$0.173 that will potentially vest in August 2010;

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 35. SHARE-BASED PAYMENT PLANS (continued)

#### (c) Executive Long Term Share Plan (“ELTSP”) (continued)

- 3,950,000 rights with a fair value at grant date of \$0.058 that will potentially vest in August 2011; and
- 13,665,000 rights with a fair value at grant date of \$0.046 that will potentially vest in August 2012.

#### Fair value of rights on grant date

The following factors and assumptions were used in determining the fair value of rights on grant date:

<u>Grant Date</u>	<u>Life</u>	<u>Fair Value per share</u>	<u>Exercise Price</u>	<u>Price of shares on grant date</u>	<u>Expected volatility</u>	<u>Risk free interest rate</u>
31-Aug-07	3 years	17.3 cents	nil	22.0 cents	45.40%	6.20%
31-Aug-08	3 years	5.8 cents	nil	7.9 cents	62.70%	5.68%
31-Aug-09	3 years	3.8 cents	nil	5.5 cents	65.00%	5.03%

#### (d) Performance Rights Plan

The Company also introduced a Performance Rights Plan as part of its long-term incentive arrangements for senior executives, which was approved by shareholders in October 2009.

Under the Performance Rights Plan, performance rights will only be issued if the terms and conditions detailed below are satisfied.

A performance right is a right to acquire one fully paid ordinary share in the Company. Until they are exercised, performance rights:

- (a) do not give the holder a legal or beneficial interest in shares of the Company; and
- (b) do not enable participating executives to receive dividends, rights on winding up, voting rights or other shareholder benefits.

Performance rights issued under the Performance Rights Plan will be exercisable if:

- (a) a performance hurdle is met over the periods specified by the Board; or
- (b) the Board allows early exercise on cessation of employment (see “Cessation of employment” below); or
- (c) it is determined by the Board in light of specific circumstances.

The Terms and conditions of the offer of Performance Rights made during the year ended 30 June 2009 are as follows:

- (a) Mr T D Stinson will be awarded 11,500,000 performance rights;
- (b) the grant of performance rights will be in seven tranches, each tranche with a different specified share price target as set out below:

<u>Tranche</u>	<u>Number of performance rights</u>	<u>Share price target \$</u>	<u>Fair Value at grant date \$</u>
1	2,000,000	\$ 0.25	94,000
2	2,000,000	\$ 0.50	70,000
3	2,000,000	\$ 0.75	56,000
4	2,000,000	\$ 1.00	46,000
5	1,250,000	\$ 2.00	16,250
6	1,250,000	\$ 3.00	11,250
7	1,000,000	\$ 5.00	5,000

- (c) the acquisition price and exercise price of the performance rights will be nil.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 35. SHARE-BASED PAYMENT PLANS (continued)

#### (d) Performance Rights Plan (continued)

- (d) Mr T D Stinson will only be permitted to exercise a performance right if:
- the Company attains the specified share price target (see table above) within eight years from the date of grant of the performance right; and
  - the specified share price target is also achieved at the end of two years from the date the target is first achieved (“**Vesting Date**”) based on the Company’s average closing share price over a 90 day period up to and including the Vesting Date;
- (e) If the specified share price target is either not achieved within eight years from the date of grant, or if so achieved, not also achieved at the end of the Vesting Date, the performance right will lapse.

No performance rights were granted during the year ended 30 June 2010.

### 36. DEFINED CONTRIBUTION SUPERANNUATION FUND

The Group contributes to a defined contribution plan for the provision of benefits to Australian employees on retirement, death or disability. Employee and employer contributions are based on various percentages of gross salaries and wages. Apart from the contributions required under superannuation legislation, there is no legally enforceable obligation on the Company or its controlled entities to contribute to the superannuation plan.

### 37. COMMITMENTS

#### (a) Operating leases

	CONSOLIDATED		
	2010 \$'000	2009 \$'000	2008 \$'000
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:			
- Not later than one year	<b>184</b>	182	56
- Later than one year but not later than five years	<b>3</b>	165	15
- Later than five years	<u>—</u>	<u>3</u>	<u>—</u>
	<b><u>187</u></b>	<b><u>350</u></b>	<b><u>71</u></b>

The Group leases plant & equipment under operating leases. The plant & equipment leases typically run for a period of 5 years and the lease payments are fixed. None of the leases include contingent rentals.

During the financial year ended 30 June 2010, \$171,081 was recognised as an expense in the income statement in respect of operating leases (2009:\$75,240).

#### (b) Other

In June 2008 the Group received funding of \$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility.

The Group will fund the maintenance and operation of the facility until at least financial year 2014/2015 and provide the Commonwealth with preferential access to the facility, as follows:

Operational commitment to the running of the heavy duty engine testing facility not provided for in the financial statements and payable:			
- Not later than one year	<b>391</b>	391	—
- Later than one year but not later than five years	<b><u>1,073</u></b>	<u>1,464</u>	<u>—</u>
	<b><u>1,464</u></b>	<b><u>1,855</u></b>	<b><u>—</u></b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 38. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are not aware of any circumstance or information that would lead them to believe that these liabilities will crystallise.

In the event of the Company terminating the employment of the Chief Executive Officer (other than by reason of serious misconduct or material breach of his service agreement), an equivalent of 12 months remuneration is payable to the CEO. There are no other contingent liabilities for termination benefits under the service agreements with Directors or other persons who take part in the management of any entity within the Group.

### 39. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature that is likely, in the opinion of the Directors of the Company, to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years, except as detailed below.

On October 21, 2010, the participants of the Medium Term Incentive (MTI) Scheme irrevocably waived their rights to the MTI bonuses relating to the year ended 30 June 2010. The Company will record a reversal of the present liability for the cash bonus by reflecting a credit to the Company's Income Statement of \$400,000 in the 2011 financial year.

On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of ordinary shares on the basis that every ten ordinary shares be consolidated into one ordinary share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share. See note 11 for the effect of the share consolidation on earnings per share.

### 40. REMUNERATION OF AUDITORS

	CONSOLIDATED		
	2010	2009	2008
	\$	\$	\$
Amounts received or due and receivable for audit services by:			
Auditors of the Company			
- Audit and review of financial reports	<b>374,420</b>	278,950	378,979
Amounts received or due and receivable for taxation services by:			
Auditors of the Company	<b>10,055</b>	10,000	9,000
Amounts received or due and receivable for other services by:			
Auditors of the Company	<b>5,627</b>	49,726	25,000
Total auditors' remuneration	<b><u>390,102</u></b>	<u>338,676</u>	<u>412,979</u>

The Auditors of the Group in 2010 and 2009 were Ernst & Young.

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Terry Dewayne Stinson, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Orbital Corporation Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 30, 2010

/s/ Terry Dewayne Stinson

Name: Terry Dewayne Stinson

Title: Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Keith Anthony Halliwell, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Orbital Corporation Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 30, 2010

/s/ Keith Anthony Halliwell

Name: Keith Anthony Halliwell

Title: Chief Financial Officer



**CERTIFICATION PURSUANT TO SECTION 906  
OF SARBANES-OXLEY ACT OF 2002  
(Subsections (a) and (b) of Section 1350,  
Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Orbital Corporation Limited, a public company incorporated in Australia (the "Company"), hereby certifies that:

The Annual Report on Form 20-F for the year ended June 30, 2010 (the "Report") of the Company fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 30, 2010

/s/ Terry Dewayne Stinson

Name: Terry Dewayne Stinson

Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 906  
OF SARBANES-OXLEY ACT OF 2002  
(Subsections (a) and (b) of Section 1350,  
Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Orbital Corporation Limited, a public company incorporated in Australia (the "Company"), hereby certifies that:

The Annual Report on Form 20-F for the year ended June 30, 2010 (the "Report") of the Company fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 30, 2010

/s/ Keith Anthony Halliwell

Name: Keith Anthony Halliwell

Title: Chief Financial Officer