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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, 2012

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 48,722,477

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 sixteen 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$" are to Australian dollars. For the convenience of the reader, this Annual Report contains translations of Australian dollar amounts into United States dollars at the rate or rates indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the WM/Reuters Australian Dollar Fix Rate, for the dates specified. These translations should not be construed as representations that the A$ 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:

- A significant portion of the Company's revenues are generated from overseas customers
- The Company is dependent on a small number of key customers for the majority of its revenues
- The Company may not be able to satisfactorily supply UAS engines
- A reduction in the level of conversions of vehicles to LPG in Australia would have an adverse effect on the Company's profitability
- The Company relies on royalty income
- The Company relies on key employees
- The Company relies on key suppliers
- The Company may not be able to obtain sufficient funding
- The Company's intellectual property rights may be infringed
- Competing technologies may displace the Company's products
- The Company may face significant product liability claims
- The Company may fail to comply with future governmental regulations

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.

Fiscal Year Ended June 30	At Period End	Average Rate (1)	High	Low
2008	US$0.9562	US$0.9042	US$0.9797	US$0.7860
2009	US$0.8114	US$0.7442	US$0.9786	US$0.6122
2010	US$0.8523	US$0.8839	US$0.9349	US$0.7745
2011	US$1.0739	US$0.9990	US$1.0939	US$0.8366
2012	US$1.0191	US$1.0362	US$1.1055	US$0.9500

(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:

Month	High	Low
April 2012	US$1.0453	US$1.0262
May 2012	US$1.0342	US$0.9727
June 2012	US$1.0191	US$0.9675
July 2012	US$1.0526	US$1.0163
August 2012	US$1.0593	US$1.0301
September 2012	US$1.0579	US$1.0205

On September 30, 2012 the Dollar Fix Rate was US$1.0464 per A$l.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 Depositary 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, 2012, 2011 and 2010 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.

The selected financial data below expressed in Australian dollars has been derived from Orbital's consolidated financial statements for the years ended June 30, 2012, 2011, 2010, 2009, and 2008, which have been audited by Ernst & Young, an independent registered public accounting firm. The consolidated financial statements as of June 30, 2012 and 2011 and for the years ended June 30, 2012, 2011 and 2010, and the Report of independent registered public accounting firm thereon, are included elsewhere in this report, see F-1 – F-65. The consolidated financial statements as of June 30, 2010, 2009 and 2008 and for the years ended June 30, 2009 and 2008 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 number of shares and per Ordinary Share amounts)

	2012 (1) US$	2012 A$	2011 A$	2010 A$	2009 A$	2008 A$
Consolidated Income Statement Data During the periods						
Operating revenue						
Revenue from trading operations	23,398	22,361	16,638	17,265	16,513	14,939
Other income	1,386	1,325	6,110	8,759	4,048	372
	24,784	23,686	22,748	26,024	20,561	15,311
Costs and expenses						
Cost of goods sold	(8,690)	(8,305)	(4,484)	(4,607)	(4,897)	—
Employee expenses	(12,014)	(11,481)	(10,494)	(10,792)	(9,820)	(9,812)
Selling, corporate and administration	(10,405)	(9,945)	(8,742)	(7,616)	(7,268)	(6,946)
Share of profit from equity accounted investment	3,641	3,480	3,233	1,874	1,846	2,357
Finance costs	(724)	(692)	(688)	(755)	(726)	(886)
Profit/(loss) before income tax	(3,408)	(3,257)	1,573	4,128	(304)	24
Income tax credit/(expense) attributable to operating profit/(loss)	213	204	190	388	(2,147)	445
Net profit/(loss) after income tax	(3,195)	(3,053)	1,763	4,516	(2,451)	469
Dividends paid or payable	—	—	—	—	—	—
Earnings/(loss) per ordinary share (3)(4)						
- Basic (cents)	(6.57)	(6.28)	3.65	9.39	(5.13)	0.97
- Diluted (cents)	(6.57)	(6.28)	3.65	9.29	(5.13)	0.97
Dividends per ordinary share (cents)	—	—	—	—	—	—
Weighted average number of shares	48,612,706	48,612,706	48,325,837	48,086,676	47,756,379	47,418,256

Amounts prepared in accordance with IFRS
(in '000's)

	2012 (1) US$	2012 A$	2011 A$	2010 A$	2009 A$	2008 A$
Consolidated Financial Position Data at period end						
Total assets	42,069	40,204	40,774	38,599	42,535	42,239
Total long-term debt (2)	8,005	7,650	7,489	7,604	14,873	14,151
Net assets	18,240	17,431	19,482	20,800	17,114	15,490
Total shareholders' equity	18,240	17,431	19,482	20,800	17,114	15,490

(1) For the convenience of the reader the 2012 Statement of Financial Position and Income Statement data has been translated at the WM/Reuters Australian Dollar Fix Rate at 4:00pm (Sydney) for Australian dollars on September 30, 2012 which was US$1.0464 = 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 2012, 2011 and 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 A$200,000 per annum.
- Repayments – Increasing annually to a maximum of A$2,100,000 per annum in 2023.
- Interest free.

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

(3) The shares exercisable under the Orbital employee share plan have no material dilutive effect in respect of any year. At June 30, 2012 there were 48,722,477 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 and earnings per share calculations above.

Risk Factors

Risks specific to the Company

- **A significant portion of the Company's revenues are generated from overseas customers**

A major source of the Company's revenue is derived from the provision of consulting services to customers in the automotive, motorcycle, marine, recreation, government, defence and utility engine sectors. These services are provided by the Company through its "Orbital Consulting Services" business. A significant portion of the revenue of this business is generated from overseas customers. Orbital Consulting Service's competitiveness is largely dependent on the relative strength of the Australian dollar against the US dollar. An increase in the value of the Australian dollar against the US dollar is likely to result in a reduction in demand for the consulting services, and accordingly, may result in the Company suffering a reduction in revenue.

In addition, the demand for the "Orbital Consulting Services" is dependent on the overall economic conditions in the markets in which the business operates. A large proportion of the consulting services provided by the Company relates to new technology development for engine manufacturers. In the event of an economic downturn in any of our customer's countries, or indeed in the event of global market deterioration, investment in new products (to which the Company's consulting services relate) is likely to fall, and by extension, the demand for the Company's consulting services is likely to be reduced. Such an occurrence will have a negative impact on the revenue generated by the Company's "Orbital Consulting Services" business line.

The Company records its transactions and prepares its financial statements in Australian dollars. The share of profits from the equity accounted investment in Synerject and most of the Company's earnings from royalties are denominated in US dollars. When the Australian dollar appreciates against the US dollar, the US dollar earnings would convert into fewer Australian dollars. However, when the US dollar appreciates against the Australian dollar the US dollar earnings would convert into more Australian dollars. Fluctuations in exchange rates between the Australian dollar and the US dollar may also affect the book value of assets and the Company's operating results.

The Company buys parts for use in its LPG Fuel systems in US dollars and Euro's. A decrease in the value of the Australian dollar against the US dollar and/or Euro will result in increased costs of supply which may not be able to be passed on to customers.

- **The Company is dependent on a small number of key customers for the majority of its revenues**

Three customers (Ford Australia and two engineering customers) accounted for 47% of the total revenue of the Company for the financial year ended June 30, 2012 (and 41% for the year ended June 30, 2011). The loss of these key customers, and in particular, Ford Australia, would have an adverse effect on the Company's business and its operating results.

The Company supplies Ford Australia with LPG fuel system components for utilisation in its EcoLPi Ford Falcon vehicle range. The Company's sales to Ford Australia are dependent on Ford's sales of vehicles with this technology. The Company is aware that Ford Australia's sales of large vehicles have in recent times suffered a decrease. This is expected to have an adverse effect on the Company's sales to Ford Australia. In the event that demand for large vehicles continues to fall, this will have an adverse effect on the Company's profitability.

In addition, the Company also derives a significant portion of its revenue from its 42% ownership interest in Synerject Inc. (**Synerject**), whose business of engine management systems for non-automotive markets is also reliant on a small number of key customers for the majority of its revenues. A loss of these key customers, for whatever reason, is likely to have material adverse effect on the Company's profitability.

- **The Company may not be able to satisfactorily supply UAS engines**

The Company has recently been awarded a contract to supply heavy fuel engines to AAI Unmanned Aircraft Systems. The Company has been contracted to supply UAS engines up to a value of approximately A$4.7 million throughout 2012.

This is a new business line for the Company and carries the risk that the Company will not be able to supply the engines on time, within budget and within specifications. This may have an adverse impact on the Company's financial position, ability to win future contracts and may negatively impact the Company's reputation in the market place.

- **A reduction is the level of conversions of vehicles to LPG in Australia would have an adverse effect on the Company's profitability**

A further major source of the Company's revenue is derived from the provision of LPG fuel systems for vehicles that convert from traditional gasoline fuel systems. The current overall level of conversions of vehicles to LPG in Australia is significantly lower than in recent years. In the event the downward trend in LPG vehicle conversions continues, there will be less demand for the Company's LPG fuel systems which is likely to have an adverse effect on the Company's profitability.

The Company also continues to derive revenue from the sale of older generation LPG vapouriser kits through the Sprint Gas and Orbital Autogas Systems businesses. Changes in emissions regulations in Australia that came into effect on July 1, 2010 prohibit the manufacture of new vehicles with vapouriser kits. As a result, whilst sales of the LPG vapouriser kits to the aftermarket continue to be made for vehicles manufactured prior to June 30, 2010, the amount of revenue from LPG vapouriser kits is expected to decline going forward with the Company being more reliant on LPG fuel systems to maintain its revenue stream for this market. There is no guarantee that the sale of LPG fuel systems will be sufficient to compensate for the anticipated loss of revenue from the declining vapouriser kit market.

- **The Company relies on royalty income**

The Company's licence agreements with engine manufacturers who utilise the Company's FlexDi technology typically entitle the Company to receive a royalty payment upon the production of each engine incorporating the FlexDi technology. In the financial year ended June 30, 2012, royalty payments from these licence arrangements accounted for approximately 4% of the Company's operating revenue. The royalties paid to the Company ultimately depend on the level of sales achieved by the engine manufacturers of their engines. As at September 30, 2012, four of the Company's seventeen licensed engine manufacturers are in commercial production and selling products using FlexDi technology.

The Company may not be able to enter into additional licence agreements with new engine manufacturer customers. In addition, those engine manufacturers who are currently party to licence arrangements with the Company may choose not to commercially produce engines incorporating FlexDi technology and those who do may not succeed in selling those products to end consumers. The failure to obtain new customers or receive royalties from existing or new customers could have an adverse effect on the Company's business and its operating results.

- **The Company relies on key employees**

The Company depends on the talent and experience of its employees as its primary asset. Whilst every effort is made to retain key employees and contractors and to recruit new personnel as the need arises, loss of a number of key personnel may adversely affect the Company's earnings or growth prospects. In addition, demand for skilled personnel is presently high, particularly in Western Australia, and growth and profitability may be limited by the scarcity of professional personnel or by potential increase in compensation costs associated with attracting or retaining such personnel.

- **The Company relies on key suppliers**

The Company depends on key suppliers for the supply of critical and unique components for use in engines and engine management systems sold by the Company to its customers. The loss of one or more suppliers will require time to find an alternative source and profitability and growth will be negatively affected.

- **The Company may not be able to obtain sufficient funding**

The Group incurred a net loss after tax for the year ended June 30, 2012 of A$3,053,000 (2011: Profit of A$1,763,000) and experienced net cash outflows from operating activities of A$4,245,000 (2011: A$1,792,000). At June 30, 2012, the Group had net current assets of A$3,646,000 (2011: A$8,745,000). The cash and term deposit position of the Group at June 30, 2012 was A$5,170,000.

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. In forming this view, the directors have taken into consideration the following:

- Management's strategies to improve sales and profits, while carefully controlling discretionary spending;
- The unaudited net current assets and cash and term deposit position at August 31, 2012 are A$3,021,000 and A$5,270,000 respectively;
- The company is listed on the Australian Securities Exchange, and has access to the Australian equity markets. Accordingly, management considers it maintains a reasonable expectation of being able to raise funding from the market if and when required; and
- If required, the Group could contemplate a sale of non-current assets.

The Company requires significant capital amounts to conduct its business. For example, the Company expects to incur on-going research and development costs and operating costs to enhance the FlexDi technology, UAS engine technology and liquid natural gas 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 the Company 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 the Company 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, LNG and UAS engine technologies or to use competing technologies. This could have a material adverse effect on the Company's business and results of operations.

- **The Company's intellectual property rights may be infringed**

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

The Company is not a party to any present patent or intellectual property litigation, but in the future may need to commence legal proceedings against third parties to enforce its patent or other intellectual property rights or conversely may be presented with claims by third parties that allege the Company infringes their patent rights or other rights. A failure by the Company to prove, or protect (whichever the case may be), its intellectual property rights could have an adverse effect upon the Company. Even if the Company was successful in any intellectual property ownership disputes, the management time and legal expenses applied to such matters could have an adverse effect on the Company's future operating results.

The Company also has trade secrets and know-how, which are not patentable but are still important to the Company's business. The Company seeks to protect these rights through confidentiality agreements and contractual protections. These arrangements may not protect the Company from unauthorised use or disclosure of its trade secrets and know-how.

- **Competing technologies may displace the Company's products**

The Company faces significant competition from engine and vehicle manufacturers and consulting firms specialising in internal combustion engine technology. Many of these competitors have substantially greater financial, marketing and technological resources than the Company.

The Company's commercial success depends in part upon whether its products can compete successfully against both existing and new engine technologies, including new technologies that are similar to the Company's technologies.

- **The Company may face significant product liability claims**

A large product liability or professional indemnity judgement or product recall action could have a material adverse effect on the Company

The Company is subject to business risk from product liability or professional indemnity suits if third parties claim that defects in technology supplied, or in consulting services provided, by the Company resulted in personal injury or other losses. The Company is also subject to business risk for product recall actions where a product supplied by the Company needs to be recalled due to an issue arising from its manufacture. The Company 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 the Company. The Company believes that sufficient product liability, product recall and professional 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 premiums, or at all. Even if the Company has such insurance, a judgement against the Company in a large product liability or professional indemnity suit or product recall action could have a material adverse effect on the Company's business or financial position.

- **The Company may fail to comply with future governmental regulations**

Products using FlexDi technology or other technologies under development by the Company must comply with many emissions, fuel economy and other regulations in Australia, the US and other countries. Based on internal testing, the Company believes that products using FlexDi technology and other technologies developed by the Company will be able to meet current emissions and fuel economy standards in the countries that are the Company's most important markets. The effects of any future regulations on the Company's business or results of operations cannot be predicted. However, if the Company 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 other technologies and have an adverse effect on the Company's business and results of operations.

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 2012 %	Consolidated Entity Interest 2011 %
Ultimate Parent Entity			
- Orbital Corporation Limited			
Controlled Entities, incorporated and carrying on business in:			
Australia			
- 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
- Orbital Autogas Systems Pty Ltd	Ord	100	100
- Sprint Gas (Aust) Pty Ltd	Ord	100	100
United States of America			
- Orbital Holdings (USA) Inc	Ord	100	100
- Orbital Engine Company (USA) Inc	Ord	100	100
- Orbital Fluid Technologies Inc.	Ord	100	100
United Kingdom			
- Orbital Engine Company (UK) Ltd	Ord	100	100

Orbital is a leader in Specialised Engine and Vehicle Systems. Orbital provides engine and vehicle technologies and alternative fuel solutions that improve performance, reduce fuel costs and add features whilst reducing harmful greenhouse gas emissions. Orbital's FlexDI™ technology "One engine – any fuel" – has been commercialised, firstly in the marine market in 1996, and subsequently in the motorcycle, recreational, autorickshaw and UAS (Unmanned Aircraft Systems) markets.

Orbital Autogas Systems has developed and supplies Liquid LPG systems, offering seamless performance and satisfying Australian emissions requirement, and are now commercially available in Ford EcoLPi Falcons, Holden Special Vehicles (HSV) as an option, and as after-market kits for popular car models.

The Orbital group earns income from multiple sources including:

- Systems Sales
  - Orbital Autogas Systems – LPG systems
  - Sprint Gas – aftermarket distributor of LPG systems
  - UAS engines and fuel/control systems
- Synerject LLC Joint Venture
- Consulting Services
- Royalties and Licence fees

Orbital's principal operations in Perth, Western Australia, provide a world class facility with capabilities in design, manufacturing, development and testing of engines and engine management systems.

Headquartered in Perth, Western Australia, Orbital stock is traded on the Australian Stock Exchange (OEC) and the NYSE AMEX (OBT).

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. On August 25, 2011 Orbital listed on the NYSE Amex and ceased trading on the OTC Bulletin Board. As of September 30, 2012, approximately 20% of Orbital's outstanding shares were held in the form of ADSs traded on the NYSE Amex. See Item 9. – "The Offer and Listing – Nature of Trading Market".

The Company's principal capital expenditures since July 1, 2009 have consisted of ongoing improvements to test facilities and equipment (A$2.571 million), including the construction of the Heavy Duty Engine Testing Facility (A$0.565 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 A$1.758 million.

In May 2011, Orbital acquired, for an initial investment of A$2.000 million, 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specialising in the importation and wholesaling of LPG Fuel systems to the aftermarket.

Business Overview

Orbital's strategy is as follows:

- Develop and supply engine management systems, engines and engine parts
- Expand the alternate fuels LPG business building on the Orbital Autogas Systems and Sprint Gas acquisitions.
- Continue our commitment to grow Synerject as a profitable systems provider in the non-automotive markets and increase the value of this asset.
- Target 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.
- Maintain Orbital's consulting services by winning projects and establishing strategic alliances with Australian and Asian partners.
- Target 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, LPG (automotive) and Unmanned Aircraft Systems markets. Orbital's goal is to broaden the application of Orbital technology in these and other markets.

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 primary sources of revenue are currently from:

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

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

During the last three fiscal years Orbital spent approximately A$3.264 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 consulting service agreements. These agreements grant the licensee limited rights to manufacture, use and sell products utilising FlexDi Technology.

As at September 30, 2012, 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 September 30, 2012 Orbital had four customers (2011: seven customers) using FlexDi Technology in commercial production.

At September 30, 2012 the following agreements granting rights to Orbital's FlexDi Technology were in place:

Agreements for Rights to FlexDi Technology

Date	Company	Market
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
August 2001	Delphi Automotive Systems	Automotive
May 2002	Peugeot Motorcycles	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)
January 2012	RGN srl	Generator Sets

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$70.00 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$0.97 million were received by Orbital in the 2012 fiscal year compared to approximately A$1.08 million in fiscal 2011. 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 Synerject was expanded to create an alliance that facilitates the supply of fuel systems incorporating FlexDi Technology to automotive customers.

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 maximum 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 had 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 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.

Under the terms of the shareholders agreement, the net income and losses of the joint venture are allocated in accordance with the percentage interest held.

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$2.5 million. The investment by Synerject consisted of working capital, principally inventory and plant & equipment.

During fiscal year 2007 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 fiscal year 2008.

Synerject has expanded to other non-automotive small gasoline engine applications such as those of the lawn and garden and industrial markets.

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 engine management 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 above, 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 carburettors 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 grow system sales (engines, engine management systems and components) incorporating Orbital technology to original equipment manufacturers and the vehicle aftermarket. Orbital sells directly to customers and through its joint venture Synerject. Orbital's systems include FlexDi™ Technology and the Liquid LPG fuel system (sold into the Australian LPG market).

Orbital Consulting Services is an important business segment to maintain a competitive position in the development of FlexDi™ Technology in relation to other existing and emerging technologies and develop further technologies such as the Liquid LPG fuel system.

Success of the FlexDi™ Technology is 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 consulting firms specialising in the development of internal combustion engine technology for the automotive, marine, motorcycle, unmanned aircraft systems (UAS) 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 consulting services, Orbital competes against consulting 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 consulting 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 Apollogas, Boemo Engineering and Impco.

Orbital's competitors in the UAS market include XRD Inc, 3W-International, UAV Engines Ltd and others.

System Sales

Development and supply of engine management systems, engines and engine parts is the cornerstone of Orbital's growth strategy. This will initially supplement and eventually replace Orbital's traditional revenue streams of engineering consulting services and royalties.

Growth to date has been underpinned by demand for alternative fuel systems. The demand overseas for alternative fuels is growing rapidly with increasing infrastructure installation and investment being made in both USA and Europe. The drivers are threefold; reduced greenhouse gas emissions, reduced fuel cost to the vehicle operator and fuel security.

Orbital's initiatives in the alternative fuels market are in several key areas: Liquid LPG systems, LPG system aftermarket distribution and the development of Dual Fuel LNG (Liquid Natural Gas) for heavy duty transport.

Revenues for the year were A$14.00 million, a 140% increase on the previous year, reflecting the release of Ford Australia's EcoLPi vehicles during the financial year and a full year's trading (post acquisition) from Sprint Gas Australia. Contribution to the group improved from a loss of A$2.76 million last year to a A$0.38 million profit this year.

Orbital Autogas Systems (OAS) developed, and is the supplier to Ford Australia of Liquid LPG systems for the Ford EcoLPi Falcon range of passenger cars and utilities. The Ford EcoLPi Falcon offers performance of a big family car with fuel running cost better than many mid/small sized cars. In November 2011, the EcoLPi Falcon was awarded "Best Large Car Under $60,000" by the peak motoring body the Australian Automobile Association in conjunction with the seven major state and territory motorists' clubs.

Sprint Gas Australia (SGA) is a major nationwide distributor of LPG systems for the aftermarket. SGA offers a wide range of systems from the older generation "vapouriser" systems through to sequential injection systems and the Orbital Liquid LPG systems.

Despite the very subdued LPG systems market at present, both OAS and SGA are managing their business to the market demand, and in general, increasing market share. Orbital is well positioned for any upturn in the LPG market as it is becoming, through OAS and SGA, a major player in the Australian LPG system supply market.

A key product developed this year by Orbital Consulting Services was the Unmanned Aircraft Systems (UAS) engine supplied to AAI, a Textron Inc (NYSE: TXT) company, in USA for use in their Aerosonde® 4.7 Unmanned Aerial Vehicle (UAV). The engine uses Orbital's FlexDITM technology enabling spark ignition of military specification kerosene fuels and has been designed to be a lightweight and compact package which enables the end-user increased payload and/or range opportunities. The "One-Fuel" policy being adopted by the military for both safety and ease of logistics replaces the use of conventional petrol (or gasoline) fuels used in the past for this application. Orbital has been contracted to supply engines up to a value of approximately A$4.70 million throughout 2012. Dedicated facilities have been commissioned at Orbital's Perth facility to support this program and supply commenced in August 2012. It is expected that this initial product will lead to an expansion of supply and services in this field, including engine supply, engine management systems (EMS) supply, and engine refurbishment, along with further engine design and development opportunities.

Orbital, in conjunction with Toll Resources Group, has continued a fleet test utilising Orbital's LNG system with Toll's heavy duty trucks plying long haul routes in Western Australia. In addition to achieving up to 80% substitution of diesel with LNG (on an energy basis) offering the end user significant fuel cost savings, the Orbital system, due to advanced EMS features, enables full power capability. Whist further development, validation and commercialisation is required to complete this system there is growth potential for LNG systems as a product suitable for an expanded engine range.

Synerject

Synerject, Orbital's 42:58% joint venture partnership with Continental AG, is a key supplier of EMS to the non-automotive market. Original equipment products using Synerject's engine management systems range from the high performance motorcycle/recreational vehicles to the high volume scooter and small engine applications. Application centres in Asia, Europe and the United States provide on-site support of customer development and production programs.

Synerject continues to develop new products and new markets to expand on their product offering beyond their original markets of EMS for recreational marine product and scooters. Synerject's markets today include a range of EMS for top end motorcycles, All Terrain Vehicles (ATV's), snowmobiles, marine outboard engines and scooters through to systems specifically designed for small engines such as those used in the Lawn and Garden market. Synerject is expanding its presence in India and other countries where there is an increasing demand for EMS in the low end motorcycle/scooters products which are a major part of these countries' transport structure.

Synerject's market and product expansion has enabled Synerject to achieve revenue growth consistently over the last 4 years despite the severe contractions in the recreational market during and following the global financial crisis. Whilst the recreational market has somewhat improved, it is still being influenced by the current financial situation in the key USA and Europe markets, highlighting the success and importance of Synerject's expanded/diversified product strategy. Tight cost control and careful investment by management has resulted in continually improved profit after tax during this period.

Increased revenue and tight cost control has resulted in a record profit after tax of US$8.05 million for Synerject an improvement of 10% over the previous corresponding period.

Synerject generated US$3.24 million positive cash flow and paid dividends to shareholders (Orbital share A$1.54 million). At June 30, 2012, Synerject held cash of US$4.27 million and borrowings of US$2.65 million (June 2011: net cash of US$2.29 million).

Consulting Services

Orbital Consulting Services (OCS) provides engineering consulting services in engine design, development and supply of combustion systems, fuel and engine management systems, along with engine and vehicle testing and certification. Orbital provides fuel economy and emission solutions to a wide variety of engine and vehicle applications, from 150 tonne trucks through to small industrial engines.

OCS revenue for the year was A$7.13m, down 25% compared to last year. As anticipated and noted in February 2012 the strong Australian dollar and reduced customer demand severely impacted consulting work awarded by OCS's traditional European, USA and Asian customers in the 2nd half year.

During this period the OCS group controlled costs and key resources were redeployed on continuing R&D projects and to ensure that Orbital's prospective UAS business was secured.

In addition to supporting the development of the UAS engine for AAI, OCS is testing a Dual Fuel LNG substitution system currently being supplied at low volume to support an expanded fleet trial underway with Toll Resource Group. The system has accumulated over 2 million kilometres. As previously noted, there is a growing interest in this system, however further development and commercialisation is required to achieve a mature production ready system.

Efforts to offer services and products to the mining/resource industry in Western Australia are starting to show results with potential new work programs under discussion. Orbital's Perth based facility is ideally located to provide support services to this industry, and to act as a base for LNG system conversions and large engine overhaul.

Throughout the year, Orbital's engineering group have provided research and development support across the Orbital group. This is a key service made available to the group, ranging from technical support of existing products and customers through to analysis and design of potential future product offerings.

At June 30, 2012, the OCS order book stood at approximately A$1.0 million (June 30, 2011 A$3.9 million).

Royalties and Licenses

Orbital earns royalties from product using its FlexDI™ systems and technology. The royalty bearing products today are in the marine and the scooter/motorcycle markets.

FlexDI™ product volumes reduced marginally compared to the same period last year. This, together with the strong Australian Dollar, has resulted in an 11% reduction in revenue for the year.

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.

Orbital's primary focus this year was on development and implementation of automotive LPG systems, development of advanced Direct Injections and powertrain systems for 4 stroke automotive engines and in development of systems for spark ignition heavy fuel UAV engines.

The continued commitment to the core R&D has resulted in two new patents granted in the last 12 months, along with eight 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 ™ and alternative fuel systems 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 September 30, 2012, Orbital had 65 individual patent families with a total of 158 patents and patent applications around the world. As of September 30, 2012 there were 34 granted patents and 13 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

System sales:

- LPG OEM's – 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 that provide an LPG fuel system option (currently Holden Special Vehicles "HSV").
- LPG 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, and Orbital's recently acquired Sprint Gas Australia.
- UAS – We have developed commercial relationships through development projects initiated by Orbital's consulting services business.

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.

Description of Property

Orbital has its principal facilities in Balcatta, Western Australia, conducts its Orbital Autogas Systems business from a leased warehouse in Sydney, New South Wales, and conducts its Sprint Gas business from leased warehouses in Melbourne, Victoria, Brisbane, Queensland and Perth, Western Australia.

In February 2011 Orbital completed the sale and leaseback of its land and buildings in Balcatta for A$8.650 million. The sale generated a net profit of approximately A$4.237 million. Orbital has entered into a lease agreement to rent the facilities for 10 years (plus two 5 year options) for an initial rent of A$745,000 per annum.

The Balcatta premises comprise two leased properties. 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 focuses of the Balcatta facility is the provision of consulting services, the preparation of engines utilising FlexDi™ Technology, research and development activities and administration functions.

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, 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 consulting 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. A portion of the leased premises is currently underutilised for which a provision for surplus lease space has been provided.

There are no environment issues that may affect the company's utilisation of any of the properties from which it operates.

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 financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

ITEM 4A UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

General

During the 2012 fiscal year Orbital's revenues were generated from sale of goods, contracts for consulting services, including engine development programs, 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 judgements and estimates that have been adopted in preparing our IFRS 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. 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. During the comparative period the Group identified an impairment trigger in relation to the capitalised development costs for the aftermarket Liquid Phase Injection (LPI) kits and recognised an allowance for impairment of A$1,065,000.

Consolidation of Sprint Gas (Aust) Pty Ltd

On May 27, 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specializing in the importation and wholesaling of Liquified Petroleum Gas (LPG) Fuel systems. Concurrently with the entering into of the Business Acquisition Agreement, the Group entered into a Subscription and Shareholders Agreement with the owners of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd. As part of the Subscription and Shareholders Agreement Put and Call options were issued over the remaining 45% non-controlling interest. Management has determined that the Put and Call options, exercisable after 30 months, are in nature a forward contract and in substance represent contingent consideration. The Group has accounted for the business combination as though it acquired a 100% interest and has recognised a financial liability to the non-controlling shareholders equal to the fair value of the underlying obligations under the Put and Call option (Contingent consideration liability).

(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 36 to the consolidated financial statements. The fair value of the performance rights is determined by an external valuer using a monte-carlo simulation model, with the assumptions detailed in note 36 to the consolidated financial statements. 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 to the consolidated financial statements.

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.

Recognition of contingent consideration

The Group has measured the value of the contingent consideration liability by reference to the fair values of the underlying obligations under the Put and Call options that give rise to the liability. In determining the fair values of underlying obligations under the Put and Call options the Group has made judgements in respect of the expected earnings before interest, depreciation and amortisation expected to be generated by the business during the calculation period.

Surplus lease space provision

Surplus lease space provision relates to certain unutilised office space. The provision takes account of estimated rental income Orbital is able to recover by sub-letting the space.

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. 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 Statement of Financial Position 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.

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 substantively 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 July 1, 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 consulting 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, 2012, our deferred tax asset included A$5.439 million (A$4.716 million at June 30, 2011), 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, increased during fiscal 2012 by A$0.388 million to A$2.555 million at June 30, 2012 from A$2.167 million at June 30, 2011. 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 2012 by A$6.380 million to A$66.070 million at June 30, 2012 from A$59.690 million at June 30, 2011.

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 taxation consolidations legislation 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, 2012 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$66.070 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

At June 30, 2012, tax carry forward losses of approximately A$31.085 million (US$31.679 million) (2011: A$36.913 million (US$37.618 million)) are available to certain controlled entities in the United States. A deferred tax asset of A$5.439 million (US$5.691 million) (2011: A$4.716 million (US$5.064 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, 2012, the US$31.679 million of tax carry forward losses available expire between the years 2012 and 2024.

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$31.679 million. Approximately US$5.014 million of taxable income will be required in fiscal 2013 when the next 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$5.439 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 deductable in the foreseeable future. The movement in the recognised deferred tax asset from June 30, 2011 to June 30, 2012 is the result of the movement of the assessment period and also updates to future forecast results.

Results of Operations Fiscal 2012 Compared with Fiscal 2011

Orbital's net loss after tax was A$3.053 million for the year ended June 30, 2012 compared to a net profit of A$1.763 million for the year ended June 30, 2011.

Revenue from trading activities in fiscal 2012 increased as compared to fiscal 2011 by 34.4% to A$22.361 million:

- Sale of goods increased 139.8% to A$14.02 million due to Ford commencing production of the new EcoLPi Falcon during the year and including Sprint Gas revenues for a full year compared to one month in 2011.
- Consulting services income decreased 24.9% (A$2.361 million) to A$7.131 million, reflecting reduced customer demand including the impact of the strong Australian dollar on the cost of services for traditional European, USA and Asian customers. Significant programs during the year included the development of the unmanned aircraft system (UAS) engine supplied to AAI in the USA for use in their Aerosonde 4.7 unmanned aerial vehicle (UAV). The engine uses Orbital's FlexDI™ technology enabling spark ignition of military specification kerosene fuels. In addition, Orbital continued development of a liquid natural gas (LNG) dual fuel system for use in heavy duty trucks.
- Licence and Royalty income decreased by 10.5% to A$0.967 million due to the impact of the stronger Australian dollar and steady royalty volumes.
- Other income was A$1.325 million compared to A$6.110 million in 2011. A gain of A$0.392 million was recognised in 2012 due to a change in the fair value of the contingent consideration payable to Sprint Gas minority shareholders and a gain on the sale of the property of A$4.760 million is included in fiscal 2011.

  The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business which is based on an estimated average EBITDA multiple discounted to the present value.
- In February 2011 Orbital completed the sale and leaseback of its land and buildings in Perth for A$8.650 million. The sale generated a net profit of approximately A$4.760 million.

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC) increased 11.0% to A$22.118 million in fiscal 2012 from A$19.924 million in fiscal 2011. The increase included the expenses of Sprint Gas for a full year (2011: 1 month) and is also explained as follows:

- Total employee expenses increased by 9.4% (A$0.987 million) to A$11.481 million. Employee expenses for Sprint Gas were A$1.601 million offset by headcount reductions in other business segments and 2011 included the reversal of a medium term incentive bonus accrual.
- Depreciation and amortisation decreased by 15.6% to A$0.991 million primarily due to the reduction in amortisation of capitalised development expenditures which were fully written off in 2011.
- Engineering consumables and contractor expenses increased by 16.3% to A$2.272 million reflecting a different mix of consulting activity.
- Occupancy expenses increased by 48.8% to A$1.734 million including a full year rental as a result of the sale and lease-back of the Balcatta premises (2011: 4 months) and the inclusion of Sprint Gas property rental.
- Travel and accommodation expenses decreased by 31.9% to A$0.432 million as a result of decreased overseas travel.
- Communication and computing expenses increased by 32.0% to A$0.783 million including Sprint Gas expenses and fiscal 2011 included the reversal of a prior year expense accrual.
- Audit, compliance and listing costs decreased by 19.2% to A$0.569 million as a result of decreased internal audit fees and legal expenses. Fiscal 2011 included costs relating to the acquisition of Sprint gas and the sale of the Balcatta facilities.
- Finance costs of A$0.692 million were in line with the prior year.

- In fiscal 2011, as a result of the contraction of the LPG aftermarket, it was decided to write down previously capitalised development expenses for Liquid LPi aftermarket kits (A$1.065 million) and provision for slow moving Liquid LPi aftermarket inventory (A$0.942 million).
- Other expenses (excluding the write-off of previously capitalised development expenditure A$1.065 million) increased by 306% to A$2.179 million. Fiscal 2012 included A0.429 million for impairment of receivables, increased marketing of A$0.209 (Sprint Gas), increased freight and courier of A$0.114 million (Sprint Gas) and increased warranty allowance of A$0.100 million (increased system sales).

Orbital's share of Synerject's net profit increased by 7.6% to A$3.480 million in fiscal 2012 from A$3.233 million in fiscal 2011. Synerject's revenue increased by 4.8% to US$127.548 million as a result of the continuing recovery of marine markets and introduction of new products in the high end non-automotive and utility engine markets. Development expenses of A$0.765 million incurred by Synerject have been capitalised in Orbital's equity accounted results (fiscal 2011: A$0.580 million) in accordance with IFRS.

The income tax benefit for fiscal 2012 was A$0.204 million, being primarily recognised Deferred Tax Asset (A$0.469 million) offset by State and Federal income taxes in the United States (A$0.252 million) as a result of our share of Synerject taxable income. In fiscal 2011, Orbital recognised A$0.532 million Deferred Tax Asset in the net income tax benefit of A$0.190 million.

Inflation has had a minimal effect on Orbital's results of operations in fiscal 2012 compared to fiscal 2011

Results of Operations Fiscal 2011 Compared with Fiscal 2010

Orbital's net profit after tax was A$1.763 million for the year ended June 30, 2011 compared to a net profit of A$4.516 million for the year ended June 30, 2010.

Revenue from trading activities in fiscal 2011 decreased as compared to fiscal 2010 by 3.6% to A$16.638 million:

- Consulting services income decreased 1% (A$0.129 million) to A$9.492 million, reflecting a steady workload from key contracts. Significant programs during the year included the development of a powertrain fuel economy demonstrator for China, development of the next generation Liquid LPG fuel system for Ford Australia's EcoLPi Falcon and the development of spark ignited heavy fuel engines for unmanned aerial systems.
- Sale of goods decreased 6% to A$5.847 million due to Ford ceasing production of the previous generation LPG Falcon at the end of September 2010 and reflecting a challenging LPG retrofit market.
- Licence and Royalty income decreased by 10% to A$1.081 million due to the impact of the stronger Australian dollar and steady royalty volumes.
- Sprint Gas revenues of A$1.112 million were included in Orbital's results for the first time in the year ended June 30, 2011, following its acquisition in May 2011.
- Other income, excluding the gain on the sale of the property in 2011 of A$4.760 million and the government grant arising on restructure of non interest bearing loan of A$7.695 million in 2010, increased by A$0.809 million compared to fiscal 2010.
- In February 2011 Orbital completed the sale and leaseback of its land and buildings in Perth for A$8.650 million. The sale generated a net profit of approximately A$4.760 million.

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC) increased 4.0% to A$19.924 million in fiscal 2011 from A$19.163 million in fiscal 2010. The net increase was due to the following:

- Total employee expenses decreased by 2.8% to A$10.494 million as a result of the reversal of the medium term incentive bonus accrued in fiscal 2010 and a decrease in headcount.
- Depreciation and amortisation increased by 16.9% to A$1.174 million primarily due to the amortisation of capitalised development expenditures.
- Engineering consumables and contractor expenses decreased by 6.3% to A$1.954 million reflecting a different mix of consulting activity.
- Occupancy expenses increased by 48.2% to A$1.165 million as a result of the sale and lease-back of the Balcatta premises.
- Travel and accommodation expenses decreased by 26.8% to A$0.634 million as a result of decreased overseas travel.
- Communication and computing expenses decreased by 25.0% to A$0.593 million including the reversal of a prior year expense accrual and reflecting cost saving initiatives introduced during the fiscal year.

- Patent costs decreased by 11.2% to A$0.300 million as a result of the rationalisation of some of the patent portfolio.
- Audit, compliance and listing costs increased by 25.7% to A$0.704 million as a result of increased share registry costs and the impact of over accruals from prior periods reversed in fiscal 2010.
- Finance costs have decreased by A$0.067 million to A$0.688 million as a result of decreased short term borrowings.
- As a result of the contraction of the LPG aftermarket, it was decided to write down previously capitalised development expenses for Liquid LPi aftermarket kits (A$1.065 million) and provision for slow moving Liquid LPi aftermarket inventory (A$0.942 million).
- Other expenses (excluding the write-off of previously capitalised development expenditure A$1.065 million) were steady.

Orbital's share of Synerject's net profit increased by 72.5% to A$3.233 million in fiscal 2011 from A$1.874 million in fiscal 2010. Synerject's revenue increased by 35.9% to US$121.673 million as a result of the introduction of new products, particularly the high end non-automotive markets including snow mobiles and high performance motorcycles. Development expenses of A$0.580 million incurred by Synerject have been capitalised in Orbital's equity accounted results (fiscal 2010 A$0.274 million) in accordance with IFRS.

The income tax benefit for fiscal 2011 was A$0.190 million, being primarily recognised Deferred Tax Asset (A$0.532 million) offset by State and Federal income taxes in the United States (A$0.342 million) as a result of our share of Synerject taxable income. In fiscal 2010, Orbital recognised A$0.417 million Deferred Tax Asset in the net income tax benefit of A$0.388 million.

Inflation has had a minimal effect on Orbital's results of operations in fiscal 2011 compared to fiscal 2010

Liquidity and Capital Resources

As at June 30, 2012, Orbital's cash balance, including short term deposits, was A$5.170 million compared to A$6.874 million at June 30, 2011 and A$3.608 million at June 30, 2010. At September 30, 2012 the cash balance was A$6.137 million. Subject to the achievement of the matters set out in note 2 (b) of the financial statements (Basis of Preparation), in Orbital's opinion, the working capital is sufficient for its present requirements.

For fiscal 2012 Orbital recorded a net cash outflow from operations of A$4.245 million compared to cash outflows of A$1.792 million in fiscal 2011 and A$5.049 million in fiscal 2010. The cash outflow in fiscal 2012 resulted from cash flow used in operating activities of A$4.624 million and working capital sources of A$0.379 million. This compares with net cash used by operating activities in fiscal 2011 of A$2.041 million (fiscal 2010 of A$3.611 million) plus working capital sources of A$0.249 million (fiscal 2010: working capital requirements of A$1.438 million). Synerject's equity accounted result is non cash and therefore has no impact on operating cash flow in either fiscal 2012 or fiscal 2011 (however Synerject paid dividends to Orbital in Fiscal 2012, Fiscal 2011 and Fiscal 2010).

Research and development expenditures were A$0.954 million in fiscal 2012, A$1.158 million in fiscal 2011 and A$1.152 million in fiscal 2010. Research and development activity during fiscal years 2012, 2011 and 2010 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 development of the next generation LPG fuel systems.

Orbital generated net cash of A$2.960 million from investing activities in fiscal 2012 compared to A$3.477 million in fiscal 2011 compared to A$1.699 million cash inflow in fiscal 2010. Synerject paid Orbital dividends of A$1.544 million in fiscal 2012 (A$ A$1.208 million in fiscal 2011 and A$0.677 million in fiscal 2010). The capital expenditure in fiscal 2012 consisted mainly of building improvements and the acquisition of computer equipment (fiscal 2011 consisted mainly of the development of the next generation of Liquid LPG fuel systems and tooling costs associated with the Ford EcoLPi Falcon LPG fuel system). In fiscal 2012, Orbital redeemed A$2.063 million short term deposits which were acquired in fiscal 2011. In fiscal 2011, Orbital acquired a short term deposit of A$3.434 million. In fiscal 2011, Orbital sold its land and buildings in Perth for A$8.650 million (A$8.557 million net of selling costs).

Orbital has a A$2.500 million Business Bank Bill Loan with Westpac Banking Corporation to provide working capital support for the Group. At June 30, 2012, A$2.500 million (fiscal 2011: A$0.648 million, fiscal 2010: A$2.056 million) of the facility had been drawn down. 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 credit facilities, forward exchange contracts and banker's undertakings totalling A$3.205 million (2011: A$3.365 million). The Company has also provided the Company's banker with security over a short term deposit of A$1.365 million (2011: A$3.365 million) held by the Company's banker as cash collateral for the financing facilities.

The Company has also provided the Company's bankers with the following undertakings:

- to not grant a charge over, or sell any portion of the 42% shareholding in Synerject LLC without the banker's prior written consent,
- no additional finance or provision of finance, giving of financial guarantees or incurring financial obligations to support any third party without the banker's prior written consent, except in relation to operating leases or hire purchase facilities entered into in the ordinary course of business and not exceeding A$50,000, and
- to operate business operating cheque accounts with the banker.

There are financial covenants attached to the financing facilities, that commenced on July 1, 2012, relating (a) to the financial performance of the Group, and (b) to the level of trade receivables and inventory provided as security for the financing facilities. If the Company does not meet the financial covenants attached to the financing facilities the Company's banker may increase the margin applying to the facility and/or may require the Company to commence making principal and interest payments rather than interest only payments at present. In the event of a material adverse effect on the business, assets, operations, material contracts or condition, financial or otherwise, of the Company the Company's banker may demand immediate repayment of the financing facilities.

If required to immediately repay the financing facilities the Company would need to seek financing facilities from an alternate financier, consider raising funds from the Australian Securities Exchange and/or contemplate a sale of non-current assets.

Orbital had no capital expenditure contracted but not provided for as at June 30, 2012. In July 2008, Orbital received funding of A$2.760 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$1.220 million for fiscal year 2013 primarily to replace and upgrade plant and equipment, computer equipment and motor vehicles. Funds for such expenditure will be sourced internally. In the event of a delay or a reduction in capital expenditure during fiscal 2013 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, however see note 28 of the financial statements regarding a contingent consideration for the acquisition of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd.

Orbital's Jointly Controlled Entity, Synerject LLC

Net cash provided by Synerject's operating activities (excluding capital expenditure) in fiscal 2012 was US$4.989 million, fiscal 2011 was US$7.727 million and fiscal 2010 was US$6.887 million. In March 2009, Synerject negotiated a four (4) year term bank loan of US$7.554 million that replaced a four (4) year term loan due to mature June 2010. In addition Synerject has available a US$5.0 million line of credit to be drawn as and when required. At June 30, 2012 Synerject had drawn down US$1.080 under this line of credit. Synerject's long term loan repayment commitments in fiscal 2012 are approximately US$1.574 million (actual paid fiscal 2011 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, 2012 was US$4.271 million (2011: US$5.754 million) and total debt outstanding (including the line of credit) at June 30, 2012 was US$2.654 million (2011: US$3.462 million). Member guarantees are not required to support Synerject's financing arrangements.

Trend Information

It is anticipated that the system supply business will provide further revenue growth in the year ending June 30, 2013. UAS engine supply to AAI commenced in August 2012 and although EcoLPi volumes are below original expectations, OAS will support a full year supply to Ford.

Consulting services revenue can be cyclical in nature and the order book (thus future revenue and cash flows) at June 30, 2012 was approximately A$1.0 million compared to A$3.9 million at June 30, 2011.

The Synerject result is expected to be influenced by the timing of the launch of new products in China and North America and continuation of the recovery of the North American marine market.

Sprint Gas is expected to experience a challenging year for sales in the Australian LPG market which has contracted over recent years.

Off-Balance Sheet Arrangements

There have been no off-balance sheet arrangements in fiscal 2012, fiscal 2011 or fiscal 2010.

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 Group's exposure to market interest rates relates primarily to the Group's cash, 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 has 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 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	
	2012 A$'000	**2011 A$'000**
Financial assets		
Cash and cash equivalents	**3,799**	3,440
Financial liabilities		
Interest bearing liabilities	**2,577**	648
Contingent consideration	**2,296**	2,688
	4,873	3,336

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date:

At June 30, 2012, 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/(loss) Higher/(Lower)		Other comprehensive income Higher/(Lower)	
	2012 A$'000	**2011 A$'000**	**2012 A$'000**	**2011 A$'000**
Consolidated				
+1% (100 basis points)	**11**	8	—	—
-.5% (50 basis points)	**(5)**	(4)	—	—

The movements in profit are due to higher/lower interest revenue from variable rate cash balances. The sensitivity is the same in 2012 as in 2011 because the only balances affected by interest rates are cash and interest-bearing loan balances.

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

Financial Instruments	A$'000		Weighted Average Interest rate %	
	2012	2011	2012	2011
Cash – Floating (and fixed less than 6 months)	3,799	3,440	3.22	2.84
Interest bearing liabilities	2,577	648	7.35	8.49
Contingent consideration	2,296	2,688	7.80	9.80

At June 30, 2012 and June 30, 2011 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.

Financial Instruments	Fair Value A$'000		Year End Exchange Rate A$	
	2012	2011	2012	2011
Cash held in United States Dollars	42	68	1.0191	1.0739
Cash held in European currency units	26	13	0.8092	0.7082
Receivables in United States Dollars	—	120	1.0191	1.0739
Receivables in European currency units	36	23	0.8092	0.7082
Trade and other payables in United States Dollars	(216)	(139)	1.0191	1.0739
Trade and other payables in European currency units	(12)	(130)	0.8092	0.7082

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.

Investment in equity accounted investee	Carrying Value A$'000		Year End Exchange Rate A$	
	2012	2011	2012	2011
Synerject LLC	13,696	11,406	1.0191	1.0739

At June 30, 2012 and 2011, Orbital did not have any foreign currency sensitive derivative instruments.

Details of Orbital's foreign currency translation exposure as at June 30, 2012, where movements on re-translation in future periods will be recognized in net profit / (loss) are as follows:

	Foreign Currency Amount	Translated Exchange Rate	A$ Equivalent
Cash	US$0.043m	1.0191	A$0.042m
Cash	Euro0.021m	0.8092	A$0.026m
Receivables	Euro0.029m	0.8092	A$0.036m
Payable	(US$0.220m)	1.0191	(A$0.216m)
Payable	(Euro0.010m)	0.8092	(A$0.012m)

Maturity Profile of Commercial Commitments for the next 5 years

Obligations (A$'000s)	At June 30, 2012 Expected Maturity or Expiry Date					
	2013	2014	2015	2016	2017	Total
Finance Leases	23	23	23	17	—	86
Operating Leases (1)	1,191	1,027	1,012	1,006	938	5,174
Long –Term Debt (2)	346	415	498	597	717	2,573
Heavy Duty Engine Testing Facility Operations commitment (3)	391	291	—	—	—	682
Contingent consideration (4)	—	2,701	—	—	—	2,701
Total	1,951	4,457	1,533	1,620	1,655	11,216

(1) The Group leases premises and plant & equipment under operating leases. The lease for the head office and engineering premises in Balcatta, Western Australia is for a period of 10 years with options to extend for two further periods of five years each. Rent for the Balcatta premises is subject to a fixed 3% increase each year. In accordance with IFRS the total rent expense for the lease is recognised on a straight line basis over the 10 year period of the lease. Leases for warehousing premises typically run for a period of 5 years. 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.

(2) 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."

(3) In June 2008, Orbital received funding of A$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).

(4) Refer to note 28 to the consolidated financial statements for more details on the contingent consideration.

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 four, one of whom is an executive director, as set out below.

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 Thomas 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 Dewayne 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:

Name	Position	Initially Elected or Appointed to Board
William Peter Day	Non Executive Chairman (1)(2)	August 22, 2007
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), MBA, FCPA, FCA, FAICD

Chairman, Independent Non-Executive Director

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 Aluminum 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 member of the Company's Audit Committee and the Company's Human Resources, Remuneration and Nomination Committee.

Mr Day is a non-executive director of Ansell Limited (appointed August 20, 2007), SAI Global Limited (appointed August 15, 2008) and Centro Retail Australia Limited (appointed October 01, 2009). He is also involved in a number of public interest activities.

MR TERRY DEWAYNE STINSON, BBA (magna cum laude), FAICD

Managing Director and Chief Executive Officer

Joined the Board in June 2008. Mr Stinson has been a senior executive with Siemens, Europe's largest engineering conglomerate 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 in many others. Mr Stinson has also served as a representative Director for Siemens VDO on the Synerject Board.

Prior to that, he held the position of VP Manufacturing for Outboard Marine Corporation, a privately held US$1 billion multinational outboard marine propulsion and boat company, was CEO of Synerject LLC and held various executive positions with Mercury Marine in R&D, engineering, manufacturing and others.

Mr Stinson was appointed a Member of the Australian Industry Innovation Council (AIIC) in 2009, is a member of the Sustainable Energy Association, is Chairman of Sprint Gas (Aust) Pty Ltd and a Non-executive Board Member of Australia Liquid Petroleum Gas Association (ALPGA).

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

Independent Non-Executive Director

Joined the Board in March 2008. Dr Jones has more than 40 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 chairs the Company's Audit Committee (since February 28, 2011) and is also a member of the Company's Human Resources, Remuneration and Nomination Committee (Chairman until February 28, 2011).

DR VIJOLETA BRAACH-MAKSVYTIS, BSc (Hons), Ph.D, MAICD

Independent Non-Executive Director

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 was a Member of the Australian Federal Government's Green Car Innovation Fund Committee and on the advisory board of the Intellectual Property Research Institute of Australia, and is a member of a number of other public interest boards.

Dr Braach-Maksvytis chairs the Company's Human Resources, Remuneration and Nomination Committee (since February 28, 2011) and is also a member of the Company's Audit Committee.

Dr Braach-Maksvytis is also a non-executive director of AWE Limited (appointed October 7, 2010).

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

Name and Date of Commencement	Position and Experience
Keith Anthony Halliwell August 14, 2000	Chief Financial Officer. Mr. Halliwell has 28 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.
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.

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.

Compensation

Details of total remuneration of Directors and key management personnel of the Company and the consolidated entity are as follows:

	2012 A$	2011 A$	2010 A$
Short-term employee benefits	1,028,635	876,810	1,587,275
Post-employment benefits	114,847	131,555	132,605
Equity compensation benefits	251,062	223,405	225,737
Termination Payments	—	288,241	—
	1,394,544	1,520,011	1,945,617

For fiscal 2012 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$1.395 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, 2012 the aggregate amount of compensation paid or accrued by Orbital for the retirement plans of directors and officers totalled A$0.115 million.

REMUNERATION REPORT

Principles of compensation

This Remuneration Report for the year ended June 30, 2012 outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) 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 and Company.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Remuneration governance
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements
6. Company performance and the link to remuneration
7. Executive contractual arrangements
8. Directors and executive officers' remuneration - company and group
9. Equity instruments

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of KMP of the Group are set out below.

Key management personnel

(i) Directors

W Peter Day Chairman (Non-executive)
Mervyn T Jones (Non-executive)
Vijoleta Braach-Maksvytis (Non-executive)
Terry D Stinson (Executive)

(ii) Executives

Keith A Halliwell – Chief Financial Officer
Geoff P Cathcart – Director, Consulting Services & Engineering

2. REMUNERATION AT A GLANCE

Orbital's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

Members of the KMP may receive a discretionary bonus (short-term incentive (STI)) approved by the Board as reward for exceptional performance in a specific matter of importance. No STIs amounts were paid or became payable during the 2012 financial year.

Members of KMP may receive a medium-term incentive (MTI) bonus based on targets for 1) Profit after tax, 2) Operating Cash Flow, and 3) Pro-rata Consolidated Sales. During the 2012 financial year, the performance hurdles for the MTI were not met and no MTIs were paid or became payable.

Long-term incentive (LTI) awards consisting of shares that vest based on attainment of pre-determined performance goals are awarded to selected executives. For the 2012 financial year, the Company used relative total shareholder return and earnings per share as the performance measures for the share awards. During the 2012 financial year, the performance hurdles for the 2009 grant of shares were not met and no shares vested.

The remuneration of non-executive directors of the Company consists only of directors' fees and committee fees. Director fees and committee fees were reviewed and adjusted during the year.

Remuneration strategy

Orbital's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- Are aligned to the Group's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and Group performance and rewards; and
- Align the interests of executives with shareholders through measuring total shareholder return (TSR) and earnings per share (EPS).

3. REMUNERATION GOVERNANCE

Human Resources, Remuneration and Nomination Committee

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

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.

The Human Resources, Remuneration and Nomination Committee comprises three independent non-executive directors. Further information on the committee's role, responsibilities and membership can be seen at www.orbitalcorp.com.au.

Remuneration approval process

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the long-term incentive (LTI) plan, following recommendations from the Human Resources, Remuneration and Nomination Committee. The Board also sets the aggregate remuneration of non-executive directors which is then subject to shareholder approval.

The Human Resources, Remuneration and Nomination Committee approves, having regard to the recommendations made by the CEO, the short-term incentive (STI) bonus plan and the medium-term incentive (MTI) bonus plan.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive directors and executive remuneration is separate and distinct.

Services from remuneration consultants

From July 1, 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the Corporations Act 2001) are subject to prior approval by the Board or the Human Resources, Remuneration and Nomination Committee in accordance with the Corporations Act 2001.

During the year ended June 30, 2012, no remuneration consultancy contracts were entered into by the Company and accordingly there are no disclosures required under section 300A(1)(h) of the Corporations Act 2001.

4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

Remuneration policy

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed against fees paid to non-executive directors of comparable companies. The Board considers advice from external consultants when undertaking the review process.

The Company's constitution and the ASX listing rules specify that the non-executive directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 annual general meeting (AGM) held on October 25, 2001 when shareholders approved an aggregate fee pool of A$400,000 per year.

The Board will not seek any increase for the non-executive director pool at the 2012 AGM.

Structure

The remuneration of non-executive directors consists of directors' fees and committee fees. Non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

The Chairman of the Board receives a fee of A$109,200 which also covers membership of Committees of the Board. The Chairman sacrificed a portion of his fee in the 2011 financial year. Each non-executive director receives a base fee of A$57,200 for being a director of the Group. An additional fee of A$3,700 is also paid for each Board committee on which a non-executive director sits or A$8,300 if the director is the Chairman of a Board committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by non-executive directors who serve on committees.

The remuneration of non-executive directors for the year ended June 30, 2012 and June 30, 2011 is detailed in Section 8 of this report.

5. EXECUTIVE REMUNERATION ARRANGEMENTS

Remuneration levels and mix

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice. The Group undertakes an annual remuneration review to determine the total remuneration positioning against the market.

The CEO's target remuneration mix for FY2012 comprised 60% fixed remuneration, 20% target MTI opportunity and 20% LTI opportunity. The LTI value is the total accounting expense associated with the grant made during the financial year. Key Management Personnel's target remuneration mix for FY2012 was 69% fixed remuneration, 17% target MTI opportunity and 14% LTI opportunity.

Structure

In the 2012 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration
- Variable remuneration (STI, MTI and LTI)

The table below illustrates the structure of Orbital's executive remuneration arrangements:

Remuneration component	Vehicle	Purpose	Link to company performance
Fixed compensation	• Represented by total fixed remuneration (TFR). • Comprises base salary, Superannuation contributions and other benefits.	• Set with reference to role, market and experience. • Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.	• No link to company performance.
STI component	• Paid in cash	• Rewards executives for their contribution to achievement of Group outcomes.	• Discretionary award by the Board to reward executives for exceptional performance in a specific area of importance.
MTI component	• Paid in cash.	• Rewards executives for their contribution to achievement of Group outcomes.	• Profit after tax. • Pro-rata Consolidated Sales. • Operating Cash Flows.
LTI component	• Awards are made in the form of shares or performance rights.	• Rewards executives for their contribution to the creation of shareholder value over the longer term.	• Vesting of awards is dependent on Orbital Corporation Limited's TSR performance relative to a peer group and its Earnings Per Share.

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.

Executive contracts of employment do not include any guaranteed base pay increases. TFR is reviewed annually by the remuneration committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in Section 8.

Variable remuneration — short-term incentive (STI)

KMP may from time-to-time receive a discretionary cash bonus approved by the Board as a retrospective reward for exceptional performance in a specific matter of importance. The Board has not pre-determined any performance criteria against which the amount of a STI is assessed. There are no pre-determined maximum possible values of award under the STI scheme.

STI awards for 2011 and 2012 financial years

No discretionary STI cash bonuses were paid during the 2011 or 2012 financial years. No discretionary STI cash bonuses relating to the 2011 or 2012 financial years will become payable in future financial years.

Variable remuneration — medium-term incentive (MTI)

The medium term incentive was established in 2009 to incentivise executives to achieve stretch key performance indicators (KPI's). The MTI plan is a target based plan rather than a time based plan.

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

The KPI's are summarised as follows:

Key Performance Indicator	Proportion of MTI award KPI applies to	Minimum KPI A$'000	Stretch KPI A$'000
Financial measure:			
• Profit after tax	33%	100	9,000
• Operating Cash Flow	33%	100	2,700
• Pro-rata Consolidated Sales	33%	100,000	150,000

Bonuses can only be paid if Orbital generates a profit after tax and also generates positive operating cash flow (before working capital movements). Abnormal one-off items influencing the KPIs may be excluded at the discretion of the Human Resources, Remuneration and Nomination Committee. No bonus will be paid unless the Board is satisfied that Orbital has sufficient cash reserves.

Bonuses are awarded when a target is achieved which is higher than that which has already been achieved and rewarded. The MTI earned accumulates over time as targets are achieved with any incremental MTI earned paid annually.

The total potential MTI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

The annual MTI payments for executives are subject to the approval of the Human Resources, Remuneration and Nomination Committee on an annual basis, after consideration of performance against KPIs. This process usually occurs within three months after the reporting date. Payments made are delivered as a cash bonus in the following reporting period.

MTI awards for 2011 and 2012 financial years

The Human Resources, Remuneration and Nomination Committee has considered the MTI bonus for the 2012 financial year. The MTI cash bonus available for the 2012 financial year is nil. This amount has been determined on the basis that 1) the Group's Profit after tax (after removing once-off items) target for the year ended June 30, 2012 has not been met 2) Positive Operating Cash Flows for the year ended June 30, 2012 were not achieved, and 3) the Consolidated Pro-rata Sales of the Group have not reached the minimum threshold of A$100,000,000.

Estimates of the minimum and maximum possible total value of the award over time is as follows:

Name	Position	Amount (Min – Max)
Terry Stinson	Chief Executive Officer	0 - A$655,200
Keith Halliwell	Chief Financial Officer	0 - A$390,680
Geoff Cathcart	Director, Consulting Services and Engineering	0 - A$295,500

The maximum bonus is only payable if the stretch targets on all three of the KPI's are achieved. No bonus is awarded where performance falls below minimum thresholds.

Variable remuneration — long-term incentives (LTI)

LTI awards are made annually to executives in order to align remuneration with the creation of shareholder value over the long-term. As such, LTI awards are only made to executives and other key talent who have an impact on the Group's performance against the relevant long-term performance measure.

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 A$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. 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 vest 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% on the relative ranking of the Total Shareholder Return ("TSR") of the Company to a group of selected peers, and 50% on Earnings Per Share (EPS), apply to determine the number of shares (if any) that vest 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 vest to the Executive.

The following table sets out the relevant percentages of shares offered which will vest 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 vest under the FY2010, FY2011 and FY2012 offers unless the Company's TSR is at or above the 50th percentile or the EPS for the years ending June 30, 2013, June 30, 2014 and June 30, 2015 is at or above 15, 11 and 15 cents per share, respectively.

TSR Performance targets under the LTI offered in FY2009 were not met in FY2012 and as a result nil (2011: nil) shares were issued to KMPs.

At the Company's Annual General Meeting in October 2011, shareholders approved the above plan in relation to the ongoing remuneration of the Executive Director.

Performance Rights Plan

The Company also introduced a Performance Rights Plan in 2009 as part of the employment contact of Mr T D Stinson. The Performance Rights Plan was approved by shareholders in October 2008. The Board has no present intention to utilise the Performance Rights Plan for any other senior executives.

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 1,150,000 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	200,000	A$ 2.50
2	200,000	A$ 5.00
3	200,000	A$ 7.50
4	200,000	A$10.00
5	125,000	A$20.00
6	125,000	A$30.00
7	100,000	A$50.00

The target share prices were chosen as they directly align the director's 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;

(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, 2012.

Termination and change of control provisions

Where a participant ceases employment prior to the vesting of their award, the unvested shares are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances.

In the event of a change of control of the Group, the performance period end date will generally be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period, subject to ultimate Board discretion.

LTI awards for 2012 financial year

Shares were granted under the Employee Share Plan No.1 to a number of executives on December 15, 2011. No Shares were granted under the Executive Long Term Share Plan or the Performance Rights Plan during the 2012 financial year.

Details in respect of the award are provided in Section 9.

6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION

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 MTI is an "at risk" bonus provided in the form of cash, while the 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 wealth 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.

Company performance and its link to medium-term incentives

	2008 A$'000	2009 A$'000	2010 A$'000	2011 A$'000	2012 A$'000	Minimum KPI A$'000	Stretch KPI A$'000
Profit/(Loss) after tax	469	(2,451)	4,516	1,763	(3,053)	positive	9,000
Operating Cash Flow	73	(856)	(4,372)	(584)	(2,701)	positive	2,700
Pro-rata Consolidated Sales	59,875	63,867	61,081	68,148	74,371	100,000	150,000
Operating Cash Flow (before working capital movements)*	901	(2,372)	(2,934)	(833)	(3,080)	positive	Not applicable

* A positive operating cash flow (before working capital movements) must be achieved as a pre-condition for the payment of any MTI.

Company performance and its link to long-term incentives

The performance measure which drives LTI vesting is the Company's TSR performance relative to the companies within its peer group and earnings per share (EPS). The table below show the performance of the Group as measured by the Group's total shareholder return (TSR) to the median of the TSR for peer group and also the Group's earnings per share for the past five years (including the current period) to June 30, 2012. The earnings per share values in the table below have been adjusted to reflect the share consolidation undertaken during the reporting period.

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

	2008	2009	2010	2011	2012	2013 Minimum	2014 Minimum
TSR ranking (percentile)	76th	70th	56th	*	*	50th	50th
Earnings per share (cents)	1.00	(5.10)	9.39	3.65	(6.28)	11.00	15.00
Closing share price (A$)	1.10**	0.75**	0.25**	0.25	0.22	—	—

* The Company did not measure its TSR ranking in 2011 or 2012 as the Board determined that Orbital's TSR would be below the median TSR of the peer group.

** Share prices were adjusted for 10:1 share consolidation that occurred in October 2010.

As a result of the Company's performance over the last five years, LTIs offered during 2005, 2006 and 2007 were fully vested in financial year 2008 and partially vested in financial years 2009 and 2010 respectively. The performance target for the LTIs offered in 2008 and 2009 were not met during the financial years 2011 and 2012 and as such no shares were vested.

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

The CEO, Mr. Stinson, is employed under a rolling contract.

Under the terms of the present contract as disclosed to the ASX on September 14, 2007:

- The CEO receives fixed remuneration of A$364,000 per annum
- The CEO's target MTI opportunity per annum is 20% of annual TEC and his maximum MTI opportunity per annum is 60% of TEC
- The CEO is eligible to participate in Orbital Corporation Limited's LTI plan on terms determined by the Board, subject to receiving any required or appropriate shareholder approval

The CEO's termination provisions are as follows:

	Notice Period	Payment in lieu of notice	Treatment of MTI on termination	Treatment of LTI on termination	Termination payments
Employer initiated termination	12 months	12 months	Pro-rated for time and performance	Board discretion	None
Termination for serious misconduct	None	None	Unvested awards forfeited	Unvested awards forfeited	None
Employee-initiated termination	3 months	3 months	Unvested awards forfeited	Unvested awards forfeited subject to Board discretion	None

Other KMP

All other KMP have rolling contracts.

Standard KMP termination provisions are as follows:

	Notice Period	Payment in lieu of notice	Treatment of MTI on termination	Treatment of LTI on termination	Termination payments
Employer initiated termination	1 months	1 months	Pro-rated for time and performance	Board discretion	4 weeks pay, plus 2 weeks pay for each completed year of service, plus for each completed year of service beyond 10, an additional 1/2 weeks pay, plus a pro-rata payment for each completed month of service in the final year. The maximum entitlement to termination pay is limited to 65 weeks pay.
Termination for serious misconduct	None	None	Unvested awards forfeited	Unvested awards forfeited	None
Employee-initiated termination	1 months	1 months	Unvested awards forfeited	Unvested awards forfeited subject to Board discretion	None

Payments applicable to outgoing executives

There were no changes to the KMP of the Group for the year ended June 30, 2012 or subsequent to June 30, 2012.

8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION - COMPANY AND GROUP

Details of the nature and amount of each major element of remuneration of the Group's Key Management Personnel are:

		Short Term			Post Employment	Share Based Payments				
	Year	Salary and Director' Fees A$	Cash Bonuses A$ (a)	Total A$	Employer Superannuation Contributions A$	Employee Share Plans A$ (b)(c)	Performance Rights Plan A$ (d)	Termination Payments A$	Total A$	Proportion of remuneration performance related % (f)
Non-executive Directors										
W Peter Day	2012	100,183	—	100,183	9,017	—	—	—	109,200	—
Chairman (Non-executive)	2011	63,075	—	63,075	5,676	—	—	—	68,751	—
Mervyn T Jones	2012	63,486	—	63,486	5,714	—	—	—	69,200	—
Director (Non-executive)	2011	60,827	—	60,827	5,475	—	—	—	66,302	—
Vijoleta Braach-Maksvytis	2012	63,486	—	63,486	5,714	—	—	—	69,200	—
Director (Non-executive)	2011	57,955	—	57,955	5,216	—	—	—	63,171	—
J Grahame Young (e)	2012	—	—	—	—	—	—	—	—	—
Director (Non-executive)	2011	41,949	—	41,949	3,775	—	—	—	45,724	—
Total Consolidated, all non-executive directors	2012	227,155	—	227,155	20,445	—	—	—	247,600	—
	2011	223,806	—	223,806	20,142	—	—	—	243,948	—
Executive Director										
Terry D Stinson	2012	333,945	—	333,945	40,073	105,525	49,283	—	528,826	29.3%
Director and Chief Executive Officer	2011	322,892	(140,000)	182,892	36,144	113,800	49,283	—	382,119	31.2%
Other Key Management Personnel										
Keith A Halliwell	2012	266,719	—	266,719	30,231	54,922	—	—	351,872	15.6%
Chief Financial Officer	2011	256,694	(79,884)	176,810	28,757	59,542	—	—	265,109	17.3%
Geoff P Cathcart	2012	200,816	—	200,816	24,098	41,332	—	—	266,246	15.5%
Director, Consulting Services & Engineering	2011	196,340	(59,850)	136,490	18,841	42,427	—	—	197,758	16.5%
B Anthony Fitzgerald (g)	2012	—	—	—	—	—	—	—	—	—
Director, Orbital Autogas Systems	2011	230,593	(73,781)	156,812	27,671	(41,647)	—	288,241	431,077	-8.2%
Total Consolidated, Executive Director and Key Management Personnel	2012	801,480	—	801,480	94,402	201,779	49,283	—	1,146,944	17.6%
	2011	1,006,519	(353,515)	653,004	111,413	174,122	49,283	288,241	1,276,063	10.7%

8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION COMPANY AND GROUP (continued)

Notes in relation to the table of directors' and executive officers remuneration

(a) Bonuses are those paid or accrued as payable in relation to the year reported. For the 2010 financial year, 100% of the MTI cash bonus of A$353,515 as previously accrued in that period vested to executives, however all participants in the MTI scheme voluntarily and irrevocably waived their right to their MTI cash bonuses. The Group recorded a reversal of the MTI cash bonus of A$353,515 during the 2011 financial year.
(b) The fair value of the Employee Share Plan #1 is based upon the market value (at offer date) of shares offered.
(c) The fair value of the Executive Long Term Share plan ("ELTSP") is calculated at the date of grant through utilisation of the assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model and is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights recognised in this reporting period. In valuing the rights the market based hurdles that must be met before the executive long term share plan rights vest in the holder have been taken into account.

The following factors and assumptions were used in determining the fair value of TSR related rights issued under the ELTSP on grant date:

TSR related rights

Grant Date*	Life	Expiry Date	Fair Value per right	Exercise Price	Market price of shares on grant date	Expected volatility	Risk free interest rate
Aug 31, 09	3 years	Aug 31, 12	38 cents	nil	55 cents	65.00%	5.03%
Aug 31, 10	3 years	Aug 31, 13	33 cents	nil	34 cents	60.00%	4.27%
Aug 31, 11	3 years	Aug 31, 14	25 cents	nil	35 cents	110.00%	3.79%

* The grant date of the TSR related rights for the Managing Director was October 26, 2011.

The following factors and assumptions were used in determining the fair value of EPS related rights offered under the ELTSP on grant date:

EPS related rights

Grant Date*	Life	Expiry Date	Fair Value per right	Exercise Price	Market price of shares on grant date
Aug 31, 09	3 years	Aug 31, 12	55 cents	nil	55 cents
Aug 31, 10	3 years	Aug 31, 13	34 cents	nil	34 cents
Aug 31, 11	3 years	Aug 31, 14	35 cents	nil	35 cents

* The grant date of the EPS related rights for the Managing Director was October 26, 2011.

The fair value of the EPS related rights is equal to the market price of shares on the grant date.

(d) The fair value of the Performance Rights is calculated at the date of grant through utilisation of the assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the performance rights recognised in this reporting period. In valuing the performance rights the hurdles that must be met before the executive long term share plan shares vest in the holder have been taken into account.

Grant Date	Life	Fair Value per right	Target price	Market price of shares on grant date	Expected volatility	Risk free interest rate
Aug 31, 08	10 years	47 cents	A$2.50	79 cents	55.00%	5.75%
Aug 31, 08	10 years	35 cents	A$5.00	79 cents	55.00%	5.75%
Aug 31, 08	10 years	28 cents	A$7.50	79 cents	55.00%	5.75%
Aug 31, 08	10 years	23 cents	A$10.00	79 cents	55.00%	5.75%
Aug 31, 08	10 years	13 cents	A$20.00	79 cents	55.00%	5.75%
Aug 31, 08	10 years	9 cents	A$30.00	79 cents	55.00%	5.75%
Aug 31, 08	10 years	5 cents	A$50.00	79 cents	55.00%	5.75%

(e) Mr J Grahame Young retired from the Board on February 28, 2011.

(f) The reversal of the cash bonus has been excluded from the calculation of proportion of remuneration performance related.

(g) Mr Fitzgerald ceased to be a KMP on June 30, 2011.

9. EQUITY INSTRUMENTS

All shares refer to ordinary shares and rights of Orbital Corporation Limited.

Analysis of Shares Offered as Compensation

Details of the shares and rights offered under the LTI to each key management person during the reporting period are as shown below. Please refer to footnote (b) below for the terms and conditions relating to the granting of the rights offered under the Executive Long Term Share Plan.

		Employee Share Plan No. 1			Executive Long Term Share Plan		
		Number of shares issued	Share Price	Value (a) A$	Number of Rights Granted/ (Forfeited)	Value (b) A$	Number of Rights Vested
Executive Director							
T D Stinson	2012	—	—	—	770,000	231,000	—
	2011	—	—	—	665,000	222,775	—
Executives							
K A Halliwell	2012	2,633	A$0.3798	1,000	410,000	123,000	—
	2011	3,369	A$0.2968	1,000	337,567	113,085	—
G P Cathcart	2012	2,633	A$0.3798	1,000	310,000	93,000	—
	2011	3,369	A$0.2968	1,000	252,700	84,655	—
B A Fitzgerald	2012	—	—	—	—	—	—
	2011	3,369	A$0.2968	1,000	(316,000)	—	—

(a) The fair value of the employee share plan No. 1 based upon the market value (at offer date of October 31, 2011 and October 31, 2010 respectively) of shares offered. These awards are fully vested.

(b) Represents the fair value of rights offered on August 31, 2011 and August 31, 2010 respectively using a Monte-Carlo simulation model. The vesting of the shares offered on August 31, 2011 is subject to the achievement of two performance conditions; a) 50% related to the Total Shareholder Return ("TSR") of the Company compared to a peer group of selected companies over a three year period, and b) 50% related to the Group achieving earnings in excess of 15 cents per share for the year ending June 30, 2014. The vesting of the shares offered on August 31, 2010 is subject to the achievement of two performance conditions; a) 50% related to the Total Shareholder Return ("TSR") of the Company compared to a peer group of selected companies over a three year period, and b) 50% related to the Group achieving earnings in excess of 11 cents per share for the year ending June 30, 2013. Performance conditions were met not in respect of shares offered in August 2008 and shares in relation to that offer expired at the expiration of the performance period during the 2012 financial year.

(c) No performance rights vested during the years ended June 30, 2012 or June 30, 2011.

Corporate Governance

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

1. CORPORATE GOVERNANCE AT ORBITAL

The Board of Directors of Orbital Corporation Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement reports on Orbital's key governance principles and practices. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and developments in corporate governance.

The Company, as a listed entity, must comply with the *Corporations Act 2001* (Cwth) (Corporations Act), the Australian Securities Exchange (ASX) Listing Rules (ASX Listing Rules) and other Australian and international laws. The ASX Listing Rules requires the Company to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's (ASXCGC) second edition of its Corporate Governance Principles and Recommendations with 2010 Amendments. Orbital believes that, throughout the 2012 financial year and to the date of this report, it has complied with all the ASXCGC Recommendations.

Information on Orbital's corporate governance framework is also provided in the Corporate Governance section of Orbital's website (www.orbitalcorp.com.au)

2. BOARD OF DIRECTORS

2.1 Role of the Board

ASXCGC Recommendations 1.1, 1.3

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

To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting. A copy of the Board's Charter is available in the Corporate Governance section of Orbital's website.

The Board has delegated responsibility for operation and administration of the Group to the Chief Executive Officer and executive management. Responsibilities are delineated by formal authority delegations.

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.

2.2 Composition of the Board

ASXCGC Recommendations 2.1, 2.2, 2.3, 2.6

The names and qualifications of the directors of the Company in office at the date of this Report are detailed in the Directors' Report on pages 30 and 31.

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 professional adviser or a 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 Group, nor does any non-executive Director have a contractual relationship with the Group (other than as a director of the Company) and therefore the Board has not had to consider any materiality threshold.

2.3 Conflicts 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.

2.4 Board Succession Planning

ASXCGC Recommendation 2.6

The Board manages its succession planning with the assistance of the Human Resources, Remuneration and Nomination Committee. The Committee annually reviews the size, composition and diversity of the Board and the mix of existing and desired competencies across members and reports its conclusions to the Board. In conducting the review a skills matrix is used to enable the Committee to assess the skills and experience of each director and the combined capabilities of the Board.

Recognising the importance of Board renewal, the Committee takes each director's tenure into consideration in its succession planning.

2.5 Directors' Retirement and Re-election

ASXCGC Recommendation 2.6

Non-executive directors must retire at the third Annual General Meeting (AGM) following their election or most recent re-election. At least one non-executive director must stand for election at each AGM. Any director appointed to fill a vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM.

Board support for a director's re-election is not automatic and is subject to satisfactory director performance.

2.6 Directors' Appointment, Induction Training and Continuing Education

All new directors are required to sign and return a letter of appointment which sets out the key terms and conditions of their appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with committee work.

As part of the induction process, new directors are provided with detailed information about the nature of the Group's business, current issues, Group strategy, financial matters, policies and procedures and are given the opportunity to meet with management to obtain an insight into the Group's business operations.

All directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are encouraged to undertake continuing professional education including industry seminars and approved education courses.

2.7 Board Access to Independent Professional Advice and Company Information

ASXCGC Recommendation 2.6

Each director has the right of access to all relevant Company information and to the Group'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.

2.8 Review of Board Performance

ASXCGC Recommendations 2.5, 2.6

The Human Resources, Remuneration and Nomination Committee is responsible for determining the process for evaluating Board performance. Evaluations are conducted by way of questionnaires appropriate in scope and content to effectively review:

- the performance of the Board and each of its committees against the requirements of their respective charters; and
- the individual performance of the Chairman and each director.

The performance of each director retiring at the next AGM is taken into account by the Board in determining whether or not the Board should support the re-election of the director.

2.9 Directors' Remuneration

Details of remuneration paid to directors (executive and non-executive) are set out in the Remuneration Report on pages 32 to 44. The Remuneration Report also contains information on the Company's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between the policy and company performance.

Shareholders will be invited to consider and approve the Remuneration Report at the 2012 AGM.

2.10 Board Meetings

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.

2.11 Company Secretary

Mr Ian G Veitch, B. Bus, GradDipACG, ACA, ACIS, ACSA. Mr Veitch joined Orbital in 2006 and was appointed to the position of Company Secretary on July 1, 2009. He has over 18 years experience in company secretarial, corporate and financial accounting roles. Mr Veitch holds a Bachelor of Business degree and is a Chartered Accountant and Chartered Secretary. Mr Veitch is a Member of the Institute of Chartered Accountants in Australia, a Member of the Institute of Chartered Secretaries and Administrators, and an Associate of Chartered Secretaries Australia. The appointment and removal of a Company Secretary is a matter for decision by the Board. The Company Secretary is responsible for ensuring that Board procedures are complied with and that governance matters are addressed.

3. COMMITTEES OF THE BOARD

3.1 Board Committees, Membership and Charters

ASXCGC Recommendations 2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 8.1, 8.3,

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 Group including a system of internal control and the establishment of appropriate ethical standards.

3.2 Audit Committee

ASXCGC Recommendations 4.1, 4.2, 4.3, 4.4

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. A copy of the Audit Committee's Charter is available in the Corporate Governance section of Orbital's website. All members of the Committee must be independent, non-executive directors.

Members of the Audit Committee during the year were Dr M T Jones (Chairman), Mr W P Day 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, 2012 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 the 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 ASX Listing Rules; and improving the 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. The Audit Committee charter provides for rotation of the external audit partner every five years.

3.3 Human Resources, Remuneration and Nomination Committee

ASXCGC Recommendations 2.4, 2.6, 8.1, 8.2

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. 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 employee share schemes, incentive performance packages, superannuation entitlements, fringe benefits policies and professional indemnity and liability insurance policies. From time-to-time, 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 V Braach-Maksvytis (Chairman), Mr W P Day and Dr M T Jones.

The Human Resources, Remuneration and Nomination Committee meet as and when required. The Committee has a documented charter, approved by the Board. A copy of the Human Resources, Remuneration and Nomination Committee's Charter is available in the Corporate Governance section of Orbital's website.

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

4 SHAREHOLDERS

4.1 Shareholder Communication

ASXCGC Recommendations 6.1, 6.2

Directors recognise that shareholders, as the ultimate owners of the Company, are entitled to receive timely and relevant high quality information about their investment. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of shares.

Information is communicated to shareholders as follows:

- The disclosure of full and timely information about Orbital's activities in accordance with the disclosure requirements contained in the ASX Listing Rules and the Corporations Act;
- All information released to the market to be placed on the Company's website promptly following release;
- The annual financial report is distributed to all shareholders (and to American Depositary Receipt (ADR) holders) on request in accordance with Corporation Act 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 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 and is lodged with Australian and United States regulatory bodies and stock exchanges. Financial reports are sent to any shareholder or ADR holder who requests them; and

The Board encourages participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group'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, 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.

4.2 Continuous Disclosure and Market Communications

ASXCGC Recommendations 5.1, 5.2

The Board of Directors aims to ensure that shareholders are informed of all major developments affecting the Group'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 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 the Managing Director and either the Chairman or Company Secretary prior to release to the ASX. The Company Secretary is responsible for all communications with the ASX.

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

5. PROMOTING RESPONSIBLE AND ETHICAL BEHAVIOUR

5.1 Code of Conduct and Whistleblower Policy

ASXCGC Recommendations 3.1, 3.5

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 Group. 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 Group, 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 in the Corporate Governance section of Orbital's website.

5.2 Securities Ownership and Dealing

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 Securities Trading Policy is available in the Corporate Governance section of Orbital's website.

6. RISK MANAGEMENT

6.1 Approach to Risk Management and Internal Control

ASXCGC Recommendations 7.1, 7.4

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 Group. 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 Group's assets are safeguarded and that reliable financial records are maintained. Operational and other compliance risk management has also been reviewed and found to be operating efficiently and effectively. A copy of the Company's risk management policy is available in the Corporate Governance section of Orbital's website.

Risks to the Group 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, environmental issues, occupational safety and health and financial reporting.

6.2 Internal Control Framework

ASXCGC Recommendations 7.2, 7.4

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 safety committee;
- Financial reporting accuracy and compliance with regulatory requirements; and
- Compliance with environmental regulation.

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.

6.3 Chief Executive Officer and Chief Financial Officer Assurance

ASXCGC Recommendations 7.3, 7.4

The Chief Executive Officer and Chief Financial Officer have declared, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and 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.

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

6.4 Environmental Regulation

The Group 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 Group on an on-going basis. The directors are not aware of any material breaches during the period covered by this report.

7. EXTERNAL AUDITOR RELATIONSHIP

ASXCGC Recommendation 4.4

The Audit Committee oversees the terms of engagement of Orbital's external auditor. The Audit Committee ensures that the audit approach covers all financial statement areas where there is a risk of material misstatement and that audit activities are carried out throughout the Orbital Group in the most effective, efficient and comprehensive manner.

The Committee has the responsibility for the appointment, compensation and oversight of the external Auditor and to ensure that the external Auditor meets the required standards for Auditor Independence. In monitoring Auditor Independence the Committee will have regard to any legislative or regulatory requirements, and the following principles:

- It is mandatory that the Audit Partner responsible for the Audit be rotated at least every five years. At least two years must expire before the Audit Partner can again be involved in the Audit of the Group.
- The Committee monitors the number of former employees of the external Auditor who were involved in auditing the company, currently employed in senior financial positions in the company, and assesses whether this impairs or appears to impair the Auditor's judgment or independence in respect of the company. An individual auditor who was engaged by the external Auditor and participated in the company's audit shall be precluded from employment as Chief Executive Officer or Chief Financial Officer of the company for a period of twelve months from the time of the audit.
- Consider whether taken as a whole, the various relationships between the company and the external Auditor and the economic importance of the company (in terms of fees paid to the external Auditor for the Audit as well as fees paid to the external Auditor for the provision of non-audit services) to the external Auditor impair or appear to impair the Auditor's judgment or independence in respect of the company.
- The company shall not engage its external Auditor for certain non-audit services (including book-keeping, financial information systems design, valuations, actuarial services, internal audit outsourcing, human resources and unrelated legal/expert services). Any proposal to grant the external Auditor non-prohibited non-audit services will be referred to the Chairman of the Audit Committee by management prior to granting the work.
- The Chairman of the Committee will meet (at least annually) with the external Auditors without the presence of management

8. DIVERSITY

ASXCGC Recommendations 3.2, 3.3, 3.4, 3.5

8.1 Diversity Policy

The Company respects and values the competitive advantage of diversity, and the benefit of its integration throughout the Company, in order to enrich the Company's perspective, improve corporate performance, increase shareholder value, and enhance the probability of achievement of the Company's objectives.

Diversity constitutes people at relevant levels within the Company (including board, senior executive, management and otherwise) with a diverse blend of skills, experiences, perspectives, styles and attributes gained from life's journey, including on account of their culture, gender, age or otherwise.

The Company is committed to employing and retaining the best technical and non-technical staff based on their capacity to perform well for the Company.

A copy of the Diversity Policy is available in the Corporate Governance section of Orbital's website.

8.2 Measurable Objectives —Diversity

The Board has not set any measurable objectives for gender diversity as it is satisfied that current employment, advancement and reward decisions regarding staff within the Company are made irrespective of race, religion, gender, age, or any other irrelevant point of difference, therefore no measureable objectives have been put in place at this time to specifically change or increase gender diversity.

8.3 Workforce gender profile at June 30, 2012

Proportion of women in total organisation:	13%
Proportion of women in senior executive positions:	0%
Proportion of women on the board:	25%

Employees

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

Category	**June 2012**		**June 2011**		**June 2010**	
	Aus	**US**	**Aus**	**US**	**Aus**	**US**
Executive	4	—	4	—	4	—
Orbital Autogas Systems	20	—	23	—	15	—
Sprint Gas	19	—	21	—	—	—
Administration	10	—	10	—	15	—
Engineers	31	—	37	—	39	—
Technicians	22	—	21	—	27	—
Others	2	—	2	—	2	—
Total	108	—	118	—	102	—

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 September 30, 2012 are as follows:

Directors	Ordinary Shares
W P Day	10,000
T D Stinson	392,690
M T Jones	18,000
Senior Managers	
K A Halliwell	180,238
G P Cathcart	54,095

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

Employee Share Plan - 2010 Offer

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2010 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 January 17, 2011, a total of 283,670 fully paid ordinary shares were issued to employees under the No. 1 Plan.

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 748,125 fully paid ordinary shares. Mr Halliwell has been offered up to 379,762 fully paid ordinary shares. Mr Cathcart has been offered up to 284,287 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) 55.6% 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) 44.4% of the shares offered will be issued if the Company achieves earnings in excess of 11 cents per share for the year ending June 30, 2013.

Employee Share Plan - 2011 Offer

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2011 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 15, 2011, a total of 239,919 fully paid ordinary shares were issued to employees under the No. 1 Plan.

Executive Long Term Share Plan - 2011 Offer

At the Company's Annual General Meeting on October 26, 2011, 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 866,250 fully paid ordinary shares. Mr Halliwell has been offered up to 461,250 fully paid ordinary shares. Mr Cathcart has been offered up to 348,750 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) 55.6% 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, 2011 and ending on August 31, 2014 ("**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) 44.4% of the shares offered will be issued if the Company achieves earnings in excess of 15 cents per share for the year ending June 30, 2014.

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 September 30, 2012, Orbital had issued and outstanding 48,722,477 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 are only two shareholder who have greater than 5% of the Company's issued capital. The details of the shareholder are:

Name	Number of shares held	% of shares
SG Hiscock & Company Ltd *(as notified on July 13, 2011)*	4,755,400	9.80%
Deutsche Bank AG *(as notified October 15, 2012)*	3,361,357	6.90%

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

The Executive Officers and Directors of Orbital as a group own 655,023 ordinary shares which represent 1.34% of that class.

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

Shareholder Locations

There are 48,722,477 ordinary shares in the Company on issue at September 30, 2012, 80% of which are held by 4,901 shareholders located in Australia.

There are 597,993 ADS's (representing 9,567,888 ordinary shares in the Company) on issue at September 30, 2012 held by 162 registered holders located in the United States of America.

Related Party Transactions

There were no related party transactions with Directors during fiscal 2012 (nil in both fiscal 2011 and 2010).

The aggregate amounts receivable from (net of provisions for doubtful debts)/ payable to wholly owned controlled entities by the Company at September 30, 2012 and June 30 in each of the preceding three years are as follows:

	September 30, 2012 (A$000's)	2012 (A$000's)	2011 (A$000's)	2010 (A$000's)
Receivables - Non-current	37,875	30,351	27,942	28,364
Borrowings - Non-current	9,833	14,571	11,386	13,090

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

	2012 (A$000's)	2011 (A$000's)	2010 (A$000's)
Receivables - Non-current	30,639	28,382	28,570
Borrowings - Non-current	14,802	12,571	13,370

The Company is the only publically 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 2012, nil interest expense (fiscal 2011: nil; fiscal 2010: nil) was recognised by the Company in relation to these loans. The interest rate charged during the year was nil (2011 and 2010: 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 September 30, 2012 and June 30 in each of the preceding three years are:

	September 30, 2012 (A$000's)	2012 (A$000's)	2011 (A$000's)	2010 (A$000's)
Receivables - Current	—	—	—	3
Payables - Current	25	63	7	110

During fiscal 2012, the Orbital Group provided consulting services to Synerject LLC to the value of A$nil (2011: A$nil million) and purchased goods and services from Synerject LLC to the value of A$0.178 million (2011: 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-65 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 2012 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 sixteen ordinary shares. The ADSs have traded on NYSE Amex with effect from August 25, 2011, under the symbol "OBT". Prior to that time, the ADSs were traded on the Over the Counter Bulletin Board (OTCBB) with effect from July 1, 2004 until August 25, 2011, under the symbol "OBTMY".

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 and NYSE Amex. 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. Note that effective April 19, 2010 the ratio of ordinary shares to ADSs was changed from 1 : 40 to 1 : 160 and effective October 31, 2010 the ratio of ordinary shares to ADSs was changed from 1 : 16. Please note that the ADS prices quoted below for dates prior to April 19, 2010 and October 31, 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
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$1.36	0
2010-11		A$ 0.46	653,072	A$ 0.18	0	US$ 7.30	11,800	US$2.88	0
2011-12		A$ 0.40	360,000	A$ 0.18	0	US$ 6.48	12,100	US$3.06	0
2010-11	Q1	A$ 0.40	193,359	A$ 0.25	0	US$ 4.90	3,600	US$3.72	0
	Q2	A$ 0.31	150,000	A$ 0.18*	0	US$ 4.70	11,800	US$2.88*	0
	Q3	A$ 0.46*	653,072	A$ 0.23	0	US$ 7.30*	9,800	US$3.35	0
	Q4	A$ 0.40	521,850	A$ 0.25	0	US$ 6.75	3,800	US$4.10	0
2011-12	Q1	A$ 0.38	309,000	A$ 0.25	0	US$ 6.48*	5,100	US$4.33	0
	Q2	A$ 0.40*	357,700	A$ 0.25	0	US$ 5.92	8,300	US$3.64	0
	Q3	A$ 0.35	360,000	A$ 0.24	0	US$ 5.90	12,100	US$3.74	0
	Q4	A$ 0.34	197,100	A$ 0.18*	0	US$ 5.91	7,300	US$3.06*	0
Apr 2012		A$ 0.34	197,100	A$ 0.28	0	US$ 5.91	7,300	US$5.00	0
May 2012		A$ 0.31	39,400	A$ 0.26	0	US$ 5.35	1,300	US$4.06	0
Jun 2012		A$ 0.28	195,700	A$ 0.18	0	US$ 4.54	3,800	US$3.06	0
Jul 2012		A$ 0.25	375,000	A$ 0.19	0	US$ 4.30	3,200	US$3.12	0
Aug 2012		A$ 0.22	55,000	A$ 0.19	0	US$ 3.38	7,300	US$2.95	0
Sept 2012		A$ 0.22	3,300,000	A$ 0.18	0	US$ 3.20	4,300	US$2.92	0

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

On September 30, 2012, the closing sale price of the ordinary shares on the ASX was A$0.19 per ordinary share and the closing sale price of the ADSs on the NYSE Amex on that date was US$2.95 per ADS. On September 30, 2012, 597,993 ADSs, representing 9,567,888 ordinary shares, or approximately 20% of the outstanding ordinary shares, were outstanding and were held by 162 holders of record including nominee companies holding on behalf of beneficial shareholders.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles (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.

1. Our objects and purposes

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

2. Directors

2.1 Directors' power to vote on matters in which he or she has an interest

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.

2.2 Borrowing powers

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;

2.3 Age limit for retirement

There is no provision pertaining to the retirement of directors pursuant to an age limit requirement in our Constitution.

2.4 Director's holding of office

A Director may not hold office in contravention of the Corporations Act 2001 (Aust.). Details of requirements for Directors to stand for re-election are set out at "Item 6. Directors, Senior Management and Employees – Board Practices".

2.5 Directors' qualifying shares

A Director is not required to have a share qualification.

3. Rights attaching to shares

3.1 Dividend rights

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.

3.2 Voting rights

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.

3.3 Rights to share profits

Article 15 provides for the directors to set aside out of the profits of the company such sums as they think proper as a reserve and also to carry forward so much of the profits remaining as they consider ought not to be distributed as dividends.

3.4 Rights to share in any surplus in the event of liquidation

Article 18 provides that shareholders have the right to participate in the distribution of our surplus assets in proportion to the number of shares held in the event of the termination or liquidation of us.

3.5 Redemption provisions

Article 21 provides that we may repurchase small holdings of issued shares in accordance with procedures provided in the Constitution and the operating rules of a CS Facility.

3.6 Sinking fund provisions

There are no provisions within our Constitution for sinking funds.

3.7 Liability to further calls by the company

The Company has fully paid ordinary shares on issue.

4. Actions necessary to change the rights of holders of our shares or holders of a class 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.

5. Conditions covering the manner in which annual general meetings and extraordinary general meetings of shareholders are convoked.

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.

6. Limitations on rights of non-resident shareholders

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

7. Change in control of company

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 ADSs or ordinary shares 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 the Convention Between the Government of the United States of America and the Government of Australia for the Avoidance of Double Taxation and the Prevention of Fiscal Evation with Respect to Taxes on Income as amended (the "Treaty"), occurring after that date, possibly with retrospective effect.

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 convention, 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 Treaty limits to 15% the Australian withholding tax on the unfranked portion of a dividend paid by an Australian company to a US Holder who is a resident of the United States for the purposes of the Treaty and who is beneficially entitled to the dividend, unless the recipient 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. Where a US resident company holds at least 10%, but less than 80%, of the voting power of an Australian company, Australian withholding tax on the unfranked portion of a dividend is chargeable at 5%. No withholding tax is chargeable on dividends paid to a US resident company which is a listed public company from an 80% or more beneficially owned subsidiary. The limitations on the rate of Australian withholding tax chargeable on dividend payments under the Treaty are not applicable in the case of recipients who are not "qualified persons" under the Treaty. Holders of ADSs or ordinary shares should consult their tax advisor as to whether they are "qualified persons" under the Treaty.

A withholding tax exemption is available where a dividend paid by an Australian 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 Orbital, 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 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 by consulting their own tax advisers. 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 Orbital;
- 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 (the "Code"), its legislative history, existing and proposed regulations, published rulings and court decisions, as well as 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.

If a partnership holds the ADSs or ordinary shares, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the ADSs or ordinary shares should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the ADSs or ordinary shares.

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, 2013 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 ADSs or ordinary shares 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 includible 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 non-taxable return of capital to the extent of the US Holder's basis in the ADSs or ordinary shares and thereafter as capital gain.

Subject to foreign tax credit limitations, the Australian tax withheld in accordance with the Treaty and paid over to Australia will be creditable against the US Holder's United States federal income tax liability or, at the US Holder's election, deductible from the US Holder's gross income for United States federal income tax purposes. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15 percent tax rate. To the extent a refund of the tax withheld and paid over to Australia is available to a US Holder, the amount of tax withheld is not eligible for credit against such US Holder's United States federal income tax liability. Dividends will generally be income from sources without 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 Orbital is or will be at least 50% owned by persons treated as United States persons under the Code. Under Section 904 (h) of the Code, dividends paid by a non-U.S. corporation that is at least 50% owned by United States persons may be treated as income derived from sources within the United States rather than from sources without the United States for foreign tax credit purposes to the extent the non-US corporation has more than an insignificant amount of income from sources within the United States. The effect of this rule, if applicable in future years, may be to treat a portion of the dividends paid by Orbital as income derived from sources within the United States 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 ADSs or ordinary shares that are made as part of a pro rata distribution to all shareholders of Orbital 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 ADSs or ordinary shares, 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 ADSs or ordinary shares 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 the ADSs and ordinary shares 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. 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 ADSs or ordinary shares, gain realized on the sale or other disposition of ADSs or ordinary shares 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 ADSs or ordinary shares 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, ADSs or ordinary shares will be treated as stock of a PFIC if Orbital was a PFIC at any time during the US Holder's holding period in the ADSs or ordinary shares. 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.

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) 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, cash equivalents on deposit and Business Bank Bill Loan with Australian banks.

The 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 the Business Bank Bill Loan. Interest is paid monthly on the Business Bank Bill Loan based on variable interest rates.

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 6% of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 28% 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 finance facility with its bankers during fiscal 2012. The Group's does not have any other bank overdrafts, bank loans, preference shares or committed available credit lines as at June 30, 2012.

The only external borrowing of the Group are the Business Bank Bill Loan, repayable on demand, and the interest free Western Australian Government loan of A$14.3 million repayable in installments commencing in May 2010. See the "Maturity Profile of Commercial Commitments" on page 29 for scheduled repayments over the next five years.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

(A) Debt Securities	Not Applicable
(B) Warrants and Rights	Not Applicable
(C) Other Securities	Not Applicable

(D) American Depositary Shares

Fees and charges payable by a holder of ADSs.

In accordance with the terms of the Deposit Agreement, The Bank of New York Mellon may charge holders of Orbital ADSs, either directly or indirectly, fees and charges up to the amounts described below.

Category	Depositary actions	Associated fee
Depositing or substituting the underlying shares	Issuance of ADSs against the deposit of shares, including deposits and issuance in respect of: • Share distributions, stock splits, rights, mergers • Exchange of securities or other transactions • Other events or distributions affecting the ADSs or the deposited securities	US$5.00 per 100 ADSs (or portion thereof) evidenced by the new ADSs delivered
Selling or exercising rights	Distribution or sale of securities, the fee being an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	US$5.00 for each 100 ADSs (or portion thereof)
Withdrawing an underlying share	Acceptance of ADSs surrendered for withdrawal of deposited securities	US$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADSs surrendered
Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	US$2.50 per ADS
General depositary services, particularly those charged on an annual basis	Services performed by the depositary in administering the ADSs	US$0.02 per ADS not more than once each calendar year and payable at the sole discretion of the depositary by billing holders or deducting such charge from one or more cash dividends or other cash distributions.
Expenses of the depositary	Expenses incurred on behalf of the holders in connection with: • Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment • The depositary's or its custodian's compliance with applicable law, rule or regulation • Stock transfer or other taxes and government charges • Cable, telex, facsimile and electronic transmission/delivery • Expenses of the depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency) • Any other charge payable by depositary or its agenst	Expenses payable at the sole discretion of the depositary by billing holders or deducting such charge from one or more cash dividends or other cash distribution.

Fees and payments made by the depositary to the issuer

The Bank of New York Mellon has agreed to pay third parties on behalf of Orbital for certain expenses incurred in connection with the ADR programme. For the year ended June 30, 2012, The Bank of New York paid US$1,571 to third parties on behalf of Orbital. The Bank of New York Mellon also waived certain of its standard fees and expenses associated with the administration of the programme relating to routine programme maintenance, reporting, distribution of cash dividends, annual meeting services and report mailing services.

Under certain circumstances, including removal of the Bank of New York Mellon as depositary or termination of the ADR programme by Orbital, Orbital is required to repay The Bank of New York Mellon any amounts of administrative fees and expenses waived during the 12 month period prior to notice of removal or termination.

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, 2012, 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 unauthorised 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, 2012. 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, 2012, 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 Fiscal 2012 consolidated financial statements included in this annual report on Form 20-F, is not required to issue an Attestation Report for Fiscal 2012.

(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 three independent 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 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 independent registered public accounting firm, Ernst & Young are as follows:

	2012		2011	
Services Rendered	**Fees (A$)**	**%**	**Fees (A$)**	**%**
Audit Fees – Australian Reporting	**223,780**	**63.4%**	235,900	65.0%
Audit Fees – USA Reporting	**112,000**	**31.8%**	112,000	30.8%
Audit – Related Fees	**—**	**—**	—	—
Tax Fees (1)	**—**	**—**	10,000	2.8%
All Other Fees (2)	**16,910**	**4.8%**	5,150	1.4%

(1) Taxation services relate to services performed for preparation and lodgement of tax returns and lodgement of Research & Development Claims.

(2) All other fees relate to services performed for auditing of an Australian Federal Government grant and for a business review of the Group.

Pre-approval Policies and Procedures

Orbital's Audit Committee has adopted policies and procedures for the pre-approval of permitted services provided by the Company's independent public accounting firm, Ernst & Young. Prior to the commencement of each financial year the Company's chief financial officer and its auditors submit to the Audit Committee a schedule of the types of services that are expected to be performed during the following year for its approval. 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. 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

In compiling this report, the directors have referred to the Australian Securities Exchange Corporate Governance Council's (ASXCGC) second edition of its Corporate Governance Principles and Recommendations with 2010 Amendments (the ASXCGC Recommendations), and Part 8. Corporate Governance Requirements of the NYSE Amex Rules (the NYSE Amex Rules).

Orbital confirms that throughout fiscal 2012, and at the date of this document the Group applied the principles of, and was compliant with, the provisions of the ASXCGC Recommendations and that, since listing on the NYSE Amex, applied the principles of, and was compliant with, the NYSE Amex Rules.

A summary of Orbital's Corporate Governance practices is included in Item 6 of this report.

Orbital's website contains further information about the corporate governance framework of the company.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-56 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.

(b) Financial Statements – Synerject LLC (1)

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

(1) The financial statements of Synerject LLC are provided pursuant to Rule 3-09 of Regulation S-X

(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

"Aftermarket"	refers to components that are added to a vehicle after its original manufacture.
"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 NOx).
"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_2), all hydrogen (H) to (H_2O) and all sulphur (S) to (SO_2). If there are unburned components in the exhaust gas such as C, H_2, 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.
"UAS"	Unmanned Aircraft Systems.
"UAV"	Unmanned Aerial Vehicle.

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)

/s/ Keith Anthony Halliwell

Date: October 25, 2012

Keith Anthony Halliwell
Chief Financial Officer

(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.

(b) Financial Statements – Synerject LLC (1)

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

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 (the "Company") as of June 30, 2012 and 2011, 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 the three years in the period ended June 30, 2012. 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 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 were not engaged to perform an audit of 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, and evaluating the overall financial statement presentation. We believe that our audits 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 at June 30, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2(b), the Company has incurred operating losses with recurring operating cash outflows. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 2(b). The most recent year financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Ernst & Young
Perth, Australia

October 25, 2012

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 30 JUNE 2012, 2011 AND 2010

	NOTE	CONSOLIDATED 2012 $'000	2011 $'000	2010 $'000
Sale of goods		**14,020**	5,847	6,203
Consulting services income		**7,131**	9,492	9,621
Licence and royalty income		**967**	1,081	1,199
Other revenue	7	**243**	218	242
Total Revenue		**22,361**	16,638	17,265
Other income	8	**1,325**	6,110	8,759
Cost of goods sold	9(d)	**(8,305)**	(4,484)	(4,607)
Employee benefits expense	9(a)	**(11,481)**	(10,494)	(10,792)
Depreciation and amortisation		**(991)**	(1,174)	(1,004)
Engineering consumables and contractors		**(2,272)**	(1,954)	(2,043)
Occupancy expenses		**(1,734)**	(1,165)	(786)
Travel and accommodation		**(432)**	(634)	(866)
Communications and computing		**(783)**	(593)	(791)
Patent costs		**(322)**	(300)	(338)
Insurance costs		**(663)**	(441)	(441)
Audit, compliance and listing costs		**(569)**	(704)	(560)
Finance costs	9(b)	**(692)**	(688)	(755)
Other expenses	9(c)	**(2,179)**	(1,777)	(787)
Share of profit from associate	16	**3,480**	3,233	1,874
Profit/(loss) before income tax		**(3,257)**	1,573	4,128
Income tax benefit	10(a)	**204**	190	388
Profit/(loss) for the year attributable to the members of the parent entity		**(3,053)**	1,763	4,516
Earnings/(loss) per share:				
Basic earnings/(loss) per share (in cents)	11	**(6.28)**	3.65	9.39
Diluted earnings/(loss) per share (in cents)	11	**(6.28)**	3.65	9.29
Earnings/(loss) per ADS:				
Basic earnings/(loss) per ADS (in cents)	11	**(100.48)**	58.40	150.24
Diluted earnings/(loss) per ADS (in cents)	11	**(100.48)**	58.40	148.64

The consolidated income statement is to be read in conjunction with the notes to the consolidated financial statements set out on pages F-8 to F-65.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 30 JUNE 2012, 2011 AND 2010

	CONSOLIDATED		
	2012 $'000	2011 $'000	2010 $'000
Net profit/(loss) for the period	**(3,053)**	1,763	4,516
Other comprehensive income			
Share of foreign currency reserve of equity accounted investment	**(199)**	343	(357)
Foreign currency translation	**830**	(3,758)	(812)
Other comprehensive (loss)/income for the year, net of tax	**631**	(3,415)	(1,169)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(2,422)**	(1,652)	3,347
Total comprehensive (loss)/ income for the period attributable to owners of the parent	**(2,422)**	(1,652)	3,347

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages F-8 to F-65.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2012, 2011 AND 2010

	Share Capital $'000	Retained Profits/ (Accumulated Losses) $'000	Employee Equity Benefits Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
At 1 July 2009	19,055	(3,224)	884	399	17,114
Profit for period	—	4,516	—	—	4,516
Other comprehensive loss	—	—	—	(1,169)	(1,169)
Total comprehensive income for the period	—	4,516	—	(1,169)	3,347
Transactions with owners in their capacity as owners					
Shares issued in accordance with share plan	117	—	(117)	—	—
Share based payments	89	—	250	—	339
Balance at 30 June 2010	19,261	1,292	1,017	(770)	20,800
At 1 July 2010	19,261	1,292	1,017	(770)	20,800
Profit for period	—	1,763	—	—	1,763
Other comprehensive loss	—	—	—	(3,415)	(3,415)
Total comprehensive (loss)/income for the period	—	1,763	—	(3,415)	(1,652)
Transactions with owners in their capacity as owners					
Share based payments	84	—	250	—	334
Balance at 30 June 2011	19,345	3,055	1,267	(4,185)	19,482
At 1 July 2011	19,345	3,055	1,267	(4,185)	19,482
Loss for period	—	(3,053)	—	—	(3,053)
Other comprehensive income	—	—	—	631	631
Total comprehensive (loss)/income for the period	—	(3,053)	—	631	(2,422)
Transactions with owners in their capacity as owners					
Share based payments	91	—	280	—	371
Balance at 30 June 2012	19,436	2	1,547	(3,554)	17,431

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages F-8 to F-65.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012 AND 2011

		2012 $'000	2011 $'000
Assets			
Current assets			
Cash and cash equivalents	12	**3,799**	3,440
Other financial assets	13	**1,371**	3,434
Trade and other receivables	14	**4,168**	6,841
Inventories	15	**5,197**	4,060
Total Current Assets		**14,535**	17,775
Non-Current Assets			
Investment in associate	16	**13,696**	11,406
Deferred tax assets	17	**5,767**	5,057
Plant & equipment	18	**3,949**	4,134
Intangibles and goodwill	19	**2,257**	2,402
Total Non-Current Assets		**25,669**	22,999
Total Assets		**40,204**	40,774
Liabilities			
Current liabilities			
Trade payables and other liabilities	20	**4,841**	5,004
Borrowings	21	**2,864**	936
Employee benefits	23	**2,117**	2,354
Deferred revenue	24	**316**	316
Government grants	27	**225**	225
Other provisions	25	**526**	195
Total Current Liabilities		**10,889**	9,030
Non-current liabilities			
Borrowings	21	**59**	—
Long term borrowings	26	**7,650**	7,489
Employee benefits	23	**119**	132
Government grants	27	**1,424**	1,649
Contingent consideration	28	**2,296**	2,688
Other provisions	25	**336**	304
Total Non-Current Liabilities		**11,884**	12,262
Total Liabilities		**22,773**	21,292
Net Assets		**17,431**	19,482
Equity			
Share capital	29	**19,436**	19,345
Reserves	30	**(2,007)**	(2,918)
Retained profits	30	**2**	3,055
Total Equity		**17,431**	19,482

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages F-8 to F-65.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2012, 2011 AND 2010

	NOTE	CONSOLIDATED 2012 $'000	2011 $'000	2010 $'000
Cash Flows from Operating Activities				
Cash receipts from customers		**25,209**	17,070	17,947
Cash paid to suppliers and employees		**(29,233)**	(18,742)	(22,925)
Cash used in operations		**(4,024)**	(1,672)	(4,978)
Interest received		**243**	218	242
Interest paid		**(250)**	(104)	(107)
Income taxes paid		**(214)**	(234)	(206)
Net cash used in operating activities	35	**(4,245)**	(1,792)	(5,049)
Cash Flows from Investing Activities				
Dividends received from associate		**1,544**	1,208	677
Proceeds from sale of property, plant & equipment		**49**	8,557	44
Acquisition of property, plant & equipment		**(696)**	(481)	(1,394)
Acquisition of business	38	**—**	(1,780)	—
Costs incurred on development of intangibles		**—**	(593)	(1,128)
Redemption/(acquisition) of short term deposits		**2,063**	(3,434)	3,500
Net cash provided by/(used in) investing activities		**2,960**	3,477	1,699
Cash Flows from Financing Activities				
Proceeds from borrowings		**1,930**	—	536
Repayment of borrowings		**(288)**	(1,848)	(200)
Net cash provided by /(used in) financing activities		**1,642**	(1,848)	336
Net increase/(decrease) in cash and cash equivalents		**357**	(163)	(3,014)
Cash and cash equivalents at 1 July		**3,440**	3,608	6,623
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**2**	(5)	(1)
Cash and cash equivalents at 30 June	12	**3,799**	3,440	3,608

Non-Cash Investing Activities

There were no non-cash investing or financing activities for the years ended 30 June 2010, 2011 and 2012.

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

The consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated financial statements set out in pages F-8 to F-65.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 2012 comprises the Company and its subsidiaries (together referred to as the "Group"). Orbital Corporation Limited is a for-profit entity and the Group operates in a number of industries.

The consolidated financial report was authorised for issue by the directors on 25 October 2012.

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 Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for contingent consideration which is measured at fair value.

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.

Going Concern

The Group incurred a net loss after tax for the year ended 30 June 2012 of $3,053,000 (2011: Profit of $1,763,000) and experienced net cash outflows from operating activities of $4,245,000 (2011: $1,792,000). At 30 June 2012, the Group had net current assets of $3,646,000 (2011: $8,745,000). The cash and term deposit position of the Group at 30 June 2012 was $5,170,000.

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. In forming this view, the directors have taken into consideration the following:

- Management's strategies to improve sales and profits, while carefully controlling discretionary spending;
- The unaudited net current assets and cash and term deposit position at 31 August 2012 are $3,021,000 and $5,270,000 respectively;
- The company is listed on the Australian Securities Exchange, and has access to the Australian equity markets. Accordingly, management considers it maintains a reasonable expectation of being able to raise funding from the market if and when required; and
- If required, the Group could contemplate a sale of non-current assets.

The Directors believe the company can meet all its liabilities as and when they fall due.

Should the Group not achieve the matters set out above, there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments to assets and liabilities that may be necessary if the Group is unable to continue as a going concern.

(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.

(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.

2. BASIS OF PREPARATION (continued)

(d) Use of Estimates and Judgements (continued)

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 International Financial Reporting 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. From 1 July 2011, the Group has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 July 2011. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Consolidation (continued)

(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 statement of financial position 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.

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 converted 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'.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign Currency (continued)

(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.

Cash and cash equivalents - refer note 12

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

Other financial assets - refer note 13

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 and other receivables - refer note 14

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 allowance 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.

Trade payables and other liabilities - refer note 20

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.

Borrowings - refer note 21

Included in current liabilities is an amount owing under a business bank bill loan facility utilised for working capital. The loan facility provides loans of no fixed duration with interest payable monthly. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial Instruments (continued)

Long term borrowings - refer note 26

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.

Contingent consideration - refer note 28

Included in non-current liabilities is an amount owing to the owners of the non-controlling interest in Sprint Gas (Aust) Pty Ltd. The contingent consideration was recognised initially at fair value and subsequently at fair value through profit and loss.

(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.

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) Inventories - refer note 15

Inventories are carried at the lower of cost and net realisable value. Inventory is valued at average cost 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.

(f) Plant and Equipment - refer note 18

(i) Recognition and measurement

Items of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Plant and Equipment - refer note 18 (continued)

(ii) Subsequent costs

The cost of replacing part of an item of 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 plant and equipment 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: 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) 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.

(g) Intangibles and goodwill - refer note 19

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangibles and goodwill - refer note 19 (continued)

(iii) Goodwill (continued)

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.

(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.

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.

(iii) Goodwill

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share capital - refer note 29

(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 - refer note 23

The provisions for employee entitlements to wages, salaries and annual leave due 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.

(ii) Long Service Leave - refer note 23

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 - refer note 37

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 - refer note 36

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Provisions - Warranties - refer note 25

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.

Revenue received in advance represents cash payments received from customers in accordance with contractual commitments prior to the performance of the service.

(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 Orbital Combustion Process 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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 - refer note 10

(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.

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 IFRS 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".

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 statement of financial position.

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 Australian Taxation Office are classified as operating cash flows.

(r) Earnings per share - refer note 11

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.

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 - refer note 27

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) Business combination - refer note 38

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 (IAS 39) either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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 2012, but have not been applied in preparing this financial report:

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 9 (IFRS 9)	Financial Instruments	AASB 9 (IFRS 9) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement) (IAS 39). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139 (IAS 39). The main changes from AASB 139 (IAS 39) are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139 (IAS 39), each of which had its own classification criteria. (b) AASB 9 (IFRS 9) allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013**	1 July 2013

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 (IFRS 9)	• These amendments arise from the issuance of AASB 9 *Financial Instruments (IFRS 9)* that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 (IFRS 9) form part of the first phase of the International Accounting Standards Board's project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. (IAS 39) • This Standard shall be applied when AASB 9 (IFRS 9) is applied.	1 January 2013**	1 July 2013
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (IFRS 9)	The requirements for classifying and measuring financial liabilities were added to AASB 9 (IFRS 9). The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013**	1 July 2013
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]	This Standard makes amendments to the application of the revised disclosures to Tier 2 entities, that are applying AASB 1053.	1 July 2013	1 July 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 10 (IFRS 10)	Consolidated Financial Statements	AASB 10 (IFRS 10) establishes a new control model that applies to all entities. It replaces parts of AASB 127 (IAS 27) *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.	1 January 2013	1 July 2013
AASB 11 (IFRS 11)	Joint Arrangements	AASB 11 (IFRS 11) replaces AASB 131 (IAS 31) *Interests in Joint Ventures* and Interpretation 113 (SIC-13) *Jointly-controlled Entities – Non-monetary Contributions by Ventures* AASB 11 (IFRS 11) uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 (IFRS 11) removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.	1 January 2013*	1 July 2013
AASB 12 (IFRS 12)	Disclosure of Interests in Other Entities	AASB 12 (IFRS 12) includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about associates and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 13 (IFRS 13)	Fair Value Measurement	AASB 13 (IFRS 13) establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. AASB 13 (IFRS 13) does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB (IFRS) when fair value is required or permitted by AASB (IFRS). Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 (IFRS 13) also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements	This Standard makes amendments to several Australian Accounting Standards and Interpretations arising from the issuance of the consolidation and joint arrangements Standards.	1 January 2013	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13 (IFRS 13)	This Standard makes amendments to several Accounting Standards and Interpretations. These amendments principally arise from the issuance of AASB 13 (IFRS 13)	1 January 2013	1 July 2013
AASB 119 (IAS 19)	Employee Benefits (revised)	The revised Standard requires the immediate recognition of defined benefit costs, improves the presentation and disclosure requirements for defined benefit plans and requires the recognition of short-term and other long-term employee benefits to be based on the expected timing of settlement rather than employee entitlement. These revisions will require retrospective application.	1 January 2013	1 July 2013
AASB 2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (IAS 19)	This Standard makes amendments to several Australian Accounting Standards and Interpretations. These amendments principally arise from amendments to the revised employee benefits Standard.	1 January 2013	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] [IAS 24]	This Standard removes the requirements to include individual key management personnel disclosures in the notes to and forming part of the Financial Report.	1 July 2013	1 July 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income AASB 101 (IAS 1)	This Standard amends the presentation of components of other comprehensive income including presenting separately those items that will be reclassified to profit or loss in the future and those that would not. Amendments will be applied retrospectively.	1 July 2012	1 July 2012
AASB 2012-5	Annual Improvements to 2009–2011 Cycle	This standard sets out amendments to various Standards and the related bases for conclusions and guidance. The following items are addressed by this standard: AASB 1 (IFRS 1) First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs AASB 101 (IAS 1) Presentation of Financial Statements • Clarification of the requirements for comparative information AASB 116 (IAS 16) Property, Plant and Equipment • Classification of servicing equipment AASB 132 (IAS 32) Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments AASB 134 (IAS 34) Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	1 July 2013

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

** AASB ED 215 *Mandatory effective date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 (IFRS 9) from annual periods beginning 1 January 2013 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of ED 215 is still pending by the AASB. However, the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

The directors have not determined the impact of the above new and amended accounting standards and interpretations.

(v) Comparatives

Certain comparatives have been reclassified to conform with current year presentation.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits, receivables, payables, and financial liabilities.

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 has 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.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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		
	2012 $'000	2011 $'000	2010 $'000
Financial assets			
Cash and cash equivalents	**3,799**	3,440	3,608
	3,799	3,440	3,608
Financial liabilities			
Interest bearing liabilities	**2,577**	648	2,056
Contingent consideration	**2,296**	2,688	—
	4,873	3,336	2,056

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date:

At 30 June 2012, 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/(loss) Higher/(Lower)			Other comprehensive income Higher/(Lower)		
	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000
Consolidated						
+1% (100 basis points)	**11**	8	36	—	—	—
-.5% (50 basis points)	**(5)**	(4)	(18)	—	—	—

The movements in profit are due to higher/lower interest revenue from variable rate cash balances. The sensitivity is the same in 2012 as in 2011 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 income statement and 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 6% (FY2011: 20%) of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 28% (FY2011: 14%) 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 forward foreign currency contracts at spot rates when incurred. The Group does not hold foreign currency positions for trading purposes.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

At 30 June 2012, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		
	2012 $'000	2011 $'000	2010 $'000
Financial assets			
Cash and cash equivalents	**42**	68	195
Trade and other receivables	**—**	120	308
	42	188	503
Financial liabilities			
Trade and other payables	**216**	139	—

At 30 June 2012, the Group had the following exposure to European Currency Units that is not designated in cash flow hedges:

	2012	2011	2010
Financial assets			
Cash and cash equivalents	**26**	13	23
Trade and other receivables	**36**	23	48
	62	36	71
Financial liabilities			
Trade and other payables	**12**	130	—

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date:

At 30 June 2012, 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/(loss) Higher/(Lower)			Other comprehensive income Higher/(Lower)		
	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000
Consolidated						
AUD/USD/EURO +10%	**12**	4	(46)	—	—	—
AUD/USD/EURO -5%	**(6)**	(2)	26	—	—	—

The movements in profit in 2012 are more sensitive than in 2011 due to the higher level of net US Dollar liabilities and the net Euro financial asset position at balance date.

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.

4. FINANCIAL RISK MANAGEMENTS OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group has established a finance facility with its bankers. The Group does not have any other bank overdrafts, bank loans, preference shares or committed available credit lines at 30 June 2012.

The only external borrowings of the Group are the finance facility repayable on demand and the interest free Western Australian Government loan of $14,346,164 repayable in yearly instalments from May 2010 to May 2025.

The Group has recognised a contingent consideration liability of $2,701,000 payable in November 2013 to the owners of the non-controlling interest in Sprint Gas (Aust) Pty Ltd.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2012. 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 2012. 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.

The remaining contractual maturities of the Group's financial liabilities are:

	CONSOLIDATED		
	2012 $'000	2011 $'000	2010 $'000
6 months or less	**5,482**	4,101	4,732
6-12 months	**355**	288	240
1-5 years	**4,986**	5,329	1,546
Over 5 years	**10,846**	11,763	12,360
	21,669	21,481	18,878

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

The Group's contingent consideration liability belongs to level 3 fair value hierarchy, where the inputs for the valuation of the liability are not based on observable market data (unobservable inputs), (Level 3).

The following table shows a reconciliation of the movement in the fair value of the financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

At 1 July	**2,688**	—	—
Recognised during the year	**—**	2,688	—
Released to the income statement	**(392)**	—	—
At 30 June	**2,296**	2,688	—

A gain of $392,000 was recognised in the income statement during the current year due to a change in the fair value of the contingent consideration. The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. The undiscounted value is discounted at the present value using a market discount rate. During the year management revised the market discount rate from 9.8% to 7.8% and the estimated average EBITDA by reference to the actual results of the business since acquisition and the latest forecasts of future results for the business. This reduced the fair value of the contingent consideration and resulted in a fair value gain of $392,000, which has been reflected in the profit and loss account. If the business was to perform 20% better or 20% worse than forecast the estimated fair value of the contingent consideration would increase by $376,000/decrease by $376,000 respectively.

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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(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. 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. During the comparative period the Group identified an impairment trigger in relation to the capitalised development costs for the aftermarket Liquid Phase Injection (LPI) kits and recognised an allowance for impairment of $1,065,000.

Consolidation of Sprint Gas (Aust) Pty Ltd

On 27 May 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specializing in the importation and wholesaling of Liquified Petroleum Gas (LPG) Fuel systems. Concurrently with the entering into of the Business Acquisition Agreement, the Group entered into a Subscription and Shareholders Agreement with the owners of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd. As part of the Subscription and Shareholders Agreement Put and Call options were issued over the remaining 45% non-controlling interest. Management has determined that the Put and Call options, exercisable after 30 months, are in nature a forward contract and in substance represent contingent consideration. The Group has accounted for the business combination as though it acquired a 100% interest and has recognised a financial liability to the non-controlling shareholders equal to the fair value of the underlying obligations under the Put and Call option (Contingent consideration liability).

(b) Significant accounting estimates and assumptions

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. 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 Statement of Financial Position 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.

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 36. The fair value of the performance rights is determined by an external valuer using a monte-carlo simulation model, with the assumptions detailed in note 36. 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(b) Significant accounting estimates and assumptions (continued)

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.

Recognition of contingent consideration

The Group has measured the value of the contingent consideration liability by reference to the fair values of the underlying obligations under the Put and Call options that give rise to the liability. In determining the fair values of underlying obligations under the Put and Call options the Group has made judgements in respect of the expected earnings before interest, depreciation and amortisation expected to be generated by the business during the calculation period.

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

System sales (sale of goods)

The system sales businesses provide LPG fuel systems to an Australian automobile manufacturer, LPG retrofit installers and also operate spare parts businesses for LPG fuel systems.

6. OPERATING SEGMENTS (continued)

Types of products and services (continued)

Consulting services (consultancy)

The consulting 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.

Royalties and licences (intellectual property rights)

The royalties and licences business receives revenue from licensees 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 system sales segment is managed on an Australian basis. The consulting services and royalties and licences segments are managed on a worldwide 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 sale of LPG fuel systems, the provision of consulting services and the sale of intellectual property rights to Orbital's OCP technology. The consolidated entity operates predominantly in the automotive, marine, motorcycle and unmanned aircraft system engine markets.

Major customers

The Group has a number of customers to which it provides both products and services. The system sales segment supplies an Australian automobile manufacturer with LPG fuel systems that accounted for 25.0% of external revenue (2011: 12.7%). The next most significant customer which accounted for 18.8% (2011: 12.2%) of external revenue was in the consulting services segment. No other customer accounts for more than 10% of revenue.

6. OPERATING SEGMENTS (continued)

(a) Operating segments

	System Sales			Consulting Services			Royalties and licences(i)			Consolidated		
	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000
Segment Revenue - external customers	**14,020**	5,847	6,203	**7,131**	9,492	9,621	**967**	1,081	1,199	**22,118**	16,420	17,023
Unallocated other revenue										**243**	218	242
Total Revenue										**22,361**	16,638	17,265
Segment results	**380**	(2,764)	(1,727)	**(2,259)**	161	1031	**463**	610	732	**(1,416)**	(1,993)	36
Research and development										**(954)**	(1,158)	(1,152)
Unallocated expenses - net (ii)										**(3,675)**	(2,581)	(3,570)
Gain on sale of property, plant and equipment										**—**	4,760	—
Gain on restructure of WA Government Loan										**—**	—	7,695
Finance costs										**(692)**	(688)	(755)
Share of profit from associate										**3,480**	3,233	1,874
Net profit/(loss) before related income tax										**(3,257)**	1,573	4,128
Income tax benefit										**204**	190	388
Profit/(loss) after tax attributable to members										**(3,053)**	1,763	4,516

	System Sales			Consulting Services			Royalties and licences			Consolidated		
	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000
Non-cash (revenue) and expenses												
Depreciation and amortisation	**458**	488	267	**533**	686	737	**—**	—	—	**991**	1,174	1,004
Equity settled employee compensation	**26**	9	49	**111**	122	127	**1**	1	1	**138**	132	177
Other non-cash (income)/expenses	**(262)**	1,990	—	**245**	(216)	(345)	**—**	—	—	**(17)**	1,774	(345)
Segment non-cash expenses	**222**	2,487	316	**889**	592	519	**1**	1	1	**1,112**	3,080	836
Equity settled employee compensation										**233**	202	163
Amortisation of non-interest bearing loans										**507**	614	626
Gain on restructure of WA Government Loan										**—**	—	(7,695)
Gain on sale of property, plant & equipment										**—**	(4,760)	—
Share of profit from equity accounted investment										**(3,480)**	(3,233)	(1,874)
Movement in provision for surplus lease space										**177**	372	—
Foreign exchange translation (gain)/loss										**(120)**	(79)	97
Total non-cash (revenue) and expenses										**(1,571)**	(3,804)	(7,847)

(i) Royalties and licence costs include direct patent costs.

(ii) Unallocated expenses (net) include corporate management and finance and administration overhead expenses net of unallocated other income.

6. OPERATING SEGMENTS (CONTINUED)

(a) Operating segments

	System Sales		Consulting Services		Royalties and licences		Consolidated	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Segment Assets	**9,921**	9,482	**5,387**	7,619	**263**	336	**15,571**	17,437
Unallocated assets								
Cash							**3,799**	3,440
Other financial assets							**1,371**	3,434
Investment in associate							**13,696**	11,406
Deferred tax asset							**5,767**	5,057
Consolidated Total Assets							**40,204**	40,774
Segment Liabilities	**6,567**	5,672	**8,111**	7,766	**99**	77	**14,777**	13,515
Unallocated liabilities								
Long term borrowings							**7,996**	7,777
Consolidated Total Liabilities							**22,733**	21,292
Consolidated Net Assets							**17,431**	19,482
Segment acquisitions of non current assets	**271**	857	**425**	217	**—**	—	**696**	1,074

Acquisitions of non-current assets represent acquisitions of property, plant and equipment of $696,000 (2011: $1,074,000).

6. OPERATING SEGMENTS (CONTINUED)

(b) Geographic information

	Americas			Europe			Asia			Australia			Consolidated		
	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000
Revenue - external customers	**5,231**	3,473	4,032	**492**	889	282	**619**	1,917	3,665	**15,776**	10,141	9,044	**22,118**	16,420	17,023
Non-current assets	**19,135**	16,122	16,749	**—**	—	—	**—**	—	—	**6,534**	6,877	9,436	**25,669**	22,999	26,185

7. OTHER REVENUE

	CONSOLIDATED		
	2012 $'000	2011 $'000	2010 $'000
Interest revenue	**243**	218	242

8. OTHER INCOME

Gain on sale of property, plant and equipment	**15**	4,760	41
Automotive grant income (a)	**545**	680	538
Net foreign exchange gains	**120**	79	—
Government grant arising on restructure of non interest bearing loan (refer note 26)	—	—	7,695
Grant income	**253**	591	330
Fair value movement in contingent consideration	**392**	—	—
Other	**—**	—	155
	1,325	6,110	8,759

(a) The Group receives Automotive Transformation Scheme (ATS) 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	**9,529**	8,249	8,485
Contributions to defined contributions superannuation funds	**984**	892	914
Share based payments	**371**	334	339
(Decrease)/Increase in liability for annual leave	**(54)**	18	(110)
(Decrease)/Increase in liability for long service leave	**(108)**	19	98
Termination costs	**113**	418	276
Other associated personnel expenses	**646**	564	790
	11,481	10,494	10,792

(b) Finance costs

Interest on borrowings	**185**	74	129
Non-cash interest expense WA Government Loan	**507**	614	626
	692	688	755

(c) Other expenses

Administration	**363**	145	206
Marketing	**282**	73	97
Investor relations	**59**	28	88
Freight & couriers	**195**	81	78
Motor vehicle expenses	**73**	8	42
(Write-back)/allowance for impairment of receivables	**429**	43	(114)
Allowance for warranty	**191**	91	
Write-off previously capitalised development expenditure	**—**	1,065	—
Net foreign exchange losses	**—**	—	97
Other	**587**	243	293
	2,179	1,777	787

9. EXPENSES (continued)

(d) Cost of goods sold

	CONSOLIDATED		
	2012 $'000	**2011 $'000**	**2010 $'000**
Raw materials and consumables purchased	**9,442**	3,182	5,245
Inventory write-downs (Note 15)	**—**	942	—
Change in inventories	**(1,137)**	360	(638)
	8,305	4,484	4,607

(e) Lease payments included in income statement

Minimum lease payments - operating lease	**1,004**	490	171

(f) Research and development costs

Research and development costs charged directly to the income statement:

- LPI development	**—**	—	275
- Green Car Innovation Fund project	**—**	963	—
- Other research & development	**954**	195	877
	954	1,158	1,152

10. INCOME TAX

(a) Recognised in the income statement

Current income tax			
Current year (expense)/benefit	**(252)**	(342)	79
Prior year under provided	**—**	—	(108)
	(252)	(342)	(29)
Deferred tax			
Relating to originating and reversing temporary differences	**(13)**	—	(2,826)
Benefit on recognition of tax losses	**469**	532	3,243
	456	532	417
Total income tax benefit in income statement	**204**	190	388

10. TAXATION (continued)

(b) Numerical reconciliation between tax benefit and pre-tax net profit/(loss)

	CONSOLIDATED		
	2012 $'000	**2011 $'000**	**2010 $'000**
(Loss)/Profit before tax	**(3,257)**	1,573	4,128
Income tax using the statutory tax rates	**977**	(472)	(1,238)
- Non deductible expenditure	**(274)**	(711)	(1,193)
- Non assessable items	**118**	706	444
- Deferred tax assets (not recognised)/not brought to account in prior years now recognised	**(330)**	922	2,404
- Net withholding tax recouped/(paid)	**8**	(70)	202
- United States of America Federal and State taxes	**(295)**	(185)	(123)
- Under provided for in prior periods	**—**	—	(108)
Income tax benefit on pre-tax net profit	**204**	190	388

(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.

11. EARNINGS PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share at 30 June 2012 was based on the loss attributable to ordinary shareholders of $3,053,202 (2011: profit $1,763,084, 2010: profit $4,515,451) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2012 of 48,612,706 shares (2011: 48,325,837 shares, 2010: 48,086,676 shares), calculated as follows:

	CONSOLIDATED		
	2012 $	2011 $	2010 $
Profit/(loss) attributable to ordinary shareholders	(3,053,202)	1,763,084	4,515,451
Weighted average number of ordinary shares (1)	Number	Number	Number
Weighted average number of ordinary shares at 30 June	48,612,706	48,325,837	48,086,676
Effect of potential dilutive ordinary shares	—	—	539,125
Weighted average number of potential dilutive ordinary shares at 30 June	48,612,706	48,325,837	48,625,801
Earnings/(loss) per share	Cents	Cents	Cents
Basic earnings/(loss) per share	(6.28)	3.65	9.39
Diluted earnings/(loss) per share	(6.28)	3.65	9.29
Earnings/(loss) per ADS			
Basic earnings/(loss) per ADS	(100.48)	58.40	150.24
Diluted earnings/(loss) per ADS	(100.48)	58.40	148.64

Rights granted to employees (including Key Management Personnel) as described in note 36 are considered to be potential ordinary shares. These potential ordinary shares have not been included in the determination of basic earnings per share. In the current year, no potential shares which are issuable under the ELTSP have been included in the diluted earnings per share calculation. The 4,227,300 rights granted under the ELTSP and the 1,150,000 performance rights have not been included in the diluted earnings per share calculation as they are contingent on future performance.

12. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Cash at bank	**503**	1,181
Cash at bank - US dollars	**42**	68
Cash at bank - European currency units	**26**	13
At call deposits - financial institutions	**3,228**	2,178
	3,799	3,440

13. OTHER FINANCIAL ASSETS

Short term deposits - financial institutions	**1,371**	3,434

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.

Short term deposits are held as collateral for the interest bearing loan with Westpac Banking Corporation, refer note 21 for further details.

14. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	**3,572**	6,284
Allowance for impairment loss (a)	**(5)**	(154)
	3,567	6,130
Accrued royalties	**264**	288
Taxation instalments	**—**	48
Other receivables	**48**	117
Prepayments	**289**	258
	4,168	6,841

(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 $5,000 (2011: $154,000) 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	**(154)**	(116)
Charge for the year	**(429)**	(43)
Amounts written off	**578**	5
At 30 June	**(5)**	(154)

14. TRADE AND OTHER RECEIVABLES (continued)

(a) Allowance for impairment loss (continued)

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*
2012	Consolidated	**3,572**	**2,288**	**1,074**	**202**	**3**	**5**
2011	Consolidated	6,284	4,484	1,097	267	282	154

* Past due not impaired ('PDNI')
Considered impaired ('CI')

Receivables past due but not considered impaired are $205,000 (2011: $549,000). 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.

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 4.

15. INVENTORIES

	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
Materials and production supplies - at lower of cost and net realisable value	**5,197**	4,060

Inventory expense

Inventories recognised as an expense for the year ended 30 June 2012 totalled $8,305,000 (2011: $4,484,000) for the Group (refer to note 9(d)).

Inventory write-downs recognised as an expense totalled $nil (2011: $942,000) for the Group.

16. INVESTMENT IN ASSOCIATE

(a) Interest in Synerject LLC

The Group holds a 42% share of Synerject LLC. The investment is 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. Synerject's USGAAP reported results are converted to IFRS for accounting for the Group's share of Synerject's net profit and net assets recognised.

Other information for Synerject is as follows:

Country of incorporation: USA
Financial Year end: 31 December
30 June Ownership: 2012: 42%; 2011: 42%; 2010: 42%

	2012 US$'000	2011 US$'000	2011 US$'000
Revenues (100%)	**127,548**	121,673	89,536
Profit (100%)	**8,045**	7,315	4,160
Current assets	**45,789**	45,427	36,051
Non-current assets	**12,880**	12,058	9,181
Current liabilities	**27,936**	29,562	21,494
Non-current liabilities	**2,654**	3,463	7,939
Net assets	**28,079**	24,460	15,799

	2012 A$'000	2011 A$'000	2011 A$'000
Revenues (100%)	**124,413**	123,163	103,365
Profit (100%)	**7,847**	7,405	4,809
Current assets	**44,931**	42,301	41,863
Non-current assets	**12,639**	11,228	10,657
Current liabilities	**27,412**	27,528	24,955
Non-current liabilities	**2,604**	3,224	9,215
Net assets	**27,554**	22,777	18,350
Share of Synerject's net profit recognised	**3,480**	3,233	1,874
Share of Synerject's net assets equity accounted	**13,696**	11,406	11,534

(b) Movements in the carrying amount of the Group's interest in Synerject

	CONSOLIDATED	
	2012 $'000	2011 $'000
Beginning of year	**11,406**	11,534
Share of profits after tax	**3,480**	3,233
Share of reserves	**(199)**	343
Dividends received	**(1,544)**	(1,208)
Unrealised foreign exchange movements	**553**	(2,496)
End of year	**13,696**	11,406

16. INVESTMENT IN ASSOCIATE (continued)

(c) Results of Synerject

	CONSOLIDATED		
	2012 $'000	2011 $'000	2010 $'000
Share of Synerject's profit before income tax	**3,254**	3,181	1,729
Share of income tax expense	**42**	(71)	(87)
Share of Synerject's net profit - as disclosed by Synerject	**3,296**	3,110	1,642
Adjustments:			
- dissimilar accounting treatment with respect to intangibles	**184**	123	232
Share of net profit accounted for using the equity method	**3,480**	3,233	1,874

(d) Commitments

Share of Synerject's capital commitments contracted but not provided for or payable:

Within one year	**376**	292	649
One year or later and no later than five years	**1,090**	1,014	1,349
Later than 5 years	**257**	467	741
	1,723	1,773	2,739

17. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Deferred Tax Assets 2012 $'000	Deferred Tax Assets 2011 $'000	Deferred Tax Liabilities 2012 $'000	Deferred Tax Liabilities 2011 $'000	Net 2012 $'000	Net 2011 $'000
Tax value of US loss carry-forwards recognised	**5,439**	4,716	**—**	—	**5,439**	4,716
Other net temporary differences	**2,130**	2,400	**(1,802)**	(2,059)	**328**	341
Net tax assets	**7,569**	7,116	**(1,802)**	(2,059)	**5,767**	5,057

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 2012, the available tax carry forward losses of US$31,679,109 (2011: US$37,618,064) expire between the years 2012 and 2024.

Movement in temporary differences during the year	Balance 1-Jul-10 $'000	Acquired during the year $'000	Recognised in income $'000	Recognised in equity (b) $'000	Balance 30-Jun-11 $'000
Tax value of loss carry-forwards recognised	5,215	—	532	(1,031)	4,716
Other temporary differences	—	341	—	—	341
Net tax assets	5,215	341	532	(1,031)	5,057

	Balance 1-Jul-11 $'000	Acquired during the year $'000	Recognised in income $'000	Recognised in equity (b) $'000	Balance 30-Jun-12 $'000
Tax value of loss carry-forwards recognised	**4,716**	**—**	**469**	**254**	**5,439**
Other temporary differences	**341**	**—**	**(13)**	**—**	**328**
Net tax assets	**5,057**	**—**	**456**	**254**	**5,767**

(a) Other net temporary differences

Deferred tax assets	Consolidated 2012 $'000	Consolidated 2011 $'000
Annual leave	**293**	339
Long service leave	**378**	407
Staff bonus	**—**	15
Revenue in advance	**1,150**	1,122
Impairment allowance	**309**	419
Other	**—**	98
	2,130	**2,400**
Deferred tax liabilities		
Government loan	**(1,627)**	(1,851)
Accelerated depreciation: plant & equipment	**(175)**	(208)
	(1,802)	(2,059)
Net temporary differences	**328**	341

(b) The amounts recognised through equity represent the foreign exchange differences arising on the translation of the foreign subsidiary.

17. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
Australia (net at 30%)		
Tax losses	**19,821**	17,907
Timing difference from provision for capital loss on investment	**1,934**	1,934
Other net temporary differences (a)	**621**	233
	22,376	20,074
United States of America (net at 34%)		
Tax losses	**5,130**	7,194
Other net temporary differences	**2,949**	3,339
	8,079	10,533

18. PLANT AND EQUIPMENT

	2012	2011
Plant and equipment		
At cost	**17,797**	21,693
Less: accumulated depreciation	**(13,848)**	(17,559)
	3,949	4,134
Total property, plant and equipment - net book value	**3,949**	4,134

Reconciliations

Reconciliations of the carrying amounts for plant and equipment is set out below:

	2012	2011
Plant and equipment		
Carrying amount at beginning of year	**4,134**	4,900
Additions	**696**	481
Acquired in business combination	**—**	468
Disposals	**(35)**	(839)
Depreciation	**(846)**	(876)
Carrying amount at end of year	**3,949**	4,134
Total		
Carrying amount at beginning of year	**4,134**	7,911
Carrying amount at end of year	**3,949**	4,134

All plant and equipment of the Group is subject to floating charges from the Group's banker (see note 22) and from the Government of Western Australia (see note 26).

Finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2012 was $77,000 (2011: $nil). Additions during the year include $78,000 (2011: $nil) of plant and equipment under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

19. INTANGIBLES AND GOODWILL

	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
Goodwill acquired in business combination		
At cost	**1,965**	1965
Capitalised development expenditure		
At cost	**826**	1,891
Less: accumulated amortisation and impairment	**(534)**	(389)
Less: allowance for impairmen/write-offt	**—**	(1,065)
	292	437
Total intangibles and goodwill – net book value	**2,257**	2,402

(a) Reconciliations of carrying amounts at the beginning and end of the period

Reconciliations of the carrying amounts of goodwill

	2012 $'000	2011 $'000
Carrying amount at beginning of year	**1,965**	363
Goodwill arising from acquisition of Sprint Gas business (note 38)	**—**	1,602
Carrying amount at end of year	**1,965**	1,965

Reconciliations of the carrying amounts for capitalised development expenditure

	2012 $'000	2011 $'000
Carrying amount at beginning of year	**437**	1,162
Additions	**—**	593
Write-off of previously capitalised development expenditure (c)	**—**	(1,065)
Amortisation	**(145)**	(253)
Carrying amount at end of year	**292**	437

(b) Description of the Group's intangible assets and goodwill

Goodwill

The goodwill arose on the acquisition of Boral Alternative Fuel Systems on 26 June 2008 ($363,000) and Sprint Gas (Aust) Pty Ltd on 27 May 2011 ($1,602,000).

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.

Capitalised development expenditure

Expenditure on development activities relating to next generation LPG fuel systems for the Ford EcoLPi Falcon have been capitalised. The EcoLPi range of Falcon vehicles were launched by Ford Australia in July 2011.

(c) Impairment losses recognised

An impairment loss of $1,065,000 on previously capitalised development expenditure was recognised for continuing operations in the 2011 financial year (2012: $nil). The impaired development expenditure related to the development of LPG fuel systems for aftermarket conversions. The impairment loss was recognised as a result of the contraction of the Australian LPG retrofit market, which led to a significant decrease in the number of vehicles being converted to LPG during the reporting period and to lower than expected penetration of our Liquid LPG product into this contracting market. The assessment of recoverable amount was based on a value in use model using a discount rate of 18.4% and was determined at the cash-generating unit level. The impairment loss was recognised in the income statement in the line item "other expenses".

19. INTANGIBLES AND GOODWILL (continued)

(d) Impairment tests for goodwill and intangibles

(i) Description of the cash generating units and other relevant information

Goodwill acquired through business combinations have been allocated to and are tested at the level of their respective cash generating units, each of which is a cash operating unit within the same reportable segment (refer to note 6), for impairment test:ing as follows:

- Orbital Autogas Systems cash generating unit
- Sprint Gas cash generating unit

Orbital Autogas Systems cash generating unit

The recoverable amount of the Orbital Autogas Systems cash generating unit has been determined based on a value in use calculation using cash flow projections as at 30 June 2012 based on financial budgets approved by management covering a three-year period.

The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2011: 18.4%).

Sprint Gas cash generating unit

The recoverable amount of the Sprint Gas cash generating unit has been determined based on a value in use calculation using cash flow projections as at 30 June 2012 based on financial budgets approved by management covering a five-year period.

The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2011: 18.4%).

(ii) Carrying amount of goodwill and intangible assets allocated to each of the cash generating units

The carrying amounts of goodwill and intangible assets allocated to the Orbital Autogas Systems segment and to the Sprint Gas segment are shown below:

	Orbital Autogas Systems		Sprint Gas		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Carrying amount of goodwill	**363**	363	**1,602**	1,602	**1,965**	1,965
Carrying amount of capitalised development expenditure	**292**	437	**—**	—	**292**	437

(iii) Key assumptions used in value in use calculations for the Orbital Autogas Systems and Sprint Gas units, respectively, for 30 June 2012 and 30 June 2011

The calculations of value in use for the Orbital Autogas Systems and Sprint Gas cash generating units are most sensitive to the following assumptions:

- Revenue
- Gross margins
- Discount rates

Revenues — revenues for the Orbital Autogas Systems unit are based on expected volumes of production of the Ford EcoLPI Falcon by its largest customer, Ford Australia, over the budget period and for the Sprint Gas unit are based on values achieved in the current year and management's estimate for the budget period.

Gross margins — gross margins are based on the average values achieved in the years preceding the start of the budget period.

Discount rates — discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. In determining appropriate discount rates for each unit, regard has been given to the external borrowing rate of the entity as a whole.

19. INTANGIBLES AND GOODWILL (continued)

(d) Impairment tests for goodwill and intangibles (continued)

(iv) Sensitivity to changes in assumptions

Orbital Autogas Systems sales unit

With regard to the assessment of the value in use of the Orbital Autogas Systems sales unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Sprint Gas sales unit

With regard to the assessment of the value in use of the Sprint Gas sales unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

20. TRADE PAYABLES AND OTHER LIABILITIES

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current		
Trade creditors and accruals	**2,973**	3,453
Revenues received in advance	**1,868**	1,551
	4,841	5,004

(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. BORROWINGS

Current		
Obligations under hire purchase contracts	**18**	—
Current portion of long term borrowings	**346**	288
Loans and advances - secured (a)	**2,500**	648
	2,864	936
Non-current		
Obligations under hire purchase contracts	**59**	—

(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 $3,205,000 (2011: $3,365,000).

(b) Maturity

Obligations under hire purchase contracts mature in 2014 and 2015. The secured loans and advances can be repaid and redrawn at any time up to 28 March 2014.

21. BORROWINGS (continued)

(c) Interest

Interest calculations on the hire purchase contracts are based on fixed interest rates applicable at the date of drawdown and payable monthly. The average interest rate on hire purchase contracts at reporting date is 7.35% (2011: not applicable). Interest calculations on the secured loans and advances are based on variable interest rates payable monthly. The average interest rate on secured loans and advances at reporting date is 7.35% (2011: 8.49%)

(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:

	NOTE	CONSOLIDATED	
		2012 $'000	2011 $'000
Total facilities available			
Forward exchange contracts facility		**—**	200
Bank bill business loan/Trade finance facility		**2,500**	2,500
Corporate credit card facility		**200**	200
Bank guarantee		**505**	465
		3,205	3,365
Facilities utilised at balance date			
Forward exchange contracts facility		**—**	—
Bank bill business loan/Trade finance facility	21	**2,500**	648
Corporate credit card facility		**25**	34
Bank guarantee		**505**	465
		3,030	1,147
Forward exchange contracts facility		**—**	200
Bank bill business loan/Trade finance facility		**—**	1,852
Corporate credit card facility		**175**	166
Bank guarantee		**—**	—
		175	2,218

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 $3,205,000 (2011: $3,365,000).

The Company has also provided the Company's banker with security over a short term deposit of $1,365,000 (2011: $3,365,000) held by the Company's banker as cash collateral for the financing facilities.

The bank guarantee has been provided for the benefit of the landlords of the Balcatta and Brisbane premises.

23. EMPLOYEE BENEFITS

	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
(a) Current	**2,117**	2,354
(b) Non-Current	**119**	132
(c) Aggregate Liability for employee entitlements	**2,236**	2,486

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:

	2012	2011
Assumed rate of increase in wage and salary rates	**4.0%**	4.0%
Discount rate at 30 June	**3.0%**	5.1%
Settlement term (years)	**10**	10
Number of employees at year end	**108**	118

24. DEFERRED REVENUE

(a) Current

	2012	2011
Deferred revenue for operation of heavy duty engine testing facility	**316**	316

(b) Movement in deferred revenue

	2012	2011
At 1 July	**316**	316
Transferred from government grants (see note 27)	**—**	—
Released to the income statement	**—**	—
At 30 June	**316**	316

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

	2012	2011
Warranties	**279**	88
Surplus lease space	**182**	37
Other	**65**	70
	526	195

(b) Non-Current

	2012	2011
Surplus lease space	**336**	304

25. OTHER PROVISIONS (continued)

(c) Reconciliations

Reconciliations of the carrying amounts for each class of provisions are set out below:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Warranties - current		
Carrying amount at beginning of year	**88**	119
Arising during the year	**191**	91
Utilised	**—**	(122)
Carrying amount at end of year	**279**	88
Surplus lease space - current		
Carrying amount at beginning of year	**37**	—
Utilised	**(214)**	(13)
Reclassified from non-current	**359**	50
Carrying amount at end of year	**182**	37
Other provisions - current		
Carrying amount at beginning of year	**70**	54
Arising during the year	**65**	70
Utilised	**(70)**	(54)
Carrying amount at end of year	**65**	70
Surplus lease space - non-current		
Carrying amount at beginning of year	**304**	—
Arising during the year	**391**	354
Reclassified to current	**(359)**	(50)
Carrying amount at end of year	**336**	304

The product warranty provision relates to sales of LPG fuel systems and also the sale of small unmanned aircraft engines. 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.

Surplus lease space provision relates to certain unutilised office space. The provision takes account of estimated rental income Orbital is able to recover by sub-letting the space.

26. LONG TERM BORROWINGS

Non-Current		
Loans and advances - secured (a)	**7,650**	7,489

(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 2010 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.

26. LONG TERM BORROWINGS (continued)

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 was 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. During the 2011 year Orbital made an additional loan repayment to the Government of Western Australia of $200,000.

The fair value of the loan 2012: $7,605,365 (2011:$7,423,513) is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date: 7.35% (2011: 7.23%)

27. GOVERNMENT GRANTS

	CONSOLIDATED	
	2012 $'000	**2011 $'000**
Current liabilities		
Investment grant for construction of heavy duty engine testing facility	**225**	225
Non-current liabilities		
Investment grant for construction of heavy duty engine testing facility	**1,424**	1,649
Total government grants deferred	**1,649**	1,874

(a) Movement in government grants

At 1 July	**1,874**	2,099
Released to the income statement	**(225)**	(225)
At 30 June	**1,649**	1,874

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. CONTINGENT CONSIDERATION

	CONSOLIDATED 2012 $'000	2011 $'000
Non-Current liabilities		
Contingent consideration for business acquisition	**2,296**	2,688

On 27 May 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specialising in the importation and wholesaling of LPG Fuel systems.

Concurrently with the entering into of the Business Acquisition Agreement, the Group entered into a Subscription and Shareholders Agreement with the owners of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd. As part of the Subscription and Shareholders Agreement Put and Call options were issued over the remaining 45% non-controlling interest. The Put and Call options, exercisable after 30 months, are in nature a forward contract and therefore a present ownership interest is granted. The Group has accounted for the business combination as though it acquired a 100% interest and has recognised a financial liability to the non-controlling shareholders equal to the fair value of the underlying obligations under the Put and Call options (contingent consideration liability).

The underlying obligations under the Put and Call options that gives rise to the contingent consideration liability were initially recognised at fair value and subsequently are carried at fair value through the profit and loss

A gain of $392,000 was recognised in the income statement during the current year due to a change in the fair value of the contingent consideration. The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. The undiscounted value is discounted at the present value using a market discount rate.

During the year management revisited the market discount rate from 9.8% to 7.8% and the estimated average EBITDA by reference to the actual results of the business since acquisition and the latest forecasts of future results for the business. This reduced the fair value of the contingent consideration and resulted in a fair value gain of $392,000, which has been reflected in the profit and loss account. If the business was to perform 20% better or 20% worse than forecast the estimated fair value of the contingent consideration would increase by $376,000/decrease by $376,000 respectively.

(a) Movement in contingent consideration

At 1 July	**2,688**	—
Recognised during the year	**—**	2,688
Released to the income statement	**(392)**	—
At 30 June	**2,296**	2,688

A gain of $392,000 was recognised in the income statement during the current year due to a change in the fair value of the contingent consideration.

29. SHARE CAPITAL

Ordinary shares	**19,436**	19,345

	Number	$'000
Movement in ordinary shares on issue		
At 1 July 2009	47,888,505	19,055
Shares issued pursuant to employee share plans	308,889	206
At 30 June 2010	48,197,394	19,261
Shares issued pursuant to Share Consolidation (c)	1,494	—
Shares issued pursuant to employee share plans	283,670	84
At 30 June 2011	**48,482,558**	**19,345**
Shares issued pursuant to employee share plans	**239,919**	**91**
At 30 June 2012	**48,722,477**	**19,436**

Holders 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.

29. SHARE CAPITAL (continued)

(a) 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.

(b) Share Consolidation

On 28 October 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 28 October 2010.

30. RETAINED PROFITS AND RESERVES

(a) Movements in retained profits were as follows:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Balance 1 July	**3,055**	1,292
Net (loss)/profit	**(3,053)**	1,763
Balance 30 June	**2**	3,055

(b) Other reserves

Consolidated	Employee Equity Benefits Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Balance 1 July 2010	1,017	(770)	247
Equity-settled transaction-employee shares	250	—	250
Other comprehensive loss	—	(3,415)	(3,415)
Balance at 30 June 2011	1,267	(4,185)	(2,918)
Balance 1 July 2011	**1,267**	**(4,185)**	**(2,918)**
Equity-settled transaction-employee shares	**280**	**—**	**280**
Other comprehensive income	**—**	**631**	**631**
Balance at 30 June 2012	**1,547**	**(3,554)**	**(2,007)**

30. RETAINED PROFITS AND RESERVES (continued)

(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 Key Management Personnel (KMPs), as part of their remuneration. Refer to note 36 for further details of these plans.

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.

31. CONSOLIDATED ENTITY

	Note	Class of Shares	Consolidated Entity Interest		
			2012 %	2011 %	2010 %
Ultimate Parent Entity					
- Orbital Corporation Limited					
Controlled Entities, incorporated and carrying on business in:					
Australia					
- 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	100
- Orbital Autogas Systems Pty Ltd		Ord	**100**	100	100
- Sprint Gas (Aust) Pty Ltd	(c)	Ord	**100**	100	N/A
United States of America					
- 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
United Kingdom					
- Orbital Engine Company (UK) Ltd	(a)	Ord	**100**	100	100

(a) Dormant for the years ended 30 June 2012 and 30 June 2011.
(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.
(c) Refer to note 38 for further discussion.

32. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED

	2012 $'000	2011 $'000
Current assets	**3**	4
Total assets	**39,998**	38,645
Current liabilities	**—**	—
Total liabilities	**22,567**	19,163
Issued capital	**19,436**	19,345
Accumulated losses	**(3,552)**	(1,130)
Employee equity benefits reserve	**1,547**	1,267
Total shareholders' equity	**17,431**	19,482
Loss of the parent entity	**(2,422)**	(1,652)
Total comprehensive loss of the parent entity	**(2,422)**	(1,652)

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.

33. RELATED PARTY DISCLOSURES

(a) Identity of related parties

The Group has a relationship with its subsidiaries (see note 31), 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 34).

(b) Controlled Entities

Details of interest in controlled entities are set out in Note 31.

(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	
	2012 $'000	**2011 $'000**
Receivables		
Current	—	—
Payables		
Current	**63**	7

(ii) Transactions

During the year the Group provided engineering services to Synerject LLC of $nil (2011: $nil) and purchased goods and services to the value of $178,000 (2011: $140,000) from Synerject LLC. All transactions are in the ordinary course of business and on normal commercial terms and conditions.

34 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 (Chairman)
Dr MT Jones
Dr V Braach-Maksvytis

Executive directors

Mr TD Stinson (Managing Director & Chief Executive Officer)

Executives

Mr KA Halliwell (Chief Financial Officer)
Dr GP Cathcart (Director of Engineering & Operations)

Key management personnel compensation

The key management personnel compensation included in 'employee benefits expense' (see note 9) are as follows:

	CONSOLIDATED		
	2012 **$**	2011 $	2010 $
Short-term employee benefits	**1,028,635**	876,810	1,587,275
Post-employment benefits	**114,847**	131,555	132,605
Equity compensation benefits	**251,062**	223,405	225,737
Termination benefits	—	288,241	—
	1,394,544	1,520,011	1,945,617

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.

34 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-11	Purchases	Granted as compensation ESP #1	Granted as compensation ELTSP	Sales	Other(a)	Held at 30-Jun-12
Non-executive directors							
Mr WP Day	10,000	—	—	—	—	—	10,000
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Dr MT Jones	18,000	—	—	—	—	—	18,000
Executive directors							
Mr TD Stinson(c)	375,690	17,000	—	—	—	—	392,690
Executives							
Mr KA Halliwell	177,605	—	2,633	—	—	—	180,238
Dr GP Cathcart	51,462	—	2,633	—	—	—	54,095
Mr BA Fitzgerald	106,613	—	—	—	—	(106,613)	—

	Held at 1-Jul-10	Purchases	Granted as compensation ESP #1	Granted as compensation ELTSP	Sales	Other(a)(b)	Held at 30-Jun-11
Non-executive directors							
Mr WP Day	10,000	—	—	—	—	—	10,000
Mr JG Young	74,854	—	—	—	—	(74,854)	—
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Dr MT Jones	18,000	—	—	—	—	—	18,000
Executive directors							
Mr TD Stinson (c)	230,088	145,602	—	—	—	—	375,690
Executives							
Mr KA Halliwell	136,734	37,500	3,369	—	—	2	177,605
Mr BA Fitzgerald	103,242	—	3,369	—	—	2	106,613
Dr GP Cathcart	48,091	—	3,369	—	—	2	51,462

	Held at 1-Jul-09	Purchases	Granted as compensation ESP #1	Granted as compensation ELTSP	Sales	Other(d)	Held at 30-Jun-10
Non-executive directors							
Mr WP Day	10,000	—	—	—	—	—	10,000
Mr JG Young	74,854	—	—	—	—	—	74,854
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Dr MT Jones	18,000	—	—	—	—	—	18,000
Executive directors							
Mr TD Stinson (c)	120,100	110,000	—	—	—	(12)	230,088
Executives							
Mr KA Halliwell	94,189	—	1,625	40,920	—	—	136,734
Mr BA Fitzgerald	67,517	—	1,625	34,100	—	—	103,242
Dr GP Cathcart	30,346	—	1,625	16,120	—	—	48,091

(a) Represents shareholdings at time that Mr JG Young ceased to be a Director and Mr BA Fitzgerald ceased to be a KMP.
(b) Represents the rounding of shareholdings as a result of the share consolidation.
(c) Mr Stinson's shareholding of 392,690 is represented by 6,618 ADSs and 286,802 ordinary shares.
(d) 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.

34. KEY MANAGEMENT PERSONNEL (continued)

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:

	Held at 1-Jul-11	Offered	Forfeited	Vested	Expired	Held at 30-Jun-12
Executive directors						
Mr TD Stinson	1,320,000	770,000	—	—	(130,000)	1,960,000
Executives						
Mr KA Halliwell	674,067	410,000	—	—	(70,000)	1,014,067
Dr GP Cathcart	492,200	310,000	—	—	(40,000)	762,200

	Held at 1-Jul-10	Offered	Forfeited	Vested	Expired	Held at 30-Jun-11
Executive directors						
Mr TD Stinson	655,000	665,000	—	—	—	1,320,000
Executives						
Mr KA Halliwell	363,500	337,567	—	—	(27,000)	674,067
Mr BA Fitzgerald	333,000	311,600	(627,600)	—	(17,000)	—
Dr GP Cathcart	256,500	252,700	—	—	(17,000)	492,200

	Held at 1-Jul-09	Offered	Forfeited	Vested	Expired	Held at 30-Jun-10
Executive directors						
Mr TD Stinson	130,000	525,000	—	—	—	655,000
Executives						
Mr KA Halliwell	163,000	266,500	—	(40,920)	(25,080)	363,500
Mr BA Fitzgerald	142,000	246,000	—	(34,100)	(20,900)	333,000
Dr GP Cathcart	83,000	199,500	—	(16,120)	(9,880)	256,500

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:

	Held at 1-Jul-11	Offered	Forfeited	Vested	Expired	Held at 30-Jun-12
Executive directors						
Mr TD Stinson	1,150,000	—	—	—	—	1,150,000

	Held at 1-Jul-10	Offered	Forfeited	Vested	Expired	Held at 30-Jun-11
Executive directors						
Mr TD Stinson	1,150,000	—	—	—	—	1,150,000

	Held at 1-Jul-09	Offered	Forfeited	Vested	Expired	Held at 30-Jun-10
Executive directors						
Mr TD Stinson	1,150,000	—	—	—	—	1,150,000

35. NOTES TO THE STATEMENTS OF CASH FLOWS

Reconciliation of cash flows from operating activities

	NOTE	CONSOLIDATED		
		2012 $'000	2011 $'000	2010 $'000
Profit/(loss) after income tax		**(3,053)**	1,763	4,516
Adjustments for:				
Profit on sale of property, plant and equipment	8	**(15)**	(4,760)	(41)
Depreciation	18	**846**	930	877
Amortisation	19	**145**	253	136
Amortisation of deferred revenue and government grants		**(225)**	(225)	(345)
Impairment, write-off/(write-back) of trade receivables		**429**	38	(114)
Movement in fair value of financial liability		**(329)**	—	—
Impairment of capitalised development costs	19	**—**	1,065	—
Inventory write-down	15	**—**	942	—
Amortisation of non-interest bearing loans		**507**	613	626
Gain on restructure of non-interest bearing loans	26	**—**	—	(7,695)
Amounts set aside to warranty and other provisions		**363**	318	(133)
Share of net profit of equity accounted investment	16	**(3,480)**	(3,233)	(1,874)
Employee compensation expense	36(a)	**371**	334	339
Net foreign exchange (gains)/losses		**(120)**	(79)	97
Net cash used in operating activities before changes in assets and liabilities		**(4,624)**	(2,041)	(3,611)
Changes in assets and liabilities during the year:				
Decrease/(increase) in receivables		**2,262**	(621)	28
Decrease/(increase) in inventories		**(1,137)**	360	(638)
Increase in deferred tax assets		**(456)**	(532)	(417)
(Decrease)/increase in payables		**(40)**	1,629	(951)
(Decrease)/increase in employee provisions		**(250)**	(587)	540
		379	249	(1,438)
Net cash used in operating activities		**(4,245)**	(1,792)	(5,049)

36. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

Expense arising from equity-settled share-based payment transactions	**371**	334	339

The share-based payment plans are described below. Entitlements to shares are based 50% of Total Shareholder Return and 50% on Earnings Per Share.

36. 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 239,919 (2011: 283,670) shares issued under Plan No 1 to eligible employees at a market value on the day of issue of $91,097 (2011: $84,193).

(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 vest 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 2011 and ending on 31 August 2014 ("Performance Period").

The following table sets out the relevant percentages of an executive's Personal Allotment which will vest 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%

No shares will vest unless the Company's TSR is at or above the 50th percentile. In 2012, nil (2011: nil) rights vest in accordance with the terms of the plan.

(b) 50% of the shares offered will vest if the Company achieves earnings in excess of 15 cents per share for the year ending 30 June 2014.

At the Company's Annual General Meeting in October 2011, shareholders approved the above plan in relation to the ongoing remuneration of Executive Directors and senior executives.

During the year, a total of 1,687,500 rights under the plan were offered to 5 executives (2011: 1,730,900 rights offered to 6 executives).

Summary of rights granted under the ELTSP

	2012 No.	2011 No.	2010 No.
Outstanding at the beginning of the year	**2,849,800**	1,855,000	780,000
Granted during the year	**1,687,500**	1,730,900	1,436,000
Forfeited during the year	**—**	(642,600)	(96,000)
Vested during the year and shares issued	**—**	—	(164,300)
Expired during the year	**(310,000)**	(93,500)	(107,000)
Outstanding at the end of the year	**4,227,300**	2,849,800	1,855,000

The outstanding balance as at 30 June 2012 is represented by:

- 1,120,500 rights with an average fair value at grant date of $0.465 that will potentially vest in August 2012;
- 1,419,300 rights with an average fair value at grant date of $0.335 that will potentially vest in August 2013; and
- 1,687,500 rights with an average fair value at grant date of $0.300 that will potentially vest in August 2014.

36. SHARE BASED PAYMENT PLANS (CONTINUED)

Fair value of rights on grant date

TSR related rights

The following factors and assumptions were used in determining the fair value of TSR related rights offered under the ELTSP on grant date:

Grant Date	Life	Expiry Date	Fair Value per right	Exercise Price	Market price of shares on grant date	Expected volatility	Risk free interest rate
31-Aug-09	3 years	31-Aug-12	38 cents	nil	55 cents	65.00%	5.03%
31-Aug-10	3 years	31-Aug-13	33 cents	nil	34 cents	60.00%	4.27%
31-Aug-11	3 years	31-Aug-14	25 cents	nil	35 cents	110.00%	3.79%

* The grant date of the TSR related rights for the Managing Director was 26 October 2011.

EPS related rights

The following factors and assumptions were used in determining the fair value of EPS related rights offered under the ELTSP on grant date:

Grant Date	Life	Expiry Date	Fair Value per right	Exercise Price	Market price of shares on grant date
31-Aug-09	3 years	31-Aug-12	55 cents	nil	55 cents
31-Aug-10	3 years	31-Aug-13	34 cents	nil	34 cents
31-Aug-11	3 years	31-Aug-14	35 cents	nil	35 cents

* The grant date of the EPS related rights for the Managing Director was 26 October 2011.

The fair value of the EPS related rights is equal to the market price of shares on the grant date.

(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.

36. SHARE BASED PAYMENT PLANS (CONTINUED)

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 1,150,000 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 $	Fair Value at grant date $
1	200,000	$ 2.50	94,000
2	200,000	$ 5.00	70,000
3	200,000	$ 7.50	56,000
4	200,000	$ 10.00	46,000
5	125,000	$ 20.00	16,250
6	125,000	$ 30.00	11,250
7	100,000	$ 50.00	5,000

(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 30 June 2012 or 30 June 2011.

37. 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.

38. BUSINESS COMBINATION

Acquisition of Sprint Gas Business

On 27 May 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specialising in the importation and wholesaling of LPG Fuel systems. The consideration transferred was $2,000,000 cash as payment in full for 2,200,000 ordinary shares in the new company, Sprint Gas (Aust) Pty Ltd.

Concurrently with the entering into of the Business Acquisition Agreement, the Group entered into a Subscription and Shareholders Agreement with the owners of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd. As part of the Subscription and Shareholders Agreement, Put and Call options were issued over the remaining 45% non-controlling interest. The Put and Call options, exercisable after 30 months, are in nature a forward contract and in substance represent contingent consideration. The Group has accounted for the business combination as though it acquired a 100% interest and has recognised a financial liability to the non-controlling shareholders equal to the fair value of the underlying obligations under the Put and Call options (Contingent consideration liability).

The option that gives rise to the contingent consideration liability is classified as a financial liability at fair value through profit and loss.

The acquisition of Sprint Gas significantly broadens the Group’s wholesaling and distribution activities in the area of alternative fuels and positions the Group as a leader in the Australian LPG market.

The fair values of the identifiable assets and liabilities of Sprint Gas (Aust) Pty Ltd as of the date of acquisition were as follows:

	Provisional fair value at acquisition date as reported in 30 June 2011 financial statements $’000	Final fair value at acquisition date as reported in 30 June 2012 financial statements $’000
Cash and cash equivalents	420	420
Trade and other receivables	1,319	1,319
Inventories	1,968	1,640
Plant and equipment	468	468
Deferred tax asset	242	341
	4,417	4,188
Trade and other payables	(835)	(835)
Employee benefits	(197)	(197)
Relocation provision	(70)	(70)
	(1,102)	(1,102)
Provisional fair value of identifiable net assets	3,315	3,086
Goodwill arising on acquisition	1,373	1,602
Acquisition date fair value consideration transferred	4,688	4,688

38. BUSINESS COMBINATION (continued)

Acquisition of Sprint Gas Business (continued)

The increase of $229,000 to the provisional goodwill figure reported in the 30 June 2011 financial statements was due to the re-measurement of the fair value of inventory acquired. During the 12-month period post acquisition, the Group revisited the assumptions used to determine the fair value of inventory and reduced the balance by $328,000, to more accurately reflect the value of inventory at the date of acquisition. As a result of the adjustment, the Group recognised a corresponding deferred tax asset of $99,000. These changes were retrospectively applied to the 30 June 2011 comparative balances.

For details of the movement in the contingent consideration liability refer to note 28.

39. COMMITMENTS

(a) Operating leases

	CONSOLIDATED		
	2012 $'000	2011 $'000	2010 $'000
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:			
- Not later than one year	**1,191**	1,022	184
- Later than one year but not later than five years	**3,983**	3,536	3
- later than five years	**3,399**	4,273	—
	8,573	8,831	187

The Group leases premises and plant & equipment under operating leases. The lease for the engineering premises is for a period of 10 years with options to extend for two further periods of five years each. Leases for warehousing premises typically run for a period of 5 years. 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 2012, $1,004,000 was recognised as an expense in the income statement in respect of operating leases (2011: $490,000).

(b) Finance leases and hire purchase commitments

Future minimum lease payments under finance leases and hire purchase contracts are as follows:

- Not later than one year	**23**	—	—
- Later than one year but not later than five years	**63**	—	—
	86	—	—

(c) 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	**391**	391	391
- Later than one year but not later than five years	**291**	682	1,073
	682	1,073	1,464

40. CONTINGENCIES

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. In the event of the Company terminating the employment of a KMP (other than by reason of serious misconduct or material breach of their service agreement), an equivalent of 4 weeks pay, plus 2 weeks pay for each completed year of service, plus for each completed year of service beyond 10, an additional 1/2 weeks pay, plus a pro-rata payment for each completed month of service in the final year is payable to the KMP. The maximum entitlement to termination pay is limited to 65 weeks pay. 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.

41. EVENTS AFTER THE BALANCE SHEET DATE

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.

42. REMUNERATION OF AUDITORS

	CONSOLIDATED		
	2012 $	2011 $	2010 $
Amounts received or due and receivable for audit services by:			
Auditors of the Company			
- Audit and review of financial reports – Australian Reporting	**223,780**	235,900	224,420
- Audit and review of financial reports – USA Reporting	**112,000**	112,000	150,000
Amounts received or due and receivable for taxation services by:			
Auditors of the Company	**—**	10,000	10,055
Amounts received or due and receivable for other services by:			
Auditors of the Company	**16,910**	5,150	5,627
Total auditors' remuneration	**352,690**	363,050	390,102

The Auditors of the Group in 2012, 2011 and 2010 were Ernst & Young.

THE POWER TO MAKE A DIFFERENCE. THE PEOPLE TO MAKE IT COUNT.™

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Synerject, LLC
Newport News, Virginia

We have audited the accompanying consolidated balance sheets of Synerject, LLC and Subsidiaries (the Company) as of December 31, 2011 and 2010 and the related consolidated statements of income, members' equity and comprehensive income, and cash flows for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 consolidated 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synerject, LLC and Subsidiaries as of December 31, 2011 and 2010 and the results of their operations and their cash flows for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

Witt Mares, PLC

Norfolk, Virginia
February 3, 2012

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 5,290,127**	$ 3,985,793
Trade accounts receivable, net of allowance for doubtful accounts of $223,522 in 2011 and $158,884 in 2010	**25,885,871**	21,488,855
Inventories	**6,340,489**	5,817,704
Prepaid expenses and other assets	**3,680,056**	2,636,027
Total current assets	**41,196,543**	33,928,379
Property, plant and equipment, net	**4,829,932**	4,942,843
License agreements, net of accumulated amortization of $10,283,958 in 2011 and $9,645,707 in 2010	**3,167,271**	3,799,637
Total assets	**$49,193,746**	$42,670,859
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$17,374,035**	$13,721,010
Accrued expenses and other liabilities	**6,067,499**	6,192,452
Current portion of long-term debt	**1,888,596**	1,888,596
Line of credit	**—**	594,139
Total current liabilities	**25,330,130**	22,396,197
Long-term debt, excluding current portion	**629,531**	2,518,126
Total liabilities	**25,959,661**	24,914,323
Members' equity	**22,664,484**	16,886,300
Accumulated other comprehensive income	**569,601**	870,236
Total members' equity	**23,234,085**	17,756,536
Total liabilities and members' equity	**$49,193,746**	$42,670,859

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES

Consolidated Statements of Income

12 Month Period Ended December 31, 2011, 18 Month Period Ended December 31, 2010, and 12 Month Period Ended June 30, 2009

	12 Months Ended December 31, 2011	18 Months Ended December 31, 2010	12 Months Ended June 30, 2009
Revenue			
Net sales	**$ 125,879,643**	$ 145,123,722	$ 69,844,265
Engineering services revenue	**4,765,428**	4,960,464	4,790,772
Total revenue	**130,645,071**	150,084,186	74,635,037
Costs and expenses			
Cost of goods sold	**102,113,245**	118,218,938	56,267,221
Engineering expenses	**12,218,067**	13,213,292	6,532,343
Selling, general and administrative expenses	**7,609,555**	10,893,989	7,453,689
Total costs and expenses	**121,940,867**	142,326,219	70,253,253
Operating income	**8,704,204**	7,757,967	4,381,784
Other income (expense)			
Interest expense	**(70,252)**	(395,160)	(289,912)
Other	**69,295**	(46,634)	(430,054)
	(957)	(441,794)	(719,966)
Net income	**$ 8,703,247**	$ 7,316,173	$ 3,661,818

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Members' Equity and Comprehensive Income
12 Month Period Ended December 31, 2011, 18 Month Period Ended December 31, 2010, and 12 Month Period Ended June 30, 2009

	Members' equity			Accumulated other comprehensive income			Total members' equity
	CAS	OFT	Total	CAS	OFT	Total	
Balances at June 30, 2008	$ 7,654,294	$ 7,654,293	$15,308,587	$ 818,644	$ 818,644	$1,637,288	$16,945,875
Distributions to members	(3,086,607)	(3,086,607)	(6,173,214)	—	—	—	(6,173,214)
Comprehensive income:							
Net income	1,914,378	1,747,440	3,661,818	—	—	—	3,661,818
Foreign currency translation adjustment	—	—	—	(392,665)	(358,424)	(751,089)	(751,089)
Reversal of previously unrealized losses in fair value of derivative	—	—	—	69,656	69,656	139,312	139,312
Total comprehensive income							3,050,041
Balances at June 30, 2009	6,482,065	6,315,126	12,797,191	495,635	529,876	1,025,511	13,822,702
Distributions to members	(1,871,697)	(1,355,367)	(3,227,064)	—	—	—	(3,227,064)
Comprehensive income:							
Net income	4,243,380	3,072,793	7,316,173	—	—	—	7,316,173
Foreign currency translation adjustment	—	—	—	(90,060)	(65,215)	(155,275)	(155,275)
Total comprehensive income							7,160,898
Balances at December 31, 2010	**8,853,748**	**8,032,552**	**16,886,300**	**405,575**	**464,661**	**870,236**	**17,756,536**
Distributions to members	**(1,696,537)**	**(1,228,526)**	**(2,925,063)**	**—**	**—**	**—**	**(2,925,063)**
Comprehensive income:							
Net income	**5,047,883**	**3,655,364**	**8,703,247**	**—**	**—**	**—**	**8,703,247**
Foreign currency translation adjustment	**—**	**—**	**—**	**(174,368)**	**(126,267)**	**(300,635)**	**(300,635)**
Total comprehensive income							**8,402,612**
Balances at December 31, 2011	**$12,205,094**	**$ 10,459,390**	**$22,664,484**	**$ 231,207**	**$ 338,394**	**$ 569,601**	**$23,234,085**

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Cash Flows
12 Month Period Ended December 31, 2011, 18 Month Period Ended December 31, 2010, and 12 Month Period Ended June 30, 2009

	12 Months Ended December 31, 2011	18 Months Ended December 31, 2010	12 Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 8,703,247**	$ 7,316,173	$ 3,661,818
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	**1,275,768**	2,003,132	1,511,016
Amortization of license agreements	**583,892**	832,657	839,111
Write-off of accrued interest on license agreement	**—**	444,261	—
Changes in assets and liabilities increasing (decreasing) cash flows from operations:			
Accounts receivable	**(4,981,344)**	(1,245,827)	(3,295,424)
Inventories	**(618,512)**	(1,163,680)	(402,504)
Prepaid expenses and other assets	**(1,151,641)**	433,199	(1,175,011)
Accounts payable	**3,148,967**	2,425,394	431,620
Accrued expenses and other liabilities	**(243,360)**	1,572,357	1,333,831
Net cash provided by operating activities	**6,717,017**	12,617,666	2,904,457
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment	**(1,250,822)**	(1,617,365)	(1,244,348)
Net cash used in investing activities	**(1,250,822)**	(1,617,365)	(1,244,348)
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions to members	**(2,925,063)**	(3,227,064)	(6,173,214)
Net borrowings (repayments) on line of credit	**(594,139)**	(1,042,365)	361,532
Proceeds from long-term borrowing	**—**	—	7,554,382
Principal payments on long-term debt	**(1,888,595)**	(2,832,895)	(4,776,055)
Net cash used in financing activities	**(5,407,797)**	(7,102,324)	(3,033,355)
Effect of exchange rate changes on cash and cash equivalents	**1,245,936**	(990,517)	(162,663)
Net increase (decrease) in cash and cash equivalents	**1,304,334**	2,907,460	(1,535,909)

(Continued)

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Cash Flows
12 Month Period Ended December 31, 2011, 18 Month Period Ended December 31, 2010, and 12 Month Period Ended June 30, 2009

(Concluded)	**12 Months Ended December 31, 2011**	18 Months Ended December 31, 2010	12 Months Ended June 30, 2009
Cash and cash equivalents			
Beginning of period	**$ 3,985,793**	$ 1,078,333	$ 2,614,242
End of period	**$ 5,290,127**	$ 3,985,793	$ 1,078,333
Supplement disclosure of cash flow information:			
Cash paid for interest	**$ 115,571**	$ 591,881	$ 298,363
Cash paid for foreign income taxes	**$ —**	$ 645,559	$ —

See accompanying notes.

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business

Synerject, LLC (Synerject or the Company), a Delaware limited liability company, was formed on June 25, 1997 to manufacture, distribute, and sell fuel rail assemblies incorporating charge delivery injectors which deliver air and pre-metered quantities of gasoline directly into the combustion chambers of both two-stroke and four-stroke internal combustion engines.

The Company is the result of a Joint Venture and Limited Liability Company Agreement (the Agreement) between Continental Automotive Systems US, Inc. (CAS) and Orbital Fluid Technologies, Inc. (OFT), whereby each member originally owned 50% of the Company. CAS is a wholly owned subsidiary of Continental AG (CAG), a corporation organized under the laws of the Federal republic of Germany. OFT is a wholly owned subsidiary of Orbital Corporation Limited (OCL), a corporation organized under the laws of West Australia.

Pursuant to the terms of the Agreement, allocation of net income (loss) will be to and among the members in accordance with their ownership percentages. As of April 2003, under an amendment to the Agreement, the CEO and CFO of Synerject were added to the Company's board of directors. Voting control of the Company's board of directors was shared equally between CAG, OCL, and Synerject. As of April 2009, the CEO and CFO of Synerject were removed from the board of directors.

The initial term of the Agreement is 20 years and is subject to renewal upon terms and conditions as shall be mutually agreed by CAG and OCL.

In November 1998, the Company began functioning as a systems integrator for motorcycle, scooter and other two-wheel applications utilizing direct injection technology. In addition, in September 1999, the Company began functioning as a systems integrator for nonautomotive equipment utilizing certain Continental port injection technology. In April 2003, the Company began systems integration services and supply of systems components to customers in the marine and recreation market segment, and to a new customer, Bombardier Rotax (Austria), for engines supplied to the snowmobile and personal watercraft markets. In March 2006, the Company acquired from BRP US, Inc. a business associated with supplying fuel systems and components of outboard marine engines. As part of its Asian growth strategy the Company began manufacturing operations in Changchun, China in November 2006 and opened a sales and application engineering office in Chongqing, China in March 2007. In September 2010, the Company established a legal entity called Synerject Taiwan Ltd, Co. in Taipei, Taiwan to directly support the technical and commercial demands of customers in the Taiwan market.

(Continued)

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During March 2009, a second amendment to the Company's joint venture and limited liability company agreement was executed whereby CAS and OFT's percentage interests changed to 58% and 42%, respectively.

Principles of Consolidation

The consolidated financial statements include the financial statements of Synerject, LLC and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company defines cash as cash on hand and demand deposits at financial institutions. Cash equivalents are defined as highly liquid short term financial instruments with maturities of twelve months or less.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines a general allowance utilizing percentages applied to aged outstanding receivable balances. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

Inventories

Inventories which include raw materials and finished goods are stated at the lower of cost or market. Cost includes material, labor and applicable manufacturing overhead and is determined using standard costs, which approximate average costs.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the property as follows:

Leasehold improvements	10 Years
Manufacturing machinery and equipment	10 Years
Testing equipment and motor vehicles	5 Years
Tooling	3 Years
Office and computer equipment, Computer Software	3 Years

(Continued)

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets – License Agreements

In June 1997, the Company entered into a license agreement with OFT for licensed technology. In November 1998, this license agreement was expanded, and the Company acquired the right to provide system integration services and products to the motorcycle market. In September 1999, the Company obtained a license agreement for the right to use CAS technology for systems integration for nonautomotive equipment. The license agreements are stated at cost, net of accumulated amortization.

In September 2010, the Company reversed the previously accrued capitalized interest that had been accrued on the third of three installments of license fees to Orbital as outlined in the 1998 license agreement, as the conditions in the agreement that require Synerject's obligation to pay this installment of fees had not been satisfied to date.

Warranty Liability

The Company provides for estimated warranty costs based on industry applicable rates as set by CAG and accrues for specific items at the time their existence is known and the amounts are determinable.

Derivative Financial Instruments and Hedging Activities

The Company used an interest rate swap agreement to limit exposure to rising interest rates on its variable-rate note payable. Interest rate differentials to be paid or received as a result of the swap agreement are accrued and recognized as an adjustment of interest expense related to the associated debt. The interest rate swap agreement was terminated on March 30, 2009.

Derivatives are recognized on the consolidated balance sheet at their fair value. On the effective date of the derivative contract, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The Company enters only into cash flow hedge agreements. The Company formally documents all relations between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in cash flows of hedge items.

(Continued)

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the fair value of a derivative that are highly effective and are designated and qualify as cash flow hedges are recorded in accumulated other comprehensive income until earnings are affected by the variability in cash flows of the designated hedge item.

Income Taxes

The Company has elected to have the income or loss of Synerject reported by the individual members on their U.S. income tax returns rather than by the Company. Accordingly, no U.S. income taxes related to the Company have been provided for in the accompanying consolidated financial statements.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of this guidance to its consolidated financial statements. The Organization is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax provisions as of December 31, 2011. With few exceptions, the Organization is no longer subject to income tax examinations by U.S. federal, state or local authorities for years before 2008.

The Company's policy is to classify income tax related interest and penalties, if any, in interest expense and other expenses, respectively.

No election was made to have the income or loss of one subsidiary, Synerject SAS, reported by the individual members on their income tax return. Synerject SAS incurs and pays foreign income taxes. In addition, the Company incurred a tax (unrecoverable VAT) relating to shipments from its locations in China to other countries in 2009 and 2010. During 2011, this tax was suspended and to date has not been reinstated. The individual members may be entitled to a tax credit for such foreign income taxes paid if dividends are paid. For the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009, foreign income tax expense (benefit) of approximately ($8,000), $47,000, and $495,000, respectively, were included in other expense on the accompanying consolidated statements of income.

(Continued)

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

Translation of Foreign Currencies

The financial position and results of operations of the Company's non-U.S. subsidiaries and branches are measured using functional currencies other than the U.S. dollar. This causes the Company to be exposed to various risks associated with these functional currencies. The effect of these risks are not determinable.

For the 12 month period ended December 31, 2011 and the 18 month period ended December 31, 2010, assets and liabilities are translated at the exchange rate in effect and set forth by CAG at the consolidated financial statement date. Income statement accounts are translated at the average CAG rate of exchange prevailing during the period.

For the 12 month period ended June 30, 2009, assets and liabilities are translated at the exchange rate in effect at the consolidated financial statement date. Income statement accounts are translated at the average rate of exchange prevailing during the period.

Net exchange gains and losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are included in the cumulative foreign currency translation adjustment account in total members' equity.

Impairment of Long-Lived Assets

In accordance with FASB ASC 360, long-lived assets such as property, plant and equipment and intangibles subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount of which the carrying amount of the asset exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

(Continued)

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Revenue Recognition

The Company recognizes revenue on sales after products are shipped, the customer takes ownership, assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sale price is determinable. The Company recognizes revenue related to engineering services based on output measures and the achievement of certain billable milestones. Revenues are recorded net of taxes collected from customers and remitted to governmental authorities. Sales are presented net of taxes applicable to sales transactions.

Research and Development

Research and development costs are expensed as incurred. For the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009, they amounted to approximately $2,898,342, $1,236,000, and $644,000 respectively.

NOTE 2. FISCAL YEAR CHANGE

Effective for the fiscal year beginning July 1, 2009, the Company changed from a fiscal year end of June 30 to a calendar year end of December 31. An eighteen month fiscal transition period from July 1, 2009 through December 31, 2010, preceded the start of the new calendar-year cycle.

NOTE 3. TRANSACTIONS WITH RELATED PARTIES

The Company purchases and provides services and materials from/to CAS, OCL and their related affiliates. These transactions relate to product purchases and operating expenses, including engineering and technical assistance. A breakdown of these related-party receivables and payables at December 31, 2011 and 2010 are as follows:

	2011	2010
Related party receivables:		
CAS and its affiliates	**$ —**	$ 392,683
OCL and its affiliates	**17,500**	22,502
	$ 17,500	$ 415,185
Related party payables:		
CAS and its affiliates	**$8,824,992**	$7,418,321

(Continued)

NOTE 3. TRANSACTIONS WITH RELATED PARTIES (Concluded)

Total revenues from related parties for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009 were approximately $95,000, $581,000, and $210,000, respectively. Total purchases from related parties for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 months ended June 30, 2009 were approximately $36,770,960, $19,856,000, and $15,848,000 respectively.

NOTE 4. LINE OF CREDIT

The Company has available a line of credit with SunTrust Bank totaling $5,000,000. The total outstanding balance under this line of credit was $- and $594,139 at December 31, 2011 and 2010, respectively. The line of credit agreement provided for a maximum amount available of $7,000,000 effective September 29, 2010 and was reduced to $5,000,000 effective December 1, 2010 through the maturity date. The line of credit matures June 30, 2012. The line of credit bears interest at the one month London Inter Bank Offered Rate (LIBOR) plus 2.50% with a minimum rate of 3.00% (3.00% rate at December 31, 2011). As of December 31, 2010, the line of credit had an interest rate of the one month LIBOR plus 2.50% with a minimum of 3.00% (3.00% at December 31, 2010). The line of credit is secured by assets of the Company.

NOTE 5. LONG-TERM DEBT

Long-term debt as of December 31, 2011 and 2010 consists of a note payable to a bank under an agreement dated March 30, 2009, maturing March 30, 2013. Interest accrues at a rate of LIBOR plus 2.42% (2.69% and 2.68% at December 31, 2011 and 2010, respectively). The note is payable in monthly installments of principal of $157,383 and interest and is secured by substantially all assets of the Company. The aggregate maturities of long-term debt for each year subsequent to December 31, 2011 are as follows: 2012, $1,888,596; 2013, $629,531.

NOTE 6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company had a derivative instrument to manage its exposure on its variable-rate debt. The Company does not enter into derivative instruments for any purpose other than cash flow hedging purposes. Specifically, the Company does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivate contract is positive, the counterparty owes the Company, which creates repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty, and therefore, it does not possess repayment risk. The Company minimizes the credit or repayment risk in derivative instrument by entering into transitions with high-quality counterparties. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

At June 30, 2008, the Company had one outstanding interest rate swap agreement with a bank having a notional amount of $4,461,290 and terminating on July 1, 2010. The swap agreement provided for the payment of interest based on a fixed rate of 7.43% which remains unchanged over the term of the agreement. The floating rate of the swap agreement was based on LIBOR plus 1.45% (3.91% at June 30, 2008) and was reset monthly based on market conditions. The nature of the swap agreement changed variable-rate debt to fixed rate debt. The interest rate differential paid or received under the swap is recognized over the term of the contract as adjustments were made to the effective yield of the underlying debt. The Company may have been exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. The Company did not anticipate such nonperformance. The fair value of the interest rate swap agreement had been determined by the holder of the interest rate swap agreement based on pricing models regarding past, present and future market conditions. The estimated fair value of the interest rate swap at June 30, 2008 was a net liability of $139,312.

On March 30, 2009, the above noted swap agreement was terminated in conjunction with the renewal of the related loan.

NOTE 7. EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan for its employees. Participation in the 401(k) plan is voluntary and is open to all employees over 18 years of age with six months of service. Discretionary employee contributions are based upon a percentage of annual salary (as defined by the 401(k) plan). The Company matches 100% of every dollar of employee contributions for the first 1% of the employee's salary plus an additional 50% contribution of the employee's contributions above 1% up to a maximum of 6% of the employee's salary. The Company may also make profit-sharing contributions at its discretion. Company contributions vest over a two-year period. The Company's total expense under the plan was approximately $439,000, $550,000, and $326,000 for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010 and the 12 month period ended June 30, 2009, respectively.

NOTE 8. INVENTORIES

The major classes of inventories as of December 31, 2011 and 2010 are as follows:

	2011	2010
Raw materials	**$4,883,331**	$4,106,088
Finished goods	**1,457,158**	1,711,616
	$6,340,489	$5,817,704

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as of December 31, 2011 and 2010:

	2011	2010
Leasehold improvements	**$ 536,859**	$ 385,627
Manufacturing machinery and equipment	**9,893,344**	9,137,498
Testing equipment	**2,344,801**	2,078,112
Tooling	**2,276,651**	2,270,132
Office equipment	**632,203**	553,132
Computer equipment	**133,623**	124,422
Computer software	**741,451**	592,957
Motor vehicles	**23,359**	23,359
Construction in progress	**557,704**	906,968
	17,139,995	16,072,207
Less accumulated depreciation and amortization	**12,310,063**	11,129,364
	$ 4,829,932	$ 4,942,843

NOTE 10. INTANGIBLE ASSETS – LICENSE AGREEMENTS

All intangible assets were acquired and consist of the following as of December 31, 2011 and 2010:

	December 31, 2011		
	Gross carrying amount	**Weighted average amortization period**	**Accumulated amortization**
Amortizing intangible assets:			
License agreement – OFT	**$ 11,318,190**	**17.3 Years**	**$ 8,184,615**
License agreement – CAS Affiliates	**1,998,257**	**8.3 Years**	**1,998,257**
License agreement – Other	**134,782**	**5 Years**	**101,086**
	$ 13,451,229		**$ 10,283,958**

	December 31, 2010		
	Gross carrying amount	Weighted average amortization period	Accumulated amortization
Amortizing intangible assets:			
License agreement – OFT	$ 11,318,190	17.3 Years	$ 7,576,557
License agreement – CAS Affiliates	1,998,257	8.3 Years	1,998,257
License agreement – Other	128,897	5 Years	70,893
	$ 13,445,344		$ 9,645,707

Intangible assets are amortized using the straight-line method over their estimated useful lives. Aggregate amortization expense for intangible assets for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 20, 2009 were approximately $620,000, $991,000, and $839,000, respectively. Estimated amortization expense for the next five fiscal years is $642,000 in 2012; $608,000 in 2013; $608,000 in 2014, $608,000 in 2015, and $476,000 in 2016.

Under its license agreement with OFT, the Company is contingently obligated to pay additional consideration of $1,000,000 on the last business day of the calendar year in which total sales of OCP Fuel Systems, as defined in the license agreement, reach a certain level. Based on recent sales trends, it is unlikely this sales level will be met.

NOTE 11. LEASES

The Company has signed several operating leases, primarily for facilities, office equipment and other equipment. Rental expense for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009, was approximately $888,000, $1,390,000 and $919,000, respectively.

As of December 31, 2011 approximate future minimum lease payments, including residual value guarantees and excluding renewal option periods are as follows:

Year ended December 31,:	
2012	$ 958,000
2013	778,000
2014	562,000
2015	597,000
2016	333,000
Thereafter	576,000
	$3,804,000

NOTE 12. ALLOWANCE FOR DOUBTFUL ACCOUINTS

The activity in the allowance for doubtful accounts for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and the 12 month period ended June 30, 2009 follows:

	2011	2010	2009
Allowance for doubtful accounts at beginning of period	**$158,884**	$223,064	$ 52,823
Provision for doubtful accounts, net of recoveries and charge-offs	**65,538**	(63,246)	169,301
Effects of foreign currency translation adjustments	**(900)**	(934)	940
Allowance at end of period	**$223,522**	$158,884	$223,064

NOTE 13. WARRANTY LIABILITY

The activity in the warranty liability, which is included in accrued expenses and other liabilities, for the 12 month period ended December 31, 2011, the 18 month period ended December 31, 2010, and 12 month period ended June 30, 2009 follows:

	2011	2010	2009
Liability at beginning of period	**$ 985,589**	$396,934	$360,178
Additions to warranty expense accrual	**412,125**	637,211	163,909
Warranty costs charged against liability	**(326,200)**	—	(78,504)
Effects of foreign currency translation adjustments	**(107,830)**	(48,556)	(48,649)
Liability at end of period	**$ 963,684**	$985,589	$396,934

NOTE 14. CONCENTRATION OF CREDIT RISK

Two customers comprised approximately 55% of net sales for the 12 month period ended December 31, 2011 and 61% of trade accounts receivable as of December 31, 2011.

Two customers comprised approximately 60% of net sales for the 18 month period ended December 31, 2010 and 60% of trade accounts receivable as of December 31, 2010.

One customer comprised approximately 49% of net sales for the 12 month period ended June 30, 2009 and 41% of trade accounts receivable as of June 30, 2009.

The Company maintains bank deposits in the United States and other countries that may at times exceed the insurance limits, if any, that exist.

NOTE 15. CONTINGENCIES

A supplier company presented a claim requesting reimbursement of product development costs incurred to date since the serial launch of the new product has been delayed by Synerject to its customers for various reasons. The aggrieved party filed for 500,000 euro as damages in compensation. The Company has reserved 160,000 euro as a contingency for the costs of the damages at December 31, 2011 and 2010. The Company contested the claim, and on January 9, 2012 a judgment was made in which all of the supplier's demands were dismissed. However, the supplier has until February 20, 2012 to file an appeal. Currently, because of the uncertainty, the client maintains the reserve.

NOTE 16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and/or disclosure and determined that there were none that would require accrual or disclosure.

NOTE 17. RECLASSIFICATIONS

Certain amounts in the 2009 and 2010 consolidated financial statements have been reclassified to conform with the 2011 presentation. These reclassifications had no effect on the previously reported net income.

Exhibit 12.1

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), 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 internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   (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: 25 October 2012

/s/ Terry Dewayne Stinson
Name: Terry Dewayne Stinson
Title: Chief Executive Officer

Exhibit 12.2

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), 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 internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   (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: 25 October 2012

/s/ Keith Anthony Halliwell
Name: Keith Anthony Halliwell
Title: Chief Financial Officer

Exhibit 13.1

**CERTIFICATION 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)**

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 30 June 2012 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 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: 25 October 2012

/s/ Terry Dewayne Stinson
Name: Terry Dewayne Stinson
Title: Managing Director and Chief Executive Officer

Exhibit 13.2

**CERTIFICATION 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)**

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 30 June 2012 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 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: 25 October 2012

/s/ Keith Anthony Halliwell
Name: Keith Anthony Halliwell
Title: Chief Financial Officer