

# ORBITAL CORPORATION LIMITED

## APPENDIX 4E

### Preliminary Final Report

#### Company Details

**Name of Entity:** Orbital Corporation Limited  
**ABN:** 32 009 344 058  
**Year Ended (Current Year):** 30 June 2013  
**Year Ended (Prior Year):** 30 June 2012

#### Results for announcement to the market

		A\$'000			A\$'000
<b>Total revenue</b>	<b>UP</b>	<b>4,338</b>	<b>19%</b>	<b>to</b>	<b>26,699</b>
<b>Statutory net profit from ordinary activities after tax attributable to members</b>	<b>UP</b>	<b>3,417</b>	<b>N/A</b>	<b>to</b>	<b>364</b>
<b>Statutory net profit attributable to members</b>	<b>UP</b>	<b>3,417</b>	<b>N/A</b>	<b>to</b>	<b>364</b>
<b>Underlying net profit from ordinary activities after tax attributable to members</b>	<b>UP</b>	<b>4,702</b>	<b>N/A</b>	<b>to</b>	<b>1,370</b>
		<u>2013</u>	<u>2012</u>		
<b>Net tangible assets per share (cents)</b>		<b>39.22</b>	<b>31.14</b>		
<b>Dividends</b>					
There is no proposal to pay dividends for the year ended 30 June 2013					

#### Commentary on results for the period

The Commentary on the results for the period is contained in the press release dated 26 August 2013 accompanying this statement.

#### Annual Meeting

The annual meeting will be held as follows:

**Place:** Rydges Hotel  
Corner Hay and King Streets  
Perth  
Western Australia

**Date:** Tuesday 22 October 2013

**Time:** 10.00am

Approximate date the annual report will be available: 18 September 2013

#### Audit

This report is based on accounts which have been audited. (see attached Annual Report)



**ANNUAL REPORT**

**30 JUNE 2013**

## **DIRECTORS' REPORT** FOR THE YEAR ENDED 30 JUNE 2013

The Directors present their report together with the financial report of Orbital Corporation Limited (the Company or Orbital) and of the Group, being the Company, its subsidiaries and the Group's interest in its associate for the year ended 30 June 2013 and the auditors' report thereon.

<b>Reference</b>	<b>Contents of Directors' Report</b>	<b>Page</b>
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## 1. OPERATING AND FINANCIAL REVIEW

### SUMMARY OF BUSINESSES

Over recent years the Company has undertaken a transition from a Consultancy and Intellectual Property business to a more diversified group with the acquisition of two LPG fuel system businesses in June 2008 and May 2011 and the creation of a new business that supplies Engine Management Systems (EMS) and engines for Small Unmanned Aerial Systems (SUAS). The Company has developed to four main revenue streams: system sales, the traditional consulting business, royalty revenues and dividends from Synerject. The most significant growth over the past year has been in system sales.

The Consulting Services business provides engineering and testing facility services to domestic customers and advanced engineering services for international customers based in USA, China, India, Japan and Europe. The Company is planning to expand consulting services in the growing Indian market through a proposed Joint Venture with UCAL Corporation in India. Orbital is a niche player in the consulting market with a very small market share.

The Company develops and sells systems to domestic and international markets. Domestically, the Company is the supplier of a Liquid Phase Injection (LPI) LPG fuel system to Ford Motor Company of Australia for use in their EcoLPi range of Falcon passenger cars and utilities. The Company is also an importer and wholesaler of LPG fuel systems for the Australian retrofit market, with the LPG related businesses holding an estimated combined domestic market share of more than 40%. The new SUAS business is international and has applied Orbital's patented FlexDI™ engine management system to heavy fuel applications in the SUAS market and holds more than 90% market share for heavy fuel applications.

The Company holds an investment in Synerject LLC, the world's largest independent supplier of non-automotive engine management systems (EMS). Synerject operates engineering facilities in Europe, North America and China and also has production facilities in North America and China. Synerject supplies EMS to customers in the marine, low-end 2 and 3 wheeler, recreational and utility markets. Synerject's customers are located in North America, Europe, Japan, China and South-East Asia.

### FINANCIAL REVIEW

Total revenue and profit after tax for the year ended 30 June 2013 was \$26,699,000 and \$364,000 respectively (2012: total revenue \$22,361,000 and loss after tax of \$3,053,000).

There are a number of items impacting the profit after tax that are not associated with the normal operations of the Group. This information has been set out below to enable users of this report to make appropriate comparisons with prior periods and to assess the underlying operating performance of the business.

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Statutory Profit/(loss) after tax</b>	<b>364</b>	(3,053)
<i>Deduct income items</i>		
Gain on sale of share of Synerject	<b>(1,702)</b>	-
Change in fair value of contingent consideration	<b>(1,410)</b>	(392)
<i>Add-back expense items</i>		
Taxation expense relating to the gain on sale of share of Synerject	<b>1,590</b>	-
Goodwill impairment	<b>1,965</b>	-
Terminations costs	<b>563</b>	113
<b>Underlying profit/(loss) after tax</b>	<b>1,370</b>	(3,332)

*The non-IFRS information above has not been audited, but has been extracted from Orbital's annual financial report which has been audited by the external auditors. This information has been presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.*

**1. OPERATING AND FINANCIAL REVIEW (continued)**

**FINANCIAL REVIEW (continued)**

The financial performance of the Company has significantly improved from a loss of \$3,053,000 last year to a profit of \$364,000 this year, primarily due to the combined benefits of increased system sales and tighter cost control. The result was achieved despite significant expenses for goodwill impairment and termination costs incurred in restructuring the operations of the Group. On an operating basis, we made an underlying profit of \$1,370,000. With the changes made over the year, the business is now on a better base to achieve sustainable profits in the future.

The Company recognised a gain on the change in fair value of the contingent consideration liability in respect of the Sprint Gas acquisition of \$1,410,000.

The Company's net assets increased by 12%, compared with the previous year. This increase is largely attributable to the translation of the foreign subsidiary and the current year's profit after tax. Trade receivables have increased by \$545,000, inventories have decreased by \$2,039,000 and trade payables have also decreased by \$2,105,000. Trade receivables for the final deliveries on the second SUAS production order were outstanding at the end of the period. Inventory and trade payables have been managed in line with the activity levels of the LPG businesses.

The Company sold a portion of its investment in Synerject during the year for US\$6,000,000. The proceeds of the sale were utilised to invest into working capital for the SUAS business, retire bank debt and fund the restructuring of the businesses with the balance retained to alleviate the Company's liquidity concerns from the previous year.

Net cash used in operations (including the Synerject dividend of \$1,485,000) was \$232,000 (2012: \$2,701,000) reflecting a significant improvement in the operating performance of the Group.

Orbital will continue to concentrate on cash management and manage costs appropriately to minimise overheads while protecting key resources necessary to create opportunities for future growth.

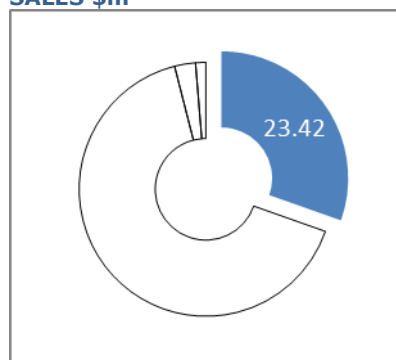
The Company's investment in Synerject is accounted for using the equity method of accounting and as such it does not include Orbital's share of Synerject's revenue in its Income Statement. To assist in making appropriate comparisons of the relative size of each of the Group's income streams graphical representations of sales, including the pro-rata shares of Synerject sales, have been included in the Segment review which follows. The non-IFRS graphical representations of sales have not been audited.

**SEGMENT REVIEW**

**System Sales**

**SUAS is an exciting new business and Orbital is positioned as the market leader for SUAS fuel systems and engines capable of operating on heavy fuels**

**SALES \$m**



**2013 KEY PERFORMANCE HIGHLIGHTS**

- ▶ Delivery of initial production engines and EMS for AAI.
- ▶ Delivery of additional production engines to the SUAS market.
- ▶ OAS and SGA gain market share, albeit in a declining LPG market.

**METRICS**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Segment Revenue	23,424	14,020
Segment Result	2,163	380

**SIGNIFICANT CHANGES**

- ▶ Australian manufacture and supply of SUAS Engines and Engine Management Systems.
- ▶ Decrease in Australian LPG market drove restructuring to adjust cost base.
- ▶ Introduction of award winning LPG system for Toyota hybrid taxi applications.

**FUTURE OBJECTIVES**

- ▶ Develop next generation SUAS engine.
- ▶ Structure LPG businesses for sustainable profitability.
- ▶ Plan for expansion of SUAS business internationally.

## 1. OPERATING AND FINANCIAL REVIEW (continued)

### SEGMENT REVIEW (continued)

#### SYSTEM SALES (continued)

##### Summary of Segment

A key product sold this year by Orbital was the Small Unmanned Aircraft Systems (SUAS) engine supplied to AAI Corporation (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 FlexDI™ 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 supplied engines, engine management systems and spare parts worth over \$12,000,000 throughout the financial year. Dedicated facilities were commissioned at Orbital's Perth facility to support this program and supply commenced in August 2012. Ongoing responsibility for the manufacture of engines for use by AAI is being transitioned to a US based company in line with AAI's original intent for engine supply, however Orbital is still responsible for the supply of the patented FlexDI™ EMS. This significant advancement in the use of heavy fuels in SUAS has generated further engine design and development opportunities.

Orbital Autogas Systems (OAS) developed, and is the supplier of Liquid LPG systems to Ford Motor Company of Australia 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. OAS sells this system into the aftermarket under the brand name "Liquid".

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.

##### Highlights

Revenues for the year were \$23,424,000, a 67% increase on the previous year, reflecting the production and supply of SUAS engines, SUAS engine management systems and sales of SUAS spare parts. The significant increase in revenue from SUAS was partially offset by reductions in revenue from both of the LPG related businesses. Contribution to the group improved from a profit of \$380,000 last year to a \$2,163,000 profit this year.

##### Business Model

Development and supply of high value systems, starting with 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 in niche markets. Revenues from LPG systems have been overtaken by revenue from SUAS utilising heavy fuel instead of gasoline.

Internationally the demand 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. Unfortunately, we are not experiencing the same interest in Australia with a decreasing fleet of vehicles operating on LPG, LNG for heavy transport not being embraced by the transport operators at the rates previously forecast and minimal investment in place for CNG distribution for passenger car/light commercial vehicles. Australia is expected to follow the US and European growth in alternative fuel applications, however the timing is difficult to predict.

##### Outlook

As announced on 31 July 2013, Orbital was awarded a contract for the design, development and validation of a next generation production engine for a USA based customer that is one of the largest in the SUAS market. The development program will be conducted through 2013 and 2014 and if successful will lead to higher volume production of SUAS engines in 2015. The Unmanned Aerial Vehicle (UAV) market is projected to double in the next decade and with Orbital's unique FlexDI™ technology, this is projected to be a significant growth area for the Company.

Responsibility for the production of SUAS engines for AAI is being transitioned to a non-Orbital US based company. Revenues from SUAS will thus be significantly lower in the next financial year as we move from being a supplier of complete engines to a supplier of engine management systems, fuel system components and spare parts.

Due to the subdued LPG systems market at present, both OAS and SGA have undertaken restructures to manage their businesses to the market demand, and in general, have managed to increase market share; albeit in a contracting market. Orbital is well positioned for any upturn in the LPG market and is currently the largest player in Australia. The LPG market is influenced by the price differential between LPG and petrol. The lower Australian dollar and increasing petrol prices may ignite more interest in LPG conversions and there will potentially be more interest towards the end of the financial year when the Federal Government withdraws the LPG Vehicle Rebate scheme incentive of \$1,000 for aftermarket systems.

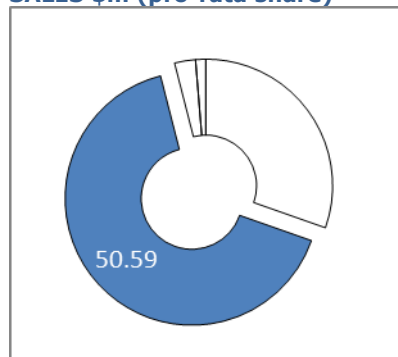
**1. OPERATING AND FINANCIAL REVIEW (continued)**

**SEGMENT REVIEW (continued)**

**Synerject**

**Synerject has continued its diversification into new products and new markets**

**SALES \$m (pro-rata share)**



**2013 KEY PERFORMANCE HIGHLIGHTS**

- ▶ 7.64% growth in Revenue.
- ▶ 7.61% growth in Profit after Tax.

**METRICS**

	<b>2013</b>	<b>2012</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Revenue (100%)	137,287	127,548
Profit after tax (100%)	8,275	8,045
	<b>A\$'000</b>	<b>A\$'000</b>
Share of profit	3,220	3,480
Investment in Synerject	12,468	13,696

**SIGNIFICANT CHANGES**

- ▶ Change of ownership percentage from 42% to 30% to generate US\$6,000,000 in cash.

**FUTURE OBJECTIVES**

- ▶ Expansion of low end 2 & 3 wheeler EMS markets targeting India, China & Asia.
- ▶ Expansion of utility market with new line of low cost EMS products.
- ▶ Continued growth while maintaining profitability.

**Summary of Segment**

Synerject, Orbital's 30:70 (previously 42:58) 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 Europe, China, Taiwan and the United States provide on-site support of customer development and production programs.

**Highlights**

Tight cost control and careful investment by Synerject management has resulted in improved profit after tax during this period.

Synerject's market and product expansion has enabled that company to achieve revenue growth consistently over the last 5 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 European markets, highlighting the success and importance of Synerject's expanded/diversified product strategy.

Synerject generated US\$9,119,000 positive cash flow and paid dividends to shareholders (Orbital share A\$1,485,000). At 30 June 2013, Synerject held cash of US\$7,138,000 and borrowings of US\$nil (June 2012: net cash of US\$1,617,000).

**Business Model**

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, ATV's (All Terrain Vehicles), 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.

**Outlook**

The outlook for Synerject is for continued growth firstly in the marine and recreational segment and in the low-end 2 & 3 wheeler and utility markets in future years.

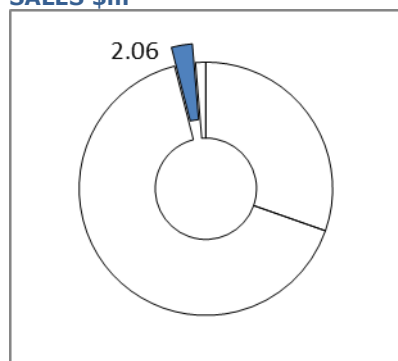
**1. OPERATING AND FINANCIAL REVIEW (continued)**

**SEGMENT REVIEW (continued)**

**Consulting Services**

**The Company's diversification strategy continues to deliver a reduced reliance on consulting services**

**SALES \$m**



**2013 KEY PERFORMANCE HIGHLIGHTS**

- ▶ Significant developments in new and advanced SUAS EMS products.
- ▶ Broadening domestic customer base, less reliance in international customers.
- ▶ New customer programs in the field of advanced DI CNG injection.

**METRICS**

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
Segment Revenue	2,057	7,131
Segment Result	(2,206)	(2,259)

**SIGNIFICANT CHANGES**

- ▶ Focused on SUAS engine and EMS development and production in FY13.
- ▶ Restructuring to adjust cost base to reduced market.
- ▶ Refocus of resources on incubation and development of new products.

**FUTURE OBJECTIVES**

- ▶ Maintain core engine and EMS technical capability.
- ▶ Reduce but maintain Perth-based development, testing and certification facilities.
- ▶ Continue consulting as the incubator for new product development focusing on high value customer projects.

**Summary of Segment**

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.

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 30 June 2013, the OCS order book stood at approximately \$1,100,000 (30 June 2012 \$1,000,000).

**Highlights**

OCS revenue for the year was \$2,057,000 down 71% compared to last year.

During this reporting period the OCS group redeployed key resources to the SUAS activities and on continuing research and development projects. A significant proportion of the loss in the OCS group can be attributed to the costs incurred to support the launch of, and provision of technical support to, our new SUAS engine business.

**Business Model**

The business model for the OCS group is based around the provision of consulting services in three main areas: 1) integration of Orbital technology; 2) advanced engineering aimed at design, development and validation of new technology; and 3) the operation of engine and fuel testing and certification facilities.

**Outlook**

The OCS group will continue its transition to becoming an engineering centre supporting the rest of the Orbital group, whilst still providing a base level of advanced engineering and testing facilities to support the overhead of maintaining our world-class capabilities.

As announced on 16 August 2013, Orbital had been awarded an Automotive New Markets Program grant of \$933,000 for the development of a new Electronic Control Unit (ECU) for use in SUAS applications. The development activities will be performed by the OCS group through the next financial year.



**1. OPERATING AND FINANCIAL REVIEW (continued)**

**SEGMENT REVIEW (continued)**

**Royalties and Licences**

**Volumes of two-stroke outboard engines that utilise Orbital's technology to improve performance and reduce emissions have shown signs of recovery**

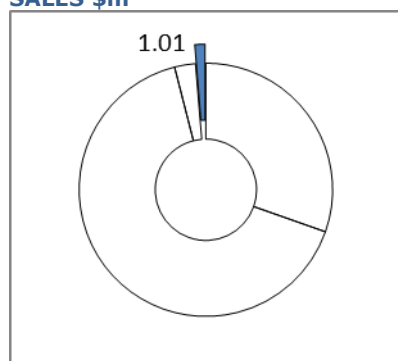
**2013 KEY PERFORMANCE HIGHLIGHTS**

- ▶ Large FlexDI™ Outboard market expanded year on year.
- ▶ Traditional intellectual property markets stable.

**SIGNIFICANT CHANGES**

- ▶ Focus on key patent applications in Dual Fuel LNG and SUAS EMS.
- ▶ Less focus on general intellectual property development and patent generation.

**SALES \$m**



**METRICS**

	<b>2013</b> \$'000	<b>2012</b> \$'000
Segment Revenue	1,007	967
Segment Result	517	463

**FUTURE OBJECTIVES**

- ▶ Royalty revenues from new SUAS business expansion.
- ▶ Expand SUAS Engine and EMS portfolio, especially in the area of heavy fuel.
- ▶ Key patent work to protect investment in Orbital's new products and systems.

**Summary of Segment**

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

Total FlexDI™ product volumes reduced marginally compared to the same period last year, however larger horsepower engines that attract a higher royalty improved. This, together with the addition of royalties from SUAS has resulted in a 4% increase in revenue for the year.

**Highlights**

The larger horsepower outboard engines have maintained their popularity and have actually achieved a fourth consecutive year of increased volumes. Total marine volumes overall were slightly higher than last financial year.

**Business Model**

Orbital has maintained a portfolio of patents to protect the intellectual property invested in the development of our FlexDI™ technology.

Orbital has licenced a number of Original Equipment Manufacturers (OEM) and component manufacturers to utilise Orbital's technology. At present there are 16 authorised users; 3 of which are currently in production with our technology.

The business model for Orbital is transitioning away from an expectation that OEMs will pay large licence fees and ongoing royalties to gain access to our technology to a model where Orbital is the systems integrator and provider of products and systems that incorporate our technology and utilise our engineering expertise.

**Outlook**

Orbital will continue to receive royalties from its existing licenced two-stroke outboard engine manufacturers for a number of years still to come, however it must be noted that when production of the current models of two-stroke engines cease they are not likely to be replaced by new models incorporating our FlexDI™ technology. The two-stroke engine outboards remain popular today especially the light-weight portability of the small horsepower engines and the power/weight ratios in the performance engine category.

## 2. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

**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.

During the past three years, Mr Day has also served as a director of Ansell Limited (appointed 20 August 2007; ongoing), SAI Global Limited (appointed 15 August 2008; ongoing) and Federation Centres Limited (appointed 01 October 2009; ongoing). 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 and appointed Chief Executive Officer 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 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 Gas Energy Australia (GEA).

**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 and is also a member of the Company's Human Resources, Remuneration and Nomination Committee.

During the past three years, Dr Jones has also served as a director of Pacific Environment Limited (appointed 3 July 2009; resigned 2 July 2012)

**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 and is also a member of the Company's Audit Committee.

During the past three years, Dr Braach-Maksvytis has also served as a director of AWE Limited (appointed 7 October 2010; ongoing).

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 3. DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is as follows: -

Director	Ordinary Shares	ELTSP Rights	Performance Rights
W P Day	10,000	-	-
T D Stinson	392,690	2,535,000	1,150,000
M T Jones	18,000	-	-
V Braach-Maksvytis	-	-	-
Total	420,690	2,535,000	1,150,000

### 4. DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of the committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are shown below.

Director	Directors' Meetings		Audit Committee Meetings		Human Resources, Remuneration & Nomination Committee Meetings	
	No. of meetings attended	No. of meetings held*	No. of meetings attended	No. of meetings held*	No. of meetings attended	No. of meetings held*
W P Day	10	10	5	5	4	4
T D Stinson	10	10	-	-	-	-
M T Jones	10	10	5	5	4	4
V Braach-Maksvytis	9	10	4	5	4	4

\* number of meetings held during the time the director held office during the year.

### 5. 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 1 July 2009, and subsequently appointed to the position of Chief Financial Officer on 11 February 2013. 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 is also a 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.

### 6. PRINCIPAL ACTIVITIES

Orbital has designed, developed and also undertaken low volume production of an engine and engine management system (EMS) for small unmanned aircraft systems (SUAS) utilising Orbital's FlexDI™ technology.

Orbital imports, manufactures and assembles an automotive LPG fuel system for Ford Motor Company of Australia's EcoLPi range of Falcon passenger cars and utilities and also imports, assembles and distributes an extensive range of LPG systems for aftermarket LPG installers and mechanical workshops around Australia.

Orbital is an international developer of innovative technical solutions for a cleaner world. Orbital provides innovation, design, product development and operational improvement services to the world's producers, suppliers, regulators and end users of engines and engine management systems for applications in motorcycles, marine and recreational vehicles, automobiles, trucks, and most recently in SUAS's.

There were no significant changes in the nature of the activities of the Group during the year, albeit that the proportion of total revenue provided by system sales has increased significantly.

### 7. CONSOLIDATED RESULT

The consolidated profit after income tax for the year attributable to the members of Orbital was \$364,000 (2012:\$3,053,000 loss)

### 8. DIVIDENDS

No dividend has been paid or proposed in respect of the current financial year.

**9. STATE OF AFFAIRS**

There were no other significant changes in the state of affairs of the Group during the financial year, other than as reported elsewhere in the financial statements.

**10. EVENTS SUBSEQUENT TO BALANCE DATE**

On 31 July 2013, Orbital announced that it had been awarded a contract for the design, development and validation of a next generation production engine for a USA based customer that is one of the largest in the SUAS market. The development program will be conducted through 2013 and 2014 and if successful will lead to higher volume production of SUAS engines in 2015.

On 16 August 2013, Orbital announced that it had been awarded an Automotive New Markets Program grant of \$933,000 for the development of a new Electronic Control Unit (ECU) for use in SUAS applications. The development activities will be performed by the Consulting Services group through the next financial year.

Other than the matters above, 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.

**11. LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

Information as to the likely developments in the operations of the Group is set out in the operating and financial review above.

**12. SHARE OPTIONS**

The Company has no unissued shares under option at the date of this report.

**13. INDEMNIFICATION AND INSURANCE OF OFFICERS**

To the extent permitted by law, the Company indemnifies every officer of the Company against any liability incurred by that person:

- (a) in his or her capacity as an officer of the Company; and
- (b) to a person other than the Company or a related body corporate of the Company

unless the liability arises out of conduct on the part of the officer which involves a lack of good faith.

During the year the Company paid a premium in respect of a contract insuring all Directors, Officers and employees of the Company (and/or any subsidiary companies of which it holds greater than 50% of the voting shares) against liabilities that may arise from their positions within the Company and its controlled entities, except where the liabilities arise out of conduct involving a lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as disclosure is prohibited under the terms of the contract.

**14. NON-AUDIT SERVICES**

In the comparative period, Ernst & Young, the Company's auditor, performed certain other services in addition to their statutory duties.

The Board considered the non-audit services provided during the comparative period by the auditor and in accordance with advice provided by resolution of the Audit Committee is satisfied that the provision of those non-audit services by the auditor during the comparative period was compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor;
- the non-audit services do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional Independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for audit and non-audit services provided during the year are shown in note 41 to the financial statements.

**15. ROUNDING OFF**

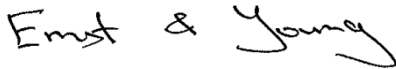
The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

**16. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

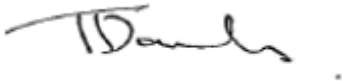
The directors received the following declaration from the auditor of Orbital Corporation Limited.

**Auditor's Independence Declaration to the Directors of Orbital Corporation Limited**

In relation to our audit of the financial report of Orbital Corporation Limited and its controlled entities for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



T G Dachs  
Partner  
Perth

23 August 2013

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17. REMUNERATION REPORT - AUDITED

#### Principles of compensation

This Remuneration Report for the year ended 30 June 2013 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:

- 17.1. Individual key management personnel disclosures
- 17.2. Remuneration overview
- 17.3. Remuneration governance
- 17.4. Non-executive director remuneration arrangements
- 17.5. Executive remuneration arrangements
- 17.6. Company performance and the link to remuneration
- 17.7. Executive contractual arrangements
- 17.8. Directors and executive officers' remuneration - company and group
- 17.9. Equity instruments

The format of this remuneration report has been modified from previous years to improve the readability and to facilitate shareholder understanding. In particular, a "question and answer" format has been adopted. This provides a mechanism by which the company can answer questions which have been asked previously by shareholders and other stakeholders.

#### 17.1. INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of KMP of the Group are set out below.

Key management personnel	Position
<b>(i) Directors</b>	
W Peter Day	Chairman (Non-executive)
Mervyn T Jones	(Non-executive)
Vijoleta Braach-Maksvytis	(Non-executive)
Terry D Stinson	Managing Director and Chief Executive Officer (Executive)
<b>(ii) Executives</b>	
Geoff P Cathcart	Chief Technical Officer
Ian G Veitch	Chief Financial Officer (appointed 11 February 2013)
Keith A Halliwell	Chief Financial Officer (ceased being a KMP 8 February 2013)

#### 17.2. REMUNERATION OVERVIEW

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 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 STI amounts were paid or became payable during the 2013 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 2013 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 2013 financial year, the Company used earnings per share as the performance measure for the share awards. During the 2013 financial year, the performance hurdles for the 2010 grant of shares which were based on relative total shareholder return and earnings per share 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.

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.2. REMUNERATION OVERVIEW (continued)

#### **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).

#### **Key changes to remuneration structure in 2013**

The key changes made to remuneration structure in 2013 related to the performance conditions of the long-term incentives (LTI) offered in FY2013 and the structure of non-executive directors fees.

The performance conditions for the LTI are based 100% on earnings per share. In previous years, the performance conditions for the LTIs were based 50% on total shareholder return and 50% on earnings per share.

Additionally, the number of shares granted is broken into four bands as shown in the table below. In previous years, the number of shares granted was based on a single target.

**Table 1 – Vesting schedule for the EPS tested LTI awarded for the performance year 2013**

<b>Company Performance (Earnings per share)</b>	<b>% of offered shares issued to each executive</b>
Under 5 cents	0%
At or above 5 cents but below 7 cents	25% to 50% (on a straight line basis)
At or above 7 cents but below 9 cents	50% to 100% (on a straight line basis)
At or above 9 cents	100%

At the Company's Annual General Meeting in November 2012, shareholders approved the above plan in relation to the ongoing remuneration of the Executive Director.

The structure of non-executive director's fees was changed during the financial year to be based solely on an all-inclusive directors' fee with the dis-continuation of separate fees for chairing and membership of Board committees. Given the size of the Group and the number of non-executive directors, each non-executive director is a member of each Board committee.

### 17.3. 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, company 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](http://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.

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.3. REMUNERATION GOVERNANCE (continued)

#### *Services from remuneration consultants*

From 1 July 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.

Did a remuneration consultant provide a remuneration recommendation in relation to any of the KMP for the financial year?	Korn Ferry International provided remuneration recommendations and remuneration related advice to the Company in relation to the review of non-executive Director fees which took effect from 1 January 2013.
What was the remuneration consultant paid by the Company for remuneration related services?	Korn Ferry International was paid a total of \$11,000.
Did the remuneration consultant provide any other advice to the Company?	Korn Ferry International did not provide any other advice to the Company during the financial year.
What arrangement did the Company make to ensure that the making of the remuneration recommendation would be free from undue influence by the KMP?	The Company implemented a protocol to govern the procedure for procuring advise relating to KMO remuneration. The protocol contained a summary of the process for the engagement of remuneration consultants, the provision of information to the remuneration consultant, and the communication of remuneration recommendations.
Is the Board satisfied that the remuneration recommendation was free from any such undue influence? What are the reasons for the Board being so satisfied?	Yes, the Board is so satisfied. The reasons are as follows: <ul style="list-style-type: none"><li>• The protocol with respect to the procurement of remuneration related advice was adhered to, including with respect to engagement of the remuneration consultant, the provision of information to the remuneration consultant and the communication of the remuneration recommendations.</li><li>• At appropriate times, the remuneration consultant provided written confirmation that it had not been subject to any undue influence.</li><li>• The Chairman of the Board met with the remuneration consultant in the absence of the other non-executive Directors. There were no concerns raised by the remuneration consultant with respect to any undue influence being exerted by the non-executive Directors.</li><li>• The Chairman of the Board did not observe any evidence that undue influence had been applied.</li></ul>

### 17.4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

#### **Objective**

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.

#### **Structure**

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 25 October 2001 when shareholders approved an aggregate fee pool of \$400,000 per year.

The Board will not seek any increase for the non-executive director pool at the 2013 AGM.

On appointment to the Board, all non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment which details remuneration arrangements.

#### **Fees**

During the year, the remuneration of non-executive directors was restructured to consist solely of an all-inclusive directors' fee with the removal of separate fees for membership of the Board's. 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 \$88,000 (effective 1 January 2013) (2012:\$109,200). Each non-executive director receives a base fee of \$69,200 (2012: \$69,200) for being a director of the Group.



# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS (continued)

#### Fees (continued)

The remuneration of non-executive directors for the year ended 30 June 2013 and 30 June 2012 is detailed in Section 17.8 of this report.

Are the non-executive directors paid any incentive or equity based payments or termination/retirement benefits?	No. The non-executive Directors are not paid any short term incentives, long term incentives, equity based remuneration or termination/retirement benefits
If non-executive directors are paid additional fees, how are these additional fees calculated?	From time to time, non-executive Directors may be requested to provide additional non-executive director related services. This could include sitting on a due diligence committee or undertaking a special project for the Group. During the year, no additional fees were paid to any of the non-executive Directors.
Are non-executive Directors' fees going to increase in 2013?	No. The Board has decided to maintain the directors' fees at the current levels.

### 17.5. EXECUTIVE REMUNERATION ARRANGEMENTS

#### Objective

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.

#### Structure

The CEO's target remuneration mix for FY2013 comprised 46% fixed remuneration, 27% target MTI opportunity and 27% 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 FY2013 was 55% - 62% fixed remuneration, 19% - 25% target MTI opportunity and 19% - 20% LTI opportunity.

In the 2013 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:

**Table 2 – Structure of remuneration arrangements**

Remuneration component	Vehicle	Purpose	Link to company performance
Fixed compensation	<ul style="list-style-type: none"> <li>♦ Represented by total fixed remuneration (TFR).</li> <li>♦ Comprises base salary, Superannuation contributions and other benefits.</li> </ul>	<ul style="list-style-type: none"> <li>♦ Set with reference to role, market and experience.</li> <li>♦ 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.</li> </ul>	<ul style="list-style-type: none"> <li>♦ No direct link to company performance.</li> </ul>
STI component	<ul style="list-style-type: none"> <li>♦ Paid in cash</li> </ul>	<ul style="list-style-type: none"> <li>♦ Rewards executives for their contribution to achievement of Group outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>♦ Discretionary award by the Board to reward executives for exceptional performance in a specific area of importance.</li> </ul>
MTI component	<ul style="list-style-type: none"> <li>♦ Paid in cash.</li> </ul>	<ul style="list-style-type: none"> <li>♦ Rewards executives for their contribution to achievement of Group outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>♦ Profit after tax.</li> <li>♦ Pro-rata Consolidated Sales.</li> <li>♦ Operating Cash Flows.</li> </ul>
LTI component	<ul style="list-style-type: none"> <li>♦ Awards are made in the form of shares or performance rights.</li> </ul>	<ul style="list-style-type: none"> <li>♦ Rewards executives for their contribution to the creation of shareholder value over the longer term.</li> </ul>	<ul style="list-style-type: none"> <li>♦ Vesting of awards is dependent on Orbital Corporation Limited's TSR performance relative to a peer group and its Earnings Per Share.</li> </ul>

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

#### 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 Human Resources, Remuneration and Nomination 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 17.8.

#### Variable remuneration – short-term incentive (STI)

The table below contains a summary of the key features of the STI plan.

What is the STI?	Executive directors and senior executives 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.
When is the STI grant paid?	There are no pre-determined timeframes at which assessments for STI rewards are to be undertaken.
How does the Company's STI structure support achievement of the Company's strategy?	The STI rewards executives for their contribution to the achievement of Group outcomes in areas of significant importance not addressed by the pre-determined performance criteria of the MTI and LTI.
How are the performance conditions of the STI determined?	The Board has no pre-determined performance criteria against which the amount of a STI is assessed.
What are the maximum possible values of award under the STI plan?	There are no pre-determined maximum possible values of award under the STI scheme. In assessing the value of an STI award to be granted the Board will give consideration to the contribution of the action being rewarded to the success of the Group.
What was the value of STI paid in the financial year?	No discretionary STI cash bonuses were paid during the 2013 or 2012 financial years.
Is a portion of STI deferred?	No discretionary STI cash bonuses relating to the 2013 or 2012 financial years will become payable in future financial years.

#### Variable remuneration – medium-term incentive (MTI)

The MTI plan 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.

The table below contains a summary of the key features of the MTI plan.

What is the MTI?	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).
When is the MTI grant paid?	<p>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 are made as a cash bonus in the following reporting period.</p> <p>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.</p> <p>MTI 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.</p>
How are the performance conditions of the MTI determined?	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.
How does the Company's MTI structure support achievement of the Company's strategy?	These three measures were chosen as they directly align the individual's reward to the Group's strategy and performance. The objective of the Group is to grow the business in a profitable and cash flow positive manner.

**DIRECTORS' REPORT**  
**REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013**

**17.5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)**

**Variable remuneration – medium-term incentive (MTI) (continued)**

What are the performance conditions under the MTI for KMP in 2013?	The MTI performance hurdles (and weighting %) for 2013 were:			
	<b>KPI</b>	<b>Proportion of MTI award KPI applies to</b>	<b>Minimum KPI \$'000</b>	<b>Stretch KPI \$'000</b>
	Profit after tax	33%	100	4,000
	Operating Cash Flow	33%	100	2,500
	Pro-rata Consolidated Sales	33%	80,000	100,000

How are actual results measured against the performance hurdles? For each performance hurdle there are three targets 'Base', 'Budget' and 'Stretch'. 'Base' is the minimum target to trigger a MTI payment for that hurdle. The amounts paid for each hurdle varies between 10%-20% of TFR for 'Base' and 30%-60% of TFR for 'Stretch'. Where achievement is below 'Base' no payment is made.

What are the ranges of possible values of award under the MTI plan?	<b>Name</b>	<b>Position</b>	<b>Amount (Min – Max)</b>
	Terry Stinson	Chief Executive Officer	0 - \$655,200
	Geoff Cathcart	Chief Technical Officer	0 - \$339,800
	Ian Veitch	Chief Financial Officer	0 - \$199,000

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.

What was the value of MTI paid in the financial year? The Human Resources, Remuneration and Nomination Committee has considered the MTI bonus for the 2013 financial year. The MTI cash bonus available for the 2013 financial year is \$nil. This amount has been determined on the basis that 1) Despite the Group's Profit after tax (after removing once-off items) target for the year ended 30 June 2013 having been met, the Group did not generate a positive cash flow (before working capital movements) 2) Positive Operating Cash Flows for the year ended 30 June 2013 were not achieved, and 3) the Consolidated Pro-rata Sales of the Group have not reached the minimum threshold of \$90,000,000.

Is a portion of MTI deferred? No. At this stage, the Board does not consider it appropriate to defer a portion of the MTI. This is because the performance criteria are objective (profit after tax, operating cash flow and pro-rata consolidated sales) and obtained from the audited results of the Group.

**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 \$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 Employee Share Plan No.1.

Executive Long Term Share Plan

The table below contains a summary of the key features of the Executive Long Term Share plan (ELTSP).

What is the ELTSP?	The ELTSP is a performance based 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.
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How does the ELTSP align the interests of shareholders and executives?	The ELTSP links rewards for the executive KMP to the Company's strategy to grow shareholder value by increasing the Group's earnings per share. Vesting of shares only occurs if Orbital generates earnings per share of at least 5 cents per share. The higher the earnings per share result the higher the number of shares that will vest.
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How does the ELTSP support the retention of executives?	An objective of offering shares under the ELTSP is to promote retention. At any one time, an executive KMP will have unvested rights. If an executive resigns they would forfeit the benefits of those unvested rewards. This provides a valuable incentive to stay with the Company so long as the shares are seen by the executive KMP as likely to vest at the end of the performance period.
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**DIRECTORS' REPORT**  
**REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013**

**17.5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)**

**Variable remuneration – long-term incentives (LTI) (continued)**

What are the principal terms of the issue made under the LTI in 2013?	<ul style="list-style-type: none"> <li>• Grant date: 31 August 2012 (Managing Director grant date: 7 November 2012 being the date of the AGM at which his participation in the plan was approved by shareholders).</li> <li>• Life: 3 years.</li> <li>• Expiry date: 31 August 2015.</li> <li>• Exercise Price: nil.</li> <li>• Fair value per right: 20 cents (Managing Director: 19 cents).</li> <li>• Market price of shares on grant date: 20 cents (Managing Director: 19 cents).</li> <li>• Measure of performance is earnings per share for the year ended 30 June 2015. See Table 3 for the vesting schedule.</li> <li>• Vested shares are held in trust by the trustee for a period of ten years, or until the cessation of employment.</li> </ul>
What are the performance conditions for the vesting of ELTSP shares?	<p>The performance conditions, which are based 100% on Earnings Per Share (EPS) (performance year 2013) or 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) (performance years 2011 and 2012), apply to determine the number of shares (if any) that vest to the Executives.</p> <p>See tables 3 and 4 below for the vesting schedules for EPS tested and TSR tested LTI awards.</p>
How is the market price of the ELTSP determined?	<p>The fair value of the EPS related rights is equal to the market price of shares on the grant date. The fair value of the TSR related 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 is allocated to each reporting period evenly over the period from grant date to vesting date.</p>
In what circumstances would the LTI entitlements be forfeited?	<p>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.</p>
What happens to LTI entitlements upon a change of control in the Group?	<p>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.</p>
Do shares granted under the LTI dilute existing shareholders' equity?	<p>The issue of shares can have a small dilutionary impact upon other shareholders. However, the number of shares issued under the ELTSP in the five years preceding the offer must not exceed 5% of the total shares on issue at the time an offer to a participant is made.</p>
Are the shares issued under the LTI bought on market?	<p>No. the company issues new shares for the ELTSP, it does not buy the shares on the market.</p>
Does the executive obtain the benefit of dividends paid on shares issued under the LTI?	<p>KMP are entitled to any dividends paid on vested shares subject to the ten year restriction on trading. Unvested rights do not participate in dividend payments or any other distributions to shareholders.</p>
What other rights does the holder of vested LTI shares have?	<p>Subject to the conditions and restrictions attaching to the shares, the holder of the shares has the same rights as any other holder of shares. This includes voting rights, a right to dividends, bonus shares and capital distributions.</p>
Does the Company have executive share ownership guidelines?	<p>The Company does not have a formal policy requiring executives to own shares. However a significant component of each executive's remuneration consists of grants under an employee share plan. Hence, at any given time, after an executive has been with the Company for more than three years, the executive typically has three unvested equity grants which are subject to performance conditions. As at the date of this report, all executives who have been with the company for longer than three years have shares in the Company which have fully vested or been acquired on market.</p>
Can executive KMP hedge to ensure that they obtain a benefit from unvested LTI's?	<p>No. All executive KMP have been advised that under section 206J of the Corporations Act it is an offence for them to hedge unvested grants made under the ELTSP.</p>
How many LTI awards vested in the financial year?	<p>TSR Performance targets under the LTI offered in FY2010 were not met in FY2013 and as a result nil (2012: nil) shares were issued to KMPs.</p>
Is a portion of LTI deferred?	<p>Granted ELTSP shares are subject to a three year performance period. Vested ELSTP shares are subject to restrictions on trading for a period of ten years.</p>

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

#### Variable remuneration – long-term incentives (LTI) (continued)

The following table sets out the relevant percentages of shares offered which will vest based on various percentile rankings of the Company:

**Table 3 – Vesting schedule for the EPS tested LTI awarded for the performance years 2013**

<b>Company Performance (Earnings per share)</b>	<b>% of offered shares issued to each executive</b>
Under 5 cents	0%
At or above 5 cents but below 7 cents	25% to 50% (on a straight line basis)
At or above 7 cents but below 9 cents	50% to 100% (on a straight line basis)
At or above 9 cents	100%

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 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:

**Table 4 – Vesting schedule for the TSR tested LTI awarded for the performance years 2011 and 2012**

<b>Company Performance (TSR Ranking)</b>	<b>% of offered shares issued to each executive</b>
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 FY2011, FY2012 and FY2013 offers unless the Company's TSR is at or above the 50th percentile or the EPS for the years ending 30 June 2013, 30 June 2014 and 30 June 2015 is at or above 11, 15 and 5 cents per share, respectively.

TSR Performance targets under the LTI offered in FY2010 were not met in FY2013 and as a result nil (2012: nil) shares were issued to KMPs.

At the Company's Annual General Meeting in November 2012, shareholders approved the terms and conditions of the Executive Long Term Share Plan and also approved the issue of shares to the Managing Directors under that plan.

#### 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.

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

#### Variable remuneration – long-term incentives (LTI) (continued)

##### Performance Rights Plan (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:

**Table 5 – Vesting schedule for the performance rights plan**

Tranche	Number of performance rights	Share price target
1	200,000	\$2.50
2	200,000	\$5.00
3	200,000	\$7.50
4	200,000	\$10.00
5	125,000	\$20.00
6	125,000	\$30.00
7	100,000	\$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 30 June 2013.

#### **LTI awards for 2013 financial year**

Shares were granted under the Employee Share Plan No.1 to a number of executives on 29 November 2012. No Shares were granted under the Executive Long Term Share Plan or the Performance Rights Plan during the 2013 financial year.

Details in respect of the award are provided in Section 17.9.

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.6. 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**

Profit after tax, Pro-rata Consolidated Sales and Operating Cash Flows are considered in setting the MTI as they are considered important medium term performance targets.

Company performance for the current year, the last 4 years and KPI targets are as follows:

**Table 6 – Orbital five year performance linked to medium-term incentives**

	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	Minimum KPI \$'000	Stretch KPI \$'000
Statutory Profit/(Loss) after tax	(2,451)	4,516	1,763	(3,053)	364	positive	4,000
Operating Cash Flow	(856)	(4,372)	(584)	(2,701)	(232)	positive	2,500
Pro-rata Consolidated Sales	63,867	61,081	68,148	74,371	77,078	80,000	100,000
Operating Cash Flow (before working capital movements)*	(2,372)	(2,934)	(833)	(3,080)	(746)	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 30 June 2013. The earnings per share values in the table below have been adjusted to reflect the share consolidation undertaken in October 2010.

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

**Table 7 – Orbital five year performance linked to long-term incentives**

	2009	2010	2011	2012	2013	2014 Minimum	2015 Minimum
TSR ranking (percentile)	70th	56th	*	*	18th	50th	50th
Earnings per share (cents)	(5.10)	9.39	3.65	(6.28)	0.74	15.00	9.00
Closing share price (\$)	0.75**	0.25**	0.25	0.22	0.15	-	-

\* 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 2006 and 2007 were partially vested in financial years 2009 and 2010 respectively. The performance target for the LTIs offered in 2008, 2009 and 2010 were not met during the financial years 2011, 2012 and 2013 and as such no shares vested.



# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.7. 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 14 September 2007:

- ▶ The CEO receives fixed remuneration of \$364,000 per annum
- ▶ The CEO's target MTI opportunity per annum is 20% of annual Total Employment Costs (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:

**Table 8 – Summary of contractual provisions for the CEO**

	<b>Notice Period</b>	<b>Payment in lieu of notice</b>	<b>Treatment of MTI on termination</b>	<b>Treatment of LTI on termination</b>	<b>Termination payments</b>
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:

**Table 9 – Summary of KMP termination provisions**

	<b>Notice Period</b>	<b>Payment in lieu of notice</b>	<b>Treatment of MTI on termination</b>	<b>Treatment of LTI on termination</b>	<b>Termination payments</b>
Employer initiated termination	3 months	3 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	3 months	3 months	Unvested awards forfeited	Unvested awards forfeited subject to Board discretion	None

#### **Payments applicable to outgoing executives**

The following arrangements applied to outgoing executives in office during the 2013 financial year:

- Mr Halliwell resigned from his position as Chief Financial Officer effective 8 February, 2013.
- In accordance with:
  - his contract of employment, Mr Halliwell received a payment for his unused entitlements to annual leave and long service leave.
  - the terms of the MTI plan, Mr Halliwell forfeited any entitlement to a MTI.
  - the terms of the ELTSP, Mr Halliwell forfeited 1,347,566 unvested ELTSP rights.
- Mr Halliwell did not receive any other form of termination payment, discretionary bonus or enter into any contractual or other arrangements to provide post termination consultancy services.



**DIRECTORS' REPORT**  
**REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013**

**17.8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION - COMPANY AND GROUP**

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

**Table 10 – Compensation of KMP for the years ended 30 June 2013 and 2012**

	Year	Short Term			Post	Share Based Payments			Total	Proportion of remuneration performance related %
		Salary and Director' Fees	Cash Bonuses	Total	Employment	Employer Superannuation Contributions	Employee Share Plans	Performance Rights Plan		
		\$	\$	\$	\$	\$ (a)(b)	\$ (c)	\$		
<b>Non-executive Directors</b>										
W Peter Day	2013	90,459	-	90,459	8,141	-	-	98,600	-	
<i>Chairman (Non-executive)</i>	2012	100,183	-	100,183	9,017	-	-	109,200	-	
Mervyn T Jones	2013	63,486	-	63,486	5,714	-	-	69,200	-	
<i>Director (Non-executive)</i>	2012	63,486	-	63,486	5,714	-	-	69,200	-	
Vijoleta Braach-Maksvytis	2013	63,486	-	63,486	5,714	-	-	69,200	-	
<i>Director (Non-executive)</i>	2012	63,486	-	63,486	5,714	-	-	69,200	-	
<i>Total Consolidated, all non-executive directors</i>	2013	217,431	-	217,431	19,569	-	-	237,000	-	
	2012	227,155	-	227,155	20,445	-	-	247,600	-	
<b>Executive Director</b>										
Terry D Stinson	2013	333,945	-	333,945	40,073	82,867	49,283	506,168	26.1%	
<i>Director and Chief Executive Officer</i>	2012	333,945	-	333,945	40,073	105,525	49,283	528,826	29.3%	
<b>Other Key Management Personnel</b>										
Geoff P Cathcart	2013	213,525	-	213,525	25,623	33,774	-	272,922	12.4%	
<i>Chief Technical Officer</i>	2012	200,816	-	200,816	24,098	41,332	-	266,246	15.5%	
Ian G Veitch (d)	2013	77,964	-	77,964	6,870	6,266	-	91,100	6.9%	
<i>Chief Financial Officer</i>	2012	-	-	-	-	-	-	-	-	
Keith A Halliwell (e)	2013	168,814	-	168,814	18,058	(65,175)	-	121,697	(53.6)%	
<i>Chief Financial Officer</i>	2012	266,719	-	266,719	30,231	54,922	-	351,872	15.6%	
<i>Total Consolidated, Executive Director and Key Management Personnel</i>	2013	794,248	-	794,248	90,624	57,732	49,283	991,887	10.8%	
	2012	801,480	-	801,480	94,402	201,779	49,283	1,146,944	21.9%	

**DIRECTORS' REPORT**  
**REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013**

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

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

- (a) The fair value of the Employee Share Plan #1 is based upon the market value (at offer date) of shares offered.
- (b) The fair value of the TSR related Executive Long Term Share plan ("ELTSP") 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 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:

**Table 11 – Summary of terms and conditions of unvested 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
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.

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

**Table 12 – Summary of terms and conditions of unvested EPS related rights**

Grant Date	Life	Expiry Date	Fair Value per right	Exercise Price	Market price of shares on grant date
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
31-Aug-12*	3 years	31-Aug-15	20 cents	nil	20 cents

\* The grant dates of the EPS related rights for the Managing Director were 26 October 2011 and 7 November 2012 respectively..

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

- (c) 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.

**Table 13 – Summary of terms and conditions of unvested performance rights**

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

- (d) Mr Veitch became a KMP on 11 February 2013
- (e) Mr Halliwell ceased to be a KMP on 8 February 2013.

# DIRECTORS' REPORT

## REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2013

### 17.9. 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.

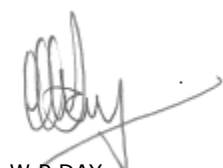
**Table 14 – Summary of KMP executives interests in LTI equity rights**

	Employee Share Plan No. 1			Executive Long Term Share Plan			
	Number of shares issued	Share Price	Value (a) \$	Number of Rights Offered	Value of Rights Offered (b) \$	Number of Rights Vested	Number of Expired or Forfeited (c)
<b>Executive Director</b>							
T D Stinson	2013	-	-	-	1,100,000	220,000	- (525,000)
	2012	-	-	-	770,000	231,000	- (130,000)
<b>Executives</b>							
G P Cathcart	2013	7,468	\$0.1339	1,000	450,000	90,000	- (199,500)
	2012	2,633	\$0.3798	1,000	310,000	93,000	- (40,000)
I G Veitch	2013	7,468	\$0.1339	1,000	330,000	66,000	- (60,000)
	2012	2,633	\$0.3798	1,000	92,500	27,751	- (15,000)
K A Halliwell (d)	2013	7,468	\$0.1339	1,000	600,000	120,000	- (1,614,067)
	2012	2,633	\$0.3798	1,000	410,000	123,000	- (70,000)

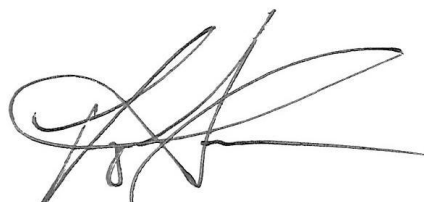
- (a) The fair value of the employee share plan No. 1 based upon the market value (at offer date of 31 October 2012 and 31 October 2011 respectively) of shares offered. These awards are fully vested.
- (b) Represents the fair value of rights offered on 31 August 2012 and 31 August 2011 respectively using a Monte-Carlo simulation model for the TSR related rights (31 August 2011 offer) and the market price on the grant date for EPS related right (31 August 2011 and 31 August 2012 offers). The vesting of the shares offered on 31 August 2012 is subject to the Group achieving earnings in excess of 5 cents per share for the year ending 30 June 2015. The vesting of the shares offered on 31 August 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 30 June 2014. Performance conditions were met not in respect of shares offered in August 2009 and shares in relation to that offer expired at the expiration of the performance period during the 2013 financial year.
- (c) The value of the Executive Long Term Share Plan rights expired or forfeited during the period was \$nil on the date of expiry or forfeiture.
- (d) Represents 266,500 rights expired and 1,347,567 rights forfeited by Mr Halliwell on his resignation.

End of Remuneration Report

Signed in accordance with a resolution of the Directors:



W P DAY  
Director



T D STINSON  
Managing Director

Dated at Perth, Western Australia this 23rd day of August 2013.

# CORPORATE GOVERNANCE STATEMENT

## 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 2013 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](http://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 page 8.

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 to 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.

# CORPORATE GOVERNANCE STATEMENT

## 2.5 Directors' Retirement and Re-election

*ASXCGC Recommendation 2.6*

Non-executive directors must retire at the third 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 12 to 25. 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 2013 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. Board papers are distributed to directors in advance of any director's meeting to ensure that there is sufficient time for the directors to digest the content of the papers and prepare for the meeting. 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

Details of the Company Secretary are set out on page 9 of the Directors' Report. 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.

# CORPORATE GOVERNANCE STATEMENT

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 30 June 2013 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 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 Human Resources, Remuneration and 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; and
- 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.

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.



# CORPORATE GOVERNANCE STATEMENT

## 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 Codes 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 Group'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.

# CORPORATE GOVERNANCE STATEMENT

## 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 measurable objectives have been put in place at this time to specifically change or increase gender diversity.

### 8.3 Workforce gender profile at 30 June 2013

Proportion of women in total organisation:	16%
Proportion of women in senior executive positions:	0%
Proportion of women on the board:	25%



# CORPORATE GOVERNANCE STATEMENT

## 9. ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS CHECKLIST

The table below summarises the Group's compliance with the ASX Corporate Governance Council's Recommendations.

	<b>Recommendation</b>	<b>Comply Yes / No</b>	<b>Reference</b>
<b>Principle 1 - Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	2.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Remuneration Report
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	2.1, 2.8, Remuneration Report
<b>Principle 2 - Structure the board to add value</b>			
2.1	A majority of the board should be independent directors.	Yes	2.2
2.2	The chair should be an independent director.	Yes	2.2
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	2.2
2.4	The board should establish a nomination committee.	Yes	3.1, 3.3
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	2.8
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	2.2, 2.4, 2.5, 2.7, 2.8, 3.1, 3.3
<b>Principle 3 - Promote ethical and responsible decision-making</b>			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>The practices necessary to maintain confidence in the company's integrity.</li> <li>The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.</li> <li>The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Yes	5.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Yes	8.1
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	No	8.2
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Yes	8.3
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	5.1, 8.1, 8.2, 8.3
<b>Principle 4 - Safeguard integrity in financial reporting</b>			
4.1	The board should establish an audit committee.	Yes	3.1, 3.2
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>Consists only of non-executive directors.</li> <li>Consists of a majority of independent directors.</li> <li>Is chaired by an independent chair, who is not chair of the board.</li> </ul>	Yes	3.1, 3.2

## CORPORATE GOVERNANCE STATEMENT

	<b>Recommendation</b>	<b>Comply Yes / No</b>	<b>Reference</b>
	<ul style="list-style-type: none"> <li>Has at least three members.</li> </ul>		
4.3	The audit committee should have a formal charter.	Yes	3.1, 3.2
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	3.1, 3.2, 7
<b>Principle 5 - Make timely and balanced disclosure</b>			
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	4.2
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	4.2
<b>Principle 6 - Respect the rights of shareholders</b>			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	4.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	4.1
<b>Principle 7 - Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	6.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	6.2
7.3	The board should disclose whether it has received assurance from the chief executive officer [or equivalent] and the chief financial officer [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	6.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	6.1, 6.2, 6.3
<b>Principle 8 - Remunerate fairly and responsibly</b>			
8.1	The board should establish a remuneration committee.	Yes	3.1
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>consists of a majority of independent directors.</li> <li>is chaired by an independent chair.</li> <li>has at least three members.</li> </ul>	Yes	3.3
8.3	Companies should clearly distinguish the structure of nonexecutive directors' remuneration from that of executive directors and senior executives.	Yes	2.9, Remuneration Report
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	3.1

# INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	CONSOLIDATED	
		2013 \$'000	2012 \$'000
Sale of goods		<b>23,424</b>	14,020
Consulting services income		<b>2,057</b>	7,131
Licence and royalty income		<b>1,007</b>	967
Other revenue	7	<b>211</b>	243
<b>Total Revenue</b>		<b>26,699</b>	22,361
Other income	8	<b>3,889</b>	1,325
Materials and consumables	9(d)	<b>(10,428)</b>	(8,116)
Employee benefits expenses	9(a)	<b>(11,210)</b>	(11,670)
Depreciation and amortisation		<b>(959)</b>	(991)
Engineering consumables and contractors		<b>(688)</b>	(2,272)
Occupancy expenses		<b>(1,814)</b>	(1,734)
Travel and accommodation		<b>(407)</b>	(432)
Communications and computing		<b>(621)</b>	(783)
Patent costs		<b>(308)</b>	(322)
Insurance costs		<b>(690)</b>	(663)
Audit, compliance and listing costs		<b>(516)</b>	(569)
Finance costs	9(b)	<b>(687)</b>	(692)
Other expenses	9(c)	<b>(3,386)</b>	(2,179)
Share of profit from associate	16	<b>3,220</b>	3,480
<b>Profit / (loss) before income tax</b>		<b>2,094</b>	(3,257)
Income tax (expense) / benefit	10(a)	<b>(1,730)</b>	204
<b>Profit / (Loss) for the year attributable to the members of the parent entity</b>		<b>364</b>	(3,053)
<b>Earnings/(loss) per share:</b>			
Basic earnings/(loss) per share (in cents)	11	<b>0.74</b>	(6.28)
Diluted earnings/(loss) per share (in cents)	11	<b>0.74</b>	(6.28)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 38 to 86.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
<b>Net profit/(loss) for the year</b>	<b>364</b>	<b>(3,053)</b>
<b>Other comprehensive income/(loss)</b>		
<b>Items that may be reclassified to profit or loss in subsequent periods:</b>		
Share of foreign currency reserve of equity accounted investment	35	(199)
Foreign currency translation reserve released on sale of share in equity accounted investment	(18)	-
Foreign currency translation	1,505	830
<b>Other comprehensive income for the year, net of tax</b>	<b>1,522</b>	<b>631</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>1,886</b>	<b>(2,422)</b>
<b>Total comprehensive income/(loss) for the year attributable to owners of the parent</b>	<b>1,886</b>	<b>(2,422)</b>

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 38 to 86.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

	Share Capital	Retained Profits	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2011</b>	19,345	3,055	1,267	(4,185)	19,482
Loss for period	-	(3,053)	-	-	(3,053)
Other comprehensive income	-	-	-	631	631
Total comprehensive income/(loss) for the period	-	(3,053)	-	631	(2,422)
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	91	-	280	-	371
<b>Balance at 30 June 2012</b>	<b>19,436</b>	<b>2</b>	<b>1,547</b>	<b>(3,554)</b>	<b>17,431</b>
<b>At 1 July 2012</b>	<b>19,436</b>	<b>2</b>	<b>1,547</b>	<b>(3,554)</b>	<b>17,431</b>
Profit for the period	-	364	-	-	364
Other comprehensive income	-	-	-	1,522	1,522
Total comprehensive income/(loss) for the period	-	364	-	1,522	1,886
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	82	-	98	-	180
<b>Balance at 30 June 2013</b>	<b>19,518</b>	<b>366</b>	<b>1,645</b>	<b>(2,032)</b>	<b>19,497</b>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 38 to 86.

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	NOTE	CONSOLIDATED	
		2013	2012
		\$'000	\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	<b>6,902</b>	3,799
Other financial assets	13	<b>705</b>	1,371
Trade and other receivables	14	<b>4,713</b>	4,168
Inventories	15	<b>3,158</b>	5,197
<b>Total Current Assets</b>		<b>15,478</b>	14,535
<b>Non-Current Assets</b>			
Investment in associate	16	<b>12,468</b>	13,696
Deferred tax assets	17	<b>4,656</b>	5,767
Plant & equipment	18	<b>3,383</b>	3,949
Intangibles and goodwill	19	<b>146</b>	2,257
<b>Total Non-Current Assets</b>		<b>20,653</b>	25,669
<b>Total Assets</b>		<b>36,131</b>	40,204
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	20	<b>2,801</b>	4,906
Borrowings	21	<b>432</b>	2,864
Employee benefits	23	<b>1,837</b>	2,117
Deferred revenue	24	<b>316</b>	316
Government grants	27	<b>225</b>	225
Contingent consideration	28	<b>886</b>	-
Other provisions	25	<b>795</b>	461
<b>Total Current Liabilities</b>		<b>7,292</b>	10,889
<b>Non-current liabilities</b>			
Borrowings	21	<b>42</b>	59
Long term borrowings	26	<b>7,757</b>	7,650
Employee benefits	23	<b>55</b>	119
Government grants	27	<b>1,199</b>	1,424
Contingent consideration	28	<b>-</b>	2,296
Other provisions	25	<b>289</b>	336
<b>Total Non-Current Liabilities</b>		<b>9,342</b>	11,884
<b>Total Liabilities</b>		<b>16,634</b>	22,773
<b>Net Assets</b>		<b>19,497</b>	17,431
<b>Equity</b>			
Share capital	29	<b>19,518</b>	19,436
Reserves	30	<b>(387)</b>	(2,007)
Retained profits	30	<b>366</b>	2
<b>Total Equity</b>		<b>19,497</b>	17,431

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 38 to 86.

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	CONSOLIDATED	
		2013	2012
		\$'000	\$'000
<b>Cash Flows from Operating Activities</b>			
Cash receipts from customers		<b>29,524</b>	25,209
Cash paid to suppliers and employees		<b>(30,920)</b>	(29,233)
Cash used in operations		<b>(1,396)</b>	(4,024)
Interest received		<b>211</b>	243
Interest paid		<b>(206)</b>	(250)
Income taxes paid		<b>(326)</b>	(214)
<b>Net cash used in operating activities</b>	35	<b>(1,717)</b>	(4,245)
<b>Cash Flows from Investing Activities</b>			
Dividends received from associate		<b>1,485</b>	1,544
Proceeds from sale of share in investment		<b>5,777</b>	-
Net proceeds from sale of plant & equipment		<b>9</b>	49
Acquisition of plant & equipment		<b>(253)</b>	(696)
Redemption of short term deposits		<b>666</b>	2,063
<b>Net cash provided by investing activities</b>		<b>7,684</b>	2,960
<b>Cash Flows from Financing Activities</b>			
Proceeds from borrowings		-	1,930
Repayment of borrowings		<b>(2,864)</b>	(288)
<b>Net cash (used in) / provided by financing activities</b>		<b>(2,864)</b>	1,642
<b>Net increase in cash and cash equivalents</b>		<b>3,103</b>	357
Cash and cash equivalents at 1 July		<b>3,799</b>	3,440
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		-	2
<b>Cash and cash equivalents at 30 June</b>	12	<b>6,902</b>	3,799

## Non-Cash Investing and Financing Activities

There were no non-cash investing or financing activities for the years ended 30 June 2012 and 2013.

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

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out in pages 38 to 86.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 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 2013 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 (see the Directors' Report and Note 6)

The consolidated financial report was authorised for issue by the directors on 23 August 2013.

### 2. BASIS OF PREPARATION

#### (a) Statement of Compliance with IFRS

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 financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The consolidated financial statements have also 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 dollars unless otherwise stated.

#### (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.

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

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 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 2012, the Group has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 July 2012. 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.

##### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### (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, applying the step by step method, 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'. They are released into the income statement upon disposal.

##### (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.

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

###### *Trade and other payables - 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 for obligations under hire purchase contracts. The hire purchase contracts are capitalised at commencement of the contract at the present value of the minimum hire purchase payments. Hire purchase payments are apportioned between finance charges and reduction of the hire purchase liability. Finance charges are recognised in finance costs in the income statement.

###### *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 \$14,346,000 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 weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition, which for finished goods and work in progress includes cost of direct materials and direct manufacturing labour.

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 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

#### (ii) Goodwill

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

### (i) Share Capital - 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Employee Benefits (continued)

##### (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 based on a Total Shareholder Return ("TSR") basis is measured using a Monte-Carlo simulation model. The fair value of the shares granted based on an Earnings Per Share ("EPS") basis are based on the market price of the shares on the date of issue. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where forfeiture is only due to market conditions that are not met. The fair value of the Performance Rights is measured at grant date taking into account the share price targets and spread over the expected life of the rights.

#### (k) Provisions - 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Revenue Recognition (continued)

##### (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 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.

#### (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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Operating Segments - refer note 6

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's executive management team (the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

#### (q) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amounts of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the 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 ATO 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.



**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(t) Business Combinations**

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 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

**(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 2013, but have not been applied in preparing this financial report:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 9 (IFRS 9)	Financial Instruments	<p>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 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 <i>Financial Instruments: Recognition and Measurement</i>) (IAS 39).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	1 January 2015	1 July 2015
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 (IFRS 9)	<p>These amendments arise from the issuance of AASB 9 <i>Financial Instruments (IFRS 9)</i> 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 <i>Financial Instruments: Recognition and Measurement</i>. (IAS 39)</p> <p>This Standard shall be applied when AASB 9 (IFRS 9) is applied.</p>	1 January 2015	1 July 2015

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (IFRS 9)	<p>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:</p> <p>The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</p> <p>The remaining change is presented in profit or loss</p> <p>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.</p>	1 January 2015	1 July 2015
AASB 10 (IFRS 10)	Consolidated Financial Statements	<p>AASB 10 (IFRS 10) establishes a new control model that applies to all entities. It replaces parts of AASB 127 (IAS 27) <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>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.</p>	1 January 2013	1 July 2013

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 11 (IFRS 11)	Joint Arrangements	AASB 11 (IFRS 11) replaces AASB 131 (IAS 31) <i>Interests in Joint Ventures</i> and Interpretation 113 (SIC-13) <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i> . AASB 11 (IFRS 11) uses the principle of control in AASB 10 (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
AASB 13 (IFRS 13)	Fair Value Measurement	AASB 13 (IFRS 13) establishes a single source of guidance under AASB (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 (IFRS 10 & IFRS 11)	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 2011-8	<i>Amendments to Australian Accounting Standards arising from AASB 13 (IFRS 13)</i>	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 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]	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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 2012-5	Annual Improvements 2009-2011 Cycle	<p>This standard sets out amendments to various Standards and the related bases for conclusions and guidance.</p> <p>The following items are addressed by this standard:</p> <p>AASB 1 (IFRS 1) First-time Adoption of International Financial Reporting Standards Repeated application of AASB 1 (IFRS 1) Borrowing costs</p> <p>101 (IAS 1) Presentation of Financial Statements Clarification of the requirements for comparative information</p> <p>116 (IAS 16) Property, Plant and Equipment Classification of servicing equipment</p> <p>132 (IAS 32) Financial Instruments: Presentation Tax effect of distribution to holders of equity instruments</p> <p>AASB 134 (IAS 34) Interim Financial Reporting Interim financial reporting and segment information for total assets and liabilities</p>	1 January 2013	1 July 2013

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

The adoption of the standards and interpretations effective from 1 July 2013 will have no impact on the financial position or performance of the Group.

The directors have not yet determined the impact of new and amended accounting standards and interpretations applicable 1 July 2015.

#### (v) Comparatives

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 4. FINANCIAL RISK MANagements 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 financial arrangements.

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	
	2013	2012
	\$'000	\$'000
<b>Financial assets</b>		
Cash and cash equivalents	<u>6,902</u>	<u>3,799</u>
<b>Financial liabilities</b>		
Interest bearing liabilities	-	2,500
Contingent consideration	<u>886</u>	<u>2,296</u>
	<u>886</u>	<u>4,796</u>

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

**At 30 June 2013, 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)		Other comprehensive income	
	Higher/(Lower)		Higher/(Lower)	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
+1% (100 basis points)	60	11	-	-
-0.5% (50 basis points)	<u>(30)</u>	<u>(5)</u>	-	-

The movements in profit are due to higher/lower interest revenue from variable rate cash balances. The sensitivity is performed on the same basis as 2012.

4. FINANCIAL RISK MANagements OBJECTIVES AND POLICIES (CONTINUED)

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 5% (FY2012: 6%) of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 18% (FY2012: 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 forward foreign currency contracts at spot rates when incurred. The Group does not hold foreign currency positions for trading purposes.

**At 30 June 2013, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:**

	CONSOLIDATED	
	2013	2012
	\$'000	\$'000
<b>Financial assets</b>		
Cash and cash equivalents	13	42
Trade and other receivables	403	-
	<u>416</u>	<u>42</u>
<b>Financial liabilities</b>		
Trade and other payables	588	216

**At 30 June 2013, the Group had the following exposure to European Currency Units that is not designated in cash flow hedges:**

<b>Financial assets</b>		
Cash and cash equivalents	4	26
Trade and other receivables	-	36
	<u>4</u>	<u>62</u>
<b>Financial liabilities</b>		
Trade and other payables	46	12

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

**At 30 June 2013, 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)		Other comprehensive income	
	Higher/(Lower)		Higher/(Lower)	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
AUD/USD/EURO +10%	20	12	-	-
AUD/USD/EURO -5%	(11)	(6)	-	-

The movements in profit in 2013 are more sensitive than in 2012 due to the higher level of net US Dollar and Euro liabilities position at balance date.



4. FINANCIAL RISK MANAGERMENTS OBJECTIVES AND POLICIES (CONTINUED)

*Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these financial assets (as outlined in each applicable note).

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

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

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

There are no significant concentrations of credit risk within the Group and financial instruments are only invested with a major financial institution to minimise the risk of default of counterparties. An ageing of receivables is included in note 14.

*Liquidity risk*

The only external borrowings of the Group is the interest free Western Australian Government loan of \$14,346,000 repayable in yearly instalments from May 2010 to May 2025.

The Group has recognised a contingent consideration liability of \$886,000 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 2013. 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 2013. 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:**

	2013 \$'000	2012 \$'000
6 months or less	<b>2,794</b>	5,482
6-12 months	<b>1,309</b>	355
1-5 years	<b>2,714</b>	4,986
Over 5 years	<b>9,986</b>	10,846
	<b>16,803</b>	21,669

*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	<b>2,296</b>	2,688
Recognised during the year	-	-
Released to the income statement	<b>(1,410)</b>	(392)
At 30 June	<b>886</b>	2,296

A gain of \$1,410,000 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 to its present value using a market discount rate of 6.77% (2012: 7.8 %). During the year management 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 \$1,410,000, 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 \$162,000/decrease by \$162,000 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.

### (a) Significant accounting judgements

#### *Impairment of non-financial assets*

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. The cash flows are derived from budgets approved by management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to gross sales and gross margins used in the value in use models. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 19.

As a result of these assessments, the Company has impaired the goodwill previously recognised on the acquisitions of Orbital Autogas Systems and Sprint Gas. Refer to note 19 for more information.

#### *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.

#### *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 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.

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

#### (b) Significant accounting estimates and assumptions (continued)

##### *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 TSR related 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 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.

##### *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. Refer to Note 15 for further information.

##### *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.

##### *Other Provisions*

The other provisions account includes a provision for restoration obligations relating to SUAS engines sold during the year. In determining the level of provision required for restoration obligations the Group has made judgements in respect of the expected expenditures required to fulfil the obligation.

## 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. The segment also includes the supply of Small Unmanned Aerial System (SUAS) engines, component parts and engine management systems since August 2012.

#### *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 for the LPG business and on an American basis for the SUAS supply. 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 SUAS engines, 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 aviation, 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 SUAS supply is to one major customer that accounted for 45% (2012: 19%) of external revenue. The system sales segment supplies an Australian automobile manufacturer with LPG fuel systems that accounted for 18% of external revenue (2012: 25%). No other customer accounts for more than 10% of revenue.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 6. OPERATING SEGMENTS (continued)

### (a) Operating segments

	System sales		Consulting services		Royalties and licences (i)		Consolidated	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Segment Revenue - external customers</b>	<b>23,424</b>	14,020	<b>2,057</b>	7,131	<b>1,007</b>	967	<b>26,488</b>	22,118
Unallocated other revenue							<b>211</b>	243
<b>Total Revenue</b>							<b>26,699</b>	22,361
<b>Segment result</b>	<b>2,163</b>	380	<b>(2,206)</b>	(2,259)	<b>517</b>	463	<b>474</b>	(1,416)
Research & development							<b>(1,094)</b>	(954)
Unallocated expenses - net (ii)							<b>(1,524)</b>	(3,675)
Gain on sale of plant and equipment							<b>3</b>	-
Finance costs							<b>(687)</b>	(692)
Share of profit from associate							<b>3,220</b>	3,480
Gain on sale of share in associate							<b>1,702</b>	-
<b>Net profit/(loss) before related income tax</b>							<b>2,094</b>	(3,257)
Income tax (expense)/benefit							<b>(1,730)</b>	204
<b>Profit/(loss) after tax attributable to members</b>							<b>364</b>	(3,053)

	System sales		Consulting services		Royalties and licences		Consolidated	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Non-cash (revenue) and expenses</b>								
Depreciation and amortisation	<b>498</b>	458	<b>461</b>	533	-	-	<b>959</b>	991
Equity settled employee compensation	<b>29</b>	26	<b>60</b>	111	<b>1</b>	1	<b>90</b>	138
Other non-cash (income)/expenses	<b>1,064</b>	(262)	<b>(225)</b>	245	-	-	<b>839</b>	(17)
<b>Segment non-cash expenses</b>	<b>1,591</b>	222	<b>296</b>	889	<b>1</b>	1	<b>1,888</b>	1,112
Equity settled employee compensation							<b>90</b>	233
Amortisation of non-interest bearing loans							<b>521</b>	507
Share of profit from associate							<b>(3,220)</b>	(3,480)
Movement in provision for surplus lease space							<b>(47)</b>	177
Foreign exchange translation gain							<b>(122)</b>	(120)
<b>Total non-cash (revenue) and expenses</b>							<b>(890)</b>	<b>(1,571)</b>

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

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 6. OPERATING SEGMENTS (CONTINUED)

### (a) Operating segments

	System sales		Consulting services		Royalties and licences		Consolidated	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Segment Assets</b>	<b>7,650</b>	9,921	<b>3,442</b>	5,387	<b>308</b>	263	<b>11,400</b>	15,571
<i>Unallocated assets</i>								
Cash							<b>6,902</b>	3,799
Other financial assets							<b>705</b>	1,371
Investment in associate							<b>12,468</b>	13,696
Deferred tax assets							<b>4,656</b>	5,767
<b>Consolidated Total Assets</b>							<b>36,131</b>	40,204
<b>Segment Liabilities</b>	<b>3,120</b>	6,567	<b>4,270</b>	8,111	<b>1,072</b>	99	<b>8,462</b>	14,777
<i>Unallocated liabilities</i>								
Long term borrowings							<b>8,172</b>	7,996
<b>Consolidated Total Liabilities</b>							<b>16,634</b>	22,773
<b>Consolidated Net Assets</b>							<b>19,497</b>	17,431

Segment acquisitions of non-current assets	2013	2012	2013	2012	2013	2012	2013	2012
	<b>40</b>	271	<b>213</b>	425	-	-	<b>253</b>	696

Acquisitions of non-current assets represent acquisitions of plant and equipment of \$253,000 (2012: \$696,000).

### (b) Geographic information

	Americas		Europe		Asia		Australia		Consolidated	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000

<b>Revenue - external customers</b>	<b>14,008</b>	5,231	<b>68</b>	492	<b>276</b>	619	<b>12,136</b>	15,776	<b>26,488</b>	22,118
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<b>Non-current assets</b>	<b>17,124</b>	19,135	-	-	-	-	<b>3,529</b>	6,534	<b>20,653</b>	25,669
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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED	
	2013	2012
	\$'000	\$'000
<b>7. OTHER REVENUE</b>		
Interest revenue	<u>211</u>	<u>243</u>
<b>8. OTHER INCOME</b>		
Gain on sale of plant and equipment	3	15
Gain on sale of share in equity accounted investment	1,702	-
Automotive grant income (a)	323	545
Net foreign exchange gains	122	120
Grant income	329	253
Fair value movement in contingent consideration (note 28)	<u>1,410</u>	<u>392</u>
	<u><b>3,889</b></u>	<u>1,325</u>
(a) The Group received Automotive Transformation Scheme (ATS) credits from the Federal Government for qualifying research and development activities and accounts for these as government grants.		
<b>9. EXPENSES</b>		
<b>(a) Employee benefits expense</b>		
Salaries and wages	9,169	9,718
Contributions to defined contributions superannuation funds	815	984
Share based payments	180	371
Decrease in liability for annual leave	(38)	(54)
Decrease in liability for long service leave	(53)	(108)
Termination costs	563	113
Other associated personnel expenses	574	646
	<u>11,210</u>	<u>11,670</u>
<b>(b) Finance costs</b>		
Interest on borrowings	166	185
Non-cash interest expense WA Government Loan	521	507
	<u>687</u>	<u>692</u>
<b>(c) Other expenses</b>		
Administration	324	363
Marketing	262	282
Investor relations	30	59
Freight & courier	90	195
Motor vehicle expenses	69	73
Impairment of receivables	175	429
Allowance for warranty	387	191
Goodwill impairment	1,965	-
Other	84	587
	<u>3,386</u>	<u>2,179</u>
<b>(d) Materials and consumables</b>		
Raw materials and consumables purchased	8,603	9,253
Write back inventory impairment	(214)	-
Change in inventories	<u>2,039</u>	<u>(1,137)</u>
	<u>10,428</u>	<u>8,116</u>
<b>(e) Lease payments included in income statement</b>		
Minimum lease payments - operating lease	<u>1,066</u>	<u>1,044</u>
<b>(f) Research and development costs</b>		
Research and development costs charged directly to the income statement	<u>1,094</u>	<u>954</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED	
	2013	2012
	\$'000	\$'000
<b>10. INCOME TAX</b>		
<b>(a) Recognised in the income statement</b>		
<b>Current income tax</b>		
Current year expense	<b>(90)</b>	(252)
<b>Deferred tax</b>		
Relating to originating and reversing temporary differences	<b>(729)</b>	(13)
(Expense)/Benefit on recognition / (de-recognition) of tax losses	<b>(911)</b>	469
	<u><b>(1,640)</b></u>	<u>456</u>
<b>Total income tax (expense)/ benefit in income statement</b>	<u><b>(1,730)</b></u>	<u>204</u>
<b>(b) Numerical reconciliation between tax benefit and pre-tax net profit/(loss)</b>		
Profit/(loss) before tax	<u><b>2,094</b></u>	<u>(3,257)</u>
Income tax using the statutory tax rates	<b>(628)</b>	977
- Non deductible expenditure	<b>(355)</b>	(274)
- Non assessable items	-	118
- Deferred tax assets recognised in prior years now recognised	<b>(503)</b>	(330)
- Net withholding tax recouped/(paid)	<b>(22)</b>	8
- United States of America Federal and State taxes	<b>(222)</b>	(295)
Income tax (expense)/benefit on pre-tax net profit	<u><b>(1,730)</b></u>	<u>204</u>
<b>(c) Tax consolidation</b>		

### *Members of the tax consolidated group and the tax sharing arrangement*

Orbital Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002. Orbital Corporation Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 11. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2013 was based on profit attributable to ordinary shareholders of \$364,000 (2012: loss \$3,053,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2013 of 49,079,683 shares (2012: 48,612,706 shares), calculated as follows:

	CONSOLIDATED	
	2013	2012
	\$	\$
<b>Profit/(Loss) attributable to ordinary shareholders</b>	<b>364,000</b>	<b>(3,053,000)</b>
<b>Weighted average number of ordinary shares</b>	Number	Number
Weighted average number of ordinary shares at 30 June	<b>49,079,683</b>	48,612,706
Effect of potential dilutive ordinary shares	-	-
Weighted average number of potential dilutive ordinary shares at 30 June	<b>49,079,683</b>	48,612,706
<b>Earnings/(loss) per share</b>	Cents	Cents
Basic earnings/(loss) per share	<b>0.74</b>	<b>(6.28)</b>
Diluted earnings/(loss) per share	<b>0.74</b>	<b>(6.28)</b>

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. The 4,046,200 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 events.

CONSOLIDATED	
2013	2012
\$'000	\$'000

## 12. CASH AND CASH EQUIVALENTS

Cash at bank	<b>760</b>	503
Cash at bank - US dollars	<b>13</b>	42
Cash at bank - European currency units	<b>4</b>	26
At call deposits - financial institutions	<b>6,125</b>	3,228
	<b>6,902</b>	3,799

## 13. OTHER FINANCIAL ASSETS

Short term deposits - financial institutions	<b>705</b>	1,371
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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 financial arrangements provided by Westpac Banking Corporation, refer note 21 for further details.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED  
2013                      2012  
\$'000                      \$'000

## 14. TRADE AND OTHER RECEIVABLES

### Current

Trade receivables	4,246	3,572
Allowance for impairment loss (a)	<u>(180)</u>	<u>(5)</u>
	<b>4,066</b>	3,567
Accrued royalties	<b>299</b>	264
Other receivables	<b>73</b>	48
Prepayments	<u>275</u>	<u>289</u>
	<b><u>4,713</u></b>	<b><u>4,168</u></b>

### (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 \$180,000 (2012: \$5,000) 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	(5)	(154)
Charge for the year	<b>(175)</b>	(429)
Amounts written off	<u>-</u>	<u>578</u>
At 30 June	<b><u>(180)</u></b>	<b><u>(5)</u></b>

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*
2013	Consolidated	<b>4,246</b>	<b>2,576</b>	<b>1,347</b>	<b>108</b>	<b>35</b>	<b>180</b>
2012	Consolidated	3,572	2,288	1,074	202	3	5

Receivables past due but not considered impaired are \$143,000 (2012:\$205,000). 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.

Included with the considered impaired category is a customer that went into administration during the reporting period, and subsequent to the end of the reporting period has been placed into liquidation. The Group carries credit insurance and has lodged a claim under the debtor insurance policy to recover the amount owed by this debtor. At the date of the report the Group has not received confirmation from the insurer as to whether it will accept the claim and if it does how much of the claim will be settled.

### (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. Where possible, credit risk is mitigated through the purchase of credit insurance. The credit insurance policy held by the Group is limited to Australian-based customers.

### (c) Foreign exchange and interest rate risk

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED  
2013            2012  
\$'000            \$'000

## 15. INVENTORIES

Materials and production supplies - at lower of cost and net realisable value	<b>3,158</b>	5,197
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(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2013 totalled \$10,428,000 (2012: \$8,116,000) for the Group (Refer to Note 9(d)). This is recognised in materials and consumables.

## 16. INVESTMENT IN ASSOCIATE

### (a) Interest in Synerject LLC

The Group holds a 30% (2012: 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.

The Group sold 12% of its share in Synerject effective 1 March 2013. The dividend distribution rate changed from 45% to 55% of audited profits.

Other information for Synerject is as follows:

<b>Country of incorporation:</b>	USA
<b>Financial Year end:</b>	31 December
<b>30 June Ownership:</b>	2013: 30%; 2012: 42%

Summarised financial information relating to Synerject at 30 June 2013 is as follows:

	2013 US\$'000	2012 US\$'000
Revenues (100%)	<b>137,287</b>	127,548
Profit (100%)	<b>8,275</b>	8,045
Current assets	<b>49,858</b>	45,789
Non-current assets	<b>11,510</b>	12,880
Current liabilities	<b>28,424</b>	27,936
Non-current liabilities	-	2,654
Net assets	<b>32,944</b>	28,079
	2013 A\$'000	2012 A\$'000
Revenues (100%)	<b>133,665</b>	124,413
Profit (100%)	<b>8,057</b>	7,847
Current assets	<b>53,755</b>	44,931
Non-current assets	<b>12,410</b>	12,639
Current liabilities	<b>30,645</b>	27,412
Non-current liabilities	-	2,604
Net assets	<b>33,520</b>	27,554
Share of Synerject's net profit recognised	<b>3,220</b>	3,480
Share of Synerject's net assets equity accounted	<b>12,468</b>	13,696

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED  
2013            2012  
\$'000            \$'000

## 16. INVESTMENT IN ASSOCIATE (continued)

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

Beginning of year	<b>13,696</b>	11,406
Sale of interest	<b>(4,086)</b>	-
Share of profits after tax	<b>3,220</b>	3,480
Share of reserves	<b>35</b>	(199)
Dividends received	<b>(1,485)</b>	(1,544)
Unrealised foreign exchange movements	<b>1,088</b>	553
End of year	<b><u>12,468</u></b>	<u>13,696</u>

### (c) Results of Synerject

Share of Synerject's profit before income tax	<b>3,126</b>	3,254
Share of income tax (expense)/benefit	<b>(72)</b>	42
Share of Synerject's net profit	<b>3,054</b>	3,296
Adjustments:		
- dissimilar accounting treatment with respect to intangibles	<b>166</b>	184
	<b><u>3,220</u></b>	<u>3,480</u>

### (d) Commitments

Share of Synerject's capital commitments contracted but not provided for or payable:		
Within one year	<b>288</b>	376
One year or later and no later than five years	<b>699</b>	1,090
Later than 5 years	<b>78</b>	257
	<b><u>1,065</u></b>	<u>1,723</u>

## 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		Deferred Tax Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Tax value of loss carry-forwards recognised	<b>4,656</b>	5,439	-	-	<b>4,656</b>	5,439
Other net temporary differences (a)	<b>682</b>	1,624	<b>(682)</b>	(1,296)	-	328
Net tax assets	<b>5,338</b>	7,063	<b>(682)</b>	(1,296)	<b>4,656</b>	5,767

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 2013, the available tax carry forward losses of US\$25,517,641 (2012: US\$31,679,109) expire between the years 2014 and 2024.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 17. DEFERRED TAX ASSETS AND LIABILITIES (continued)

### Movement in temporary differences during the year

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

	Balance 1-Jul-12	Consolidated Acquired during the year	Recognised in income	Recognised in equity (b)	Balance 30-Jun-13
	\$'000	\$'000	\$'000	\$'000	\$'000
Tax value of loss carry-forwards recognised	5,439	-	(1,312)	529	4,656
Other temporary differences	328	-	(328)	-	-
<b>Net tax assets</b>	<b>5,767</b>	<b>-</b>	<b>(1,640)</b>	<b>529</b>	<b>4,656</b>

CONSOLIDATED  
2013      2012  
\$'000      \$'000

#### (a) Other net temporary differences

##### **Deferred tax assets**

Annual leave	<b>545</b>	293
Long service leave	<b>17</b>	378
Staff bonus	<b>5</b>	-
Revenue in advance	<b>115</b>	594
Inventory provision	<b>-</b>	309
	<b>682</b>	1,574

##### **Deferred tax liabilities**

Unrealised foreign exchange gain on inter-company loan	<b>(534)</b>	(1,071)
Other	<b>(148)</b>	(175)
	<b>(682)</b>	(1,246)

##### **Net temporary differences**

<b>-</b>	<b>328</b>
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(b) The amounts recognised through equity represent the foreign exchange differences arising on the translation of the foreign subsidiary.

#### **Unrecognised deferred tax assets**

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

##### Australia (net at 30%)

Tax losses	<b>20,533</b>	19,821
Timing difference from provision for capital loss on investment	<b>1,934</b>	1,934
Other net temporary differences	<b>2,029</b>	621
	<b>24,496</b>	22,376

##### United States of America (net at 34%)

Tax losses	<b>4,699</b>	5,130
Other net temporary differences	<b>775</b>	2,949
	<b>5,474</b>	8,079

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED	
	2013	2012
	\$'000	\$'000
<b>18. PLANT AND EQUIPMENT</b>		
<i>Plant and equipment</i>		
At cost	<b>18,044</b>	17,797
Less: accumulated depreciation	<b>(14,661)</b>	(13,848)
Total plant and equipment - net book value	<b><u>3,383</u></b>	<u>3,949</u>

## Reconciliations

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

<i>Plant and equipment</i>		
Carrying amount at beginning of year	<b>3,949</b>	4,134
Additions	<b>253</b>	696
Disposals	<b>(6)</b>	(35)
Depreciation	<b>(813)</b>	(846)
Carrying amount at end of year	<b><u>3,383</u></b>	<u>3,949</u>
<i>Total</i>		
Carrying amount at beginning of year	<b><u>3,949</u></b>	<u>4,134</u>
Carrying amount at end of year	<b><u>3,383</u></b>	<u>3,949</u>

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 2013 was \$59,000 (2012: \$77,000). No additions to plant and equipment under finance leases were made during the year (2012: \$78,000). 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

Goodwill acquired in business combinations	-	1,965
Capitalised development expenditure	<b>146</b>	292
Total intangibles and goodwill - net book value	<b><u>146</u></b>	<u>2,257</u>

## Net carrying value

*Goodwill acquired in business combinations*

At cost	<b>1,965</b>	1,965
Less: allowance for impairment	<b>(1,965)</b>	-
	<b><u>-</u></b>	<u>1,965</u>

*Capitalised development expenditure*

At cost	<b>826</b>	826
Less: accumulated amortisation and impairment	<b>(680)</b>	(534)
	<b><u>146</u></b>	<u>292</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED  
2013            2012  
\$'000            \$'000

## 19. INTANGIBLES AND GOODWILL (continued)

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

Reconciliations of the carrying amounts for goodwill

Carrying amount at beginning of year	<b>1,965</b>	1,965
Impairment charge	<b>(1,965)</b>	-
Carrying amount at end of year	<u>-</u>	<u>1,965</u>

Reconciliations of the carrying amounts for capitalised development expenditure

Carrying amount at beginning of year	<b>292</b>	437
Amortisation	<b>(146)</b>	(145)
Carrying amount at end of year	<u>146</u>	<u>292</u>

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

#### Goodwill

The goodwill arose on the acquisitions 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 charge of \$1,965,000 on goodwill was recognised for continuing operations in the 2013 financial year (2012: \$nil). The impairment charge 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. Management also considered the announcement by Ford Motor Company of Australia that it will cease the manufacture of vehicles in Australia in 2016 when considering the impairment of Orbital Autogas System's goodwill. The assessment of recoverable amount was based on value in use models using a discount rate of 18% and was determined at the cash-generating unit level. The impairment charge was recognised in the income statement in the line item "other expenses".

### (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 generating unit within the same reportable segment (refer to note 6), for impairment testing 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 2013 based on financial budgets approved by management covering a three-year period. The projected cash flows have been updated to reflect the decreased demand for LPG fuel systems. The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2012: 18.0%). It was concluded that the fair value less cost to sell did not exceed the value in use. As a result of this analysis, management has recognised an impairment charge of \$363,000 against goodwill previously carried of \$363,000.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 19. INTANGIBLES AND GOODWILL (continued)

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

##### **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 2013 based on financial budgets approved by management covering a three-year period. The projected cash flows have been updated to reflect the decreased demand for LPG fuel systems. The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2012: 18.0%) and cash flows beyond the three-year period are extrapolated to five years using a 4% growth rate and a terminal value of 3.5 times the fifth year's cash flow projection. The growth rate and terminal value used are appropriate for a business in Sprint Gas's industry. It was concluded that the fair value less cost to sell did not exceed the value in use. As a result of this analysis, management has recognised an impairment charge of \$1,602,000 against goodwill previously carried of \$1,602,000.

##### *(ii) Carrying amount of goodwill allocated to each of the cash generating units*

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

	Orbital Autogas Systems		Sprint Gas		Total	
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount of goodwill	-	363	-	1,602	-	1,965

##### *(iii) Key assumptions used in value in use calculations for the Orbital Autogas Systems and Sprint Gas units, respectively, for 30 June 2013 and 30 June 2012*

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 estimates 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.

##### *(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 remaining after the impairment of the goodwill, management believe that reasonably possible changes in any of the above key assumptions like a reduction in revenue of 5% would cause the recoverable amount of the unit to fall short of its carrying value by approximately \$294,000. However, management is confident that the revenue will be achieved due to the historic revenues achieved by the unit.

##### **Sprint Gas sales unit**

With regard to the assessment of the value in use of the Sprint Gas sales unit remaining after the impairment of the goodwill, management believe that reasonably possible changes in any of the above key assumptions like a reduction in revenue of 5% would cause the recoverable amount of the unit to fall short of its carrying value by approximately \$371,000. However, management is confident that the revenues will be achieved due to the historic revenues achieved by the unit.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		CONSOLIDATED	
		2013	2012
		\$'000	\$'000
<b>20.</b>	<b>TRADE PAYABLES AND OTHER LIABILITIES</b>		
	<b>Current</b>		
	Trade creditors and accruals	<b>2,785</b>	3,038
	Revenues received in advance	<u><b>16</b></u>	<u>1,868</u>
		<u><b>2,801</b></u>	<u>4,906</u>
<b>(a)</b>	<b>Fair value</b>		
	Due to the short term nature of trade payables and other liabilities, their carrying value is assumed to approximate their fair value.		
<b>(b)</b>	<b>Interest rate, foreign exchange and liquidity risk</b>		
	Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.		
<b>21.</b>	<b>BORROWINGS</b>		
	<b>Current</b>		
	Obligations under hire purchase contracts	<b>17</b>	18
	Current portion of long term borrowings (see note 26)	<b>415</b>	346
	Loans and advances – secured (a)	<u>-</u>	<u>2,500</u>
		<u><b>432</b></u>	<u>2,864</u>
	<b>Non-current</b>		
	Obligations under hire purchase contracts	<u><b>42</b></u>	<u>59</u>
<b>(a)</b>	<b>Security</b>		
	A first ranking mortgage debenture with fixed and floating charges over the whole of the assets has been granted to the Company's banker for the establishment of the credit facilities totalling \$735,000 (2012: \$3,205,000).		
<b>(b)</b>	<b>Maturity</b>		
	Obligations under hire purchase contracts mature in 2014 and 2015.		
<b>(c)</b>	<b>Interest</b>		
	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% (2012: 7.35%). 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 N/A (2012: 7.35%).		
<b>(d)</b>	<b>Fair value</b>		
	Due to the short term nature of these loans, their carrying value is assumed to approximate their fair value.		
<b>(e)</b>	<b>Interest rate, foreign exchange and liquidity risk</b>		
	Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.		

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		CONSOLIDATED	
		2013	2012
		\$'000	\$'000
<b>22. FINANCING ARRANGEMENTS</b>	Note		
The consolidated entity has standby arrangements with Westpac Banking Corporation to provide support facilities:			
<b>Total facilities available</b>			
Bank Bill Business Loan		-	2,500
Corporate credit card facility		<b>230</b>	200
Bank guarantee		<b>505</b>	505
		<u><b>735</b></u>	<u>3,205</u>
<b>Facilities utilised at balance date</b>			
Bank Bill Business Loan	21	-	2,500
Corporate credit card facility		<b>26</b>	25
Bank guarantee		<b>505</b>	505
		<u><b>531</b></u>	<u>3,030</u>
<b>Facilities not utilised at balance date</b>			
Bank Bill Business Loan		-	-
Corporate credit card facility		<b>204</b>	175
Bank guarantee		-	-
		<u><b>204</b></u>	<u>175</u>

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 totalling \$735,000 (2012: \$3,205,000).

The Company has also provided the Company's banker with security over short term deposits of \$705,000 (2012: \$1,365,000) 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, Melbourne and Brisbane premises.

### 23. EMPLOYEE BENEFITS

#### (a) Current

Annual leave	<b>765</b>	1,012
Long service leave	<b>1,072</b>	1,105
	<u><b>1,837</b></u>	<u>2,117</u>

#### (b) Non-Current

Long service leave	<u><b>55</b></u>	<u>119</u>
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#### (c) Aggregate Liability for employee entitlements

	<u><b>1,892</b></u>	<u>2,236</u>
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The present value of employee entitlements have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	<b>4.0%</b>	4.0%
Discount rate at 30 June	<b>3.1%</b>	3.0%
Settlement term (years)	<b>10</b>	10

#### Number of employees

Number of employees at year end	<u><b>87</b></u>	<u>108</u>
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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## CONSOLIDATED

2013                      2012

\$'000                    \$'000

### 24. DEFERRED REVENUE

#### (a) Current

Deferred revenue for operation of heavy duty engine testing facility	<u><b>316</b></u>	<u>316</u>
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#### (b) Movement in deferred revenue

At 1 July	<u><b>316</b></u>	<u>316</u>
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At 30 June	<u><b>316</b></u>	<u>316</u>
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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 for a period of five years from the date of commissioning of the facility.

The deferred revenue will be recognised as income over the periods in which the Commonwealth utilises the Heavy Duty Engine Testing Facility at discounted rates.

### 25. OTHER PROVISIONS

#### (a) Current

Warranties	111	229
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Surplus lease space	182	182
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Other	<u>502</u>	<u>50</u>
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	<u><b>795</b></u>	<u>461</u>
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#### (b) Non-Current

Surplus lease space	<u><b>289</b></u>	<u>336</u>
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#### (c) Reconciliations

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

##### *Warranties - current*

Carrying amount at beginning of year	229	88
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Arising during the year	1	141
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Utilised	<u>(119)</u>	<u>-</u>
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Carrying amount at end of year	<u><b>111</b></u>	<u>229</u>
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##### *Surplus lease space - current*

Carrying amount at beginning of year	182	37
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Utilised	<u>(182)</u>	<u>(214)</u>
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Reclassified from non-current	<u>182</u>	<u>359</u>
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Carrying amount at end of year	<u><b>182</b></u>	<u>182</u>
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##### *Other provisions - current*

Carrying amount at beginning of year	50	70
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Arising during the year	<u>452</u>	<u>50</u>
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Utilised	<u>-</u>	<u>(70)</u>
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Carrying amount at end of year	<u><b>502</b></u>	<u>50</u>
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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED	
	2013	2012
	\$'000	\$'000
<b>25. OTHER PROVISIONS (continued)</b>		
<i>Surplus lease space - non-current</i>		
Carrying amount at beginning of year	<b>336</b>	304
Arising during the year	<b>135</b>	391
Reclassified to current	<b>(182)</b>	(359)
Carrying amount at end of year	<b>289</b>	336

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 likely to recover by sub-letting the space.

The other provisions account includes a provision for restoration obligations relating to SUAS engines sold during the year. In determining the level of provision required for restoration obligations the Group has made judgements in respect of the expected expenditures required to fulfil the obligation. Management is of the view that the restoration obligation will be completed during the first half of the 2014 financial year.

## 26. LONG TERM BORROWINGS

### Non-Current

Loans and advances - secured	<b>7,757</b>	7,650
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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.

The restructured loan's net fair value utilising a market interest rate of 6.52% was \$7,558,000 on initial recognition. Subsequent to initial recognition the loan is carried at amortised cost.

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 fair value of the loan 2013: \$8,127,486 (2012:\$7,605,365) is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2013: 6.77% (2012: 7.35%).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED	
	2013	2012
	\$'000	\$'000
<b>27. GOVERNMENT GRANTS</b>		
<b>Current liabilities</b>		
Investment grant for construction of heavy duty engine testing facility	<b>225</b>	225
<b>Non-current liabilities</b>		
Investment grant for construction of heavy duty engine testing facility	<u><b>1,199</b></u>	<u>1,424</u>
<b>Total government grants deferred</b>	<u><b>1,424</b></u>	<u>1,649</u>
<b>Movement in government grants</b>		
At 1 July	<b>1,649</b>	1,874
Released to the income statement	<u><b>(225)</b></u>	<u>(225)</u>
At 30 June	<u><b>1,424</b></u>	<u>1,649</u>

In June 2008 the Group received funding of \$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. The Group will fund the maintenance and operation of the facility until at least financial year 2014/2015 and provide the Commonwealth with preferential access to the facility.

The terms of the Grant included providing the Commonwealth with preferential access to the facility at a discount to the commercial rate. This discount to commercial rates of \$512,000 was 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

### Current liabilities

Contingent consideration for business acquisition	<u><b>886</b></u>	<u>-</u>
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### Non-current liabilities

Contingent consideration for business acquisition	<u>-</u>	<u>2,296</u>
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On 27 May 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a 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 obligation under the Put and Call options that gives rise to the contingent consideration liability was initially recognised at fair value and subsequently carried at fair value through the profit and loss.

A gain of \$1,410,000 (2012: \$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 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 \$1,410,000 (2012: \$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 \$162,000/decrease by \$162,000 respectively.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED  
2013                  2012  
\$'000                  \$'000

### 28. CONTINGENT CONSIDERATION (continued)

#### Movement in contingent consideration

At 1 July	<b>2,296</b>	2,688
Released to the income statement	<b>(1,410)</b>	(392)
At 30 June	<b>886</b>	2,296

A gain of \$1,410,000 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	<b>19,518</b>	19,436
	Number	\$'000
Movement in ordinary shares on issue		
At 1 July 2011	48,482,558	19,345
Shares issued pursuant to employee share plans	239,919	91
At 30 June 2012	<b>48,722,477</b>	<b>19,436</b>
Shares issued pursuant to employee share plans	<b>612,114</b>	<b>82</b>
At 30 June 2013	<b>49,334,591</b>	<b>19,518</b>

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.

#### (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.

CONSOLIDATED  
2013                  2012  
\$'000                  \$'000

### 30. RETAINED PROFITS AND RESERVES

#### (a) Movements in retained earnings were as follows:

Balance 1 July	<b>2</b>	3,055
Net profit/(loss)	<b>364</b>	(3,053)
Balance 30 June	<b>366</b>	2

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 30. RETAINED PROFITS AND RESERVES (continued)

### (b) Other reserves

<b>Consolidated</b>	<b>Employee Equity Benefits Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Total \$'000</b>
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	<u>1,547</u>	<u>(3,554)</u>	<u>(2,007)</u>
Balance 1 July 2012	<b>1,547</b>	<b>(3,554)</b>	<b>(2,007)</b>
Equity-settled transaction-employee shares	<b>98</b>	-	<b>98</b>
Other comprehensive income	-	<b>1,522</b>	<b>1,522</b>
Balance at 30 June 2013	<u><b>1,645</b></u>	<u><b>(2,032)</b></u>	<u><b>(387)</b></u>

### (c) Nature and purpose of reserves

#### Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP's, as part of their remuneration. Refer to note 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	
			2013 %	2012 %
<b>Ultimate Parent Entity</b>				
- Orbital Corporation Limited				
<i>Controlled Entities, incorporated and carrying on business in:</i>				
<b>Australia</b>				
- Orbital Australia Pty Ltd		Ord	100	100
- Orbital Australia Manufacturing Pty Ltd		Ord	100	100
- OEC Pty Ltd	(a)	Ord	100	100
- S T Management Pty Ltd	(a)	Ord	100	100
- OFT Australia Pty Ltd	(a)	Ord	100	100
- Investment Development Funding Pty Ltd	(a)	Ord	100	100
- Power Investment Funding Pty Ltd	(a)	Ord	100	100
- Kala Technologies Pty Ltd (previously Orbital Environmental Pty Ltd)	(a)	Ord	100	100
- Orbital Share Plan Pty Ltd	(b)	Ord	100	100
- Orbital Autogas Systems Pty Ltd		Ord	100	100
- Sprint Gas (Aust) Pty Ltd		Ord	100	100
<b>United States of America</b>				
- Orbital Holdings (USA) Inc.	(a)	Ord	100	100
- Orbital Fluid Technologies Inc.		Ord	100	100
- Orbital Engine Company (USA) Inc.	(a)	Ord	100	100
<b>United Kingdom</b>				
- Orbital Engine Company (UK) Ltd	(a)	Ord	100	100

(a) Dormant for the years ended 30 June 2013 and 30 June 2012.

(b) Orbital Share Plan Pty Ltd was established on 22 September 2008 and acts as the trustee of the Orbital Executive Long Term Share Plans.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2013  
\$'000

2012  
\$'000

### 32. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED

Current assets	<b>3</b>	3
Total assets	<b><u>36,131</u></b>	<u>39,998</u>
Current liabilities	-	-
Total liabilities	<b><u>27,332</u></b>	<u>22,567</u>
Issued capital	<b>19,518</b>	19,436
Accumulated losses	<b>(12,364)</b>	(3,552)
Employee equity benefits reserve	<b><u>1,645</u></b>	<u>1,547</u>
Total shareholders' equity	<b><u>8,799</u></b>	<u>17,431</u>
Loss of the parent entity	<b>(8,812)</b>	(2,422)
Total comprehensive loss of the parent entity	<b><u>(8,812)</u></b>	<u>(2,422)</u>

#### **Guarantee**

Orbital Corporation Limited has provided a guarantee to Westpac Banking Corporation for all liabilities and obligations of Orbital Australia Pty Ltd. See note 22 for details of Orbital Australia Pty Ltd's outstanding liabilities to Westpac Banking Corporation.

### 33. RELATED PARTY DISCLOSURES

#### (a) Identity of related parties

The Group has a relationship with its subsidiaries (see note 31), with its 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	
	2013	2012
	\$'000	\$'000
<i>Receivables</i>		
Current	<b><u>3</u></b>	<u>-</u>
<i>Payables</i>		
Current	<b><u>-</u></b>	<u>63</u>

##### (ii) Transactions

During the year the Group purchased goods and services to the value of \$148,000 (2012: \$178,000) from Synerject LLC. All transactions are in the ordinary course of business and on normal commercial terms and conditions. The Group received dividends of \$1,484,854 (2012:\$1,543,686) from Synerject LLC.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 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

Dr GP Cathcart (Chief Technical Officer)  
Mr IG Veitch (Chief Financial Officer) became KMP on 11 February 2013  
Mr KA Halliwell (Chief Financial Officer) ceased to be KMP on 8 February 2013

### Key management personnel compensation

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

	CONSOLIDATED	
	2013	2012
	\$	\$
Short-term employee benefits	<b>1,011,679</b>	1,028,635
Post-employment benefits	<b>110,193</b>	114,847
Equity compensation benefits	<b>107,015</b>	251,062
	<b><u>1,228,887</u></b>	<u>1,394,544</u>

### Individual directors and executives compensation disclosures

No director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests at year-end.

### Loans to key management personnel and their related parties

The Group has 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 personnel or their related parties at year-end.

### 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	Purchases	Granted as compensation		Sales	Other(a)	Held at
	1-Jul-12		ESP #1	ELTSP			30-Jun-13
<b>Non-executive directors</b>							
Mr WP Day	10,000	-	-	-	-	-	10,000
Dr V Braach-Maksvytis	-	-	-	-	-	-	-
Dr MT Jones	18,000	-	-	-	-	-	18,000
<b>Executive director</b>							
Mr TD Stinson (b)	392,690	-	-	-	-	-	392,690
<b>Executives</b>							
Dr GP Cathcart	54,095	-	7,468	-	-	-	61,563
Mr IG Veitch	-	-	-	-	-	20,443	20,443
Mr KA Halliwell	180,238	-	7,468	-	-	(187,706)	-

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 34. KEY MANAGEMENT PERSONNEL (continued)

### Movements in shares (continued)

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

(a) Represents shareholdings at the time that Mr KA Halliwell ceased to be a KMP and Mr IG Veitch became a KMP.

(b) Mr Stinson's shareholding of 392,690 is represented by 6,618 ADRs and 286,802 ordinary shares.

### Movements in ELTSP rights

The movement during the reporting period in the number of ELTSP rights to ordinary shares in Orbital Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at	Offered	Forfeited	Vested	Expired	Other (a)	Held at
	1-Jul-12						30-Jun-13
<b>Executive director</b>							
Mr TD Stinson	1,960,000	1,100,000	-	-	(525,000)	-	2,535,000
<b>Executives</b>							
Dr GP Cathcart	762,200	450,000	-	-	(199,500)	-	1,012,700
Mr IG Veitch	-	-	-	-	-	498,500	498,500
Mr KA Halliwell	1,014,067	600,000	(1,347,567)	-	(266,500)	-	-

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

(a) Represents ELTSP rights holding at the date that Mr IG Veitch became a KMP.

### 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	Offered	Forfeited	Vested	Expired	Held at
	1-Jul-12					30-Jun-13
<b>Executive director</b>						
Mr TD Stinson	1,150,000	-	-	-	-	1,150,000

	Held at	Offered	Forfeited	Vested	Expired	Held at
	1-Jul-11					30-Jun-12
<b>Executive director</b>						
Mr TD Stinson	1,150,000	-	-	-	-	1,150,000

No performance rights were vested at 30 June 2013 (2012: nil).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE	CONSOLIDATED	
	2013	2012

\$'000                  \$'000

## 35. NOTES TO THE STATEMENT OF CASH FLOWS

### Reconciliation of cash flows from operating activities

Profit/(loss) after income tax		<b>364</b>	(3,053)
<i>Adjustments for:</i>			
Profit on sale of plant and equipment	8	<b>(3)</b>	(15)
Depreciation	18	<b>813</b>	846
Amortisation	19	<b>146</b>	145
Amortisation of deferred revenue and government grants		<b>(225)</b>	(225)
Impairment, write-off of trade receivables		<b>175</b>	429
Movement in fair value of financial liability	28	<b>(1,410)</b>	(392)
Impairment of goodwill	19	<b>1,965</b>	-
Amortisation of non-interest bearing loans	9(b)	<b>521</b>	507
Amounts set aside to warranty and other provisions		<b>287</b>	298
Share of net profit of equity accounted investment	16	<b>(3,220)</b>	(3,480)
Profit on sale of share in equity accounted investment	8	<b>(1,702)</b>	-
Employee compensation expense	36(a)	<b>180</b>	371
Net foreign exchange gains		<b>(122)</b>	(120)
		<u><b>(2,231)</b></u>	<u>(4,689)</u>
Net cash used in operating activities before changes in assets and liabilities			
<i>Changes in assets and liabilities during the year:</i>			
(Increase)/decrease in receivables		<b>(713)</b>	2,262
Decrease/(increase) in inventories		<b>2,039</b>	(1,137)
Decrease/(increase) in deferred tax assets		<b>1,640</b>	(456)
(Decrease)/increase in payables		<b>(2,108)</b>	25
(Decrease) in employee provisions		<b>(344)</b>	(250)
		<u><b>514</b></u>	<u>444</u>
Net cash used in operating activities		<u><b>(1,717)</b></u>	<u>(4,245)</u>

## 36. SHARE BASED PAYMENT PLANS

### (a) Recognised share-based payment expenses

Expense arising from equity-settled share-based payment transactions		<u><b>180</b></u>	<u>371</u>
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The share-based payment plans are described below.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 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 612,114 (2012: 239,919) shares issued under Plan No. 1 to eligible employees at a market value on the day of issue of \$82,000 (2012: \$91,000).

#### (c) Executive Long Term Share Plan ("ELTSP")

Executives may also be offered shares in the Company's Executive Long Term Share Plan under which offered shares will be granted subject to the satisfaction of performance conditions over a 3 year period or subject to Board discretion for other qualifying reasons.

The performance conditions for the LTI offered in 2013 are based 100% on earnings per share.

Additionally, the number of shares granted is broken into four bands as shown in the table below.

#### Vesting schedule for the EPS tested LTI awarded for the performance year 2013

Company Performance (Earnings per share)	% of offered shares issued to each executive
Under 5 cents	0%
At or above 5 cents but below 7 cents	25% to 50% (on a straight line basis)
At or above 7 cents but below 9 cents	50% to 100% (on a straight line basis)
At or above 9 cents	100%

At the Company's Annual General Meeting in November 2012, shareholders approved the above plan in relation to the ongoing remuneration of Executive Directors and senior executives.

During the year, a total of 2,480,000 rights under the plan were offered to 4 executives (2012: 1,687,500 rights offered to 5 executives).

The performance conditions for the LTI offered in 2012 were based 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:

#### Vesting schedule for the TSR tested LTI awarded for the performance year 2012

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 vested 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## 36. SHARE BASED PAYMENT PLANS (continued)

### (c) Executive Long Term Share Plan ("ELTSP") (continued)

#### Summary of rights granted under the ELTSP

	2013 No.	2012 No.
Outstanding at the beginning of the year	<b>4,227,300</b>	2,849,800
Granted during the year	<b>2,480,000</b>	1,687,500
Forfeited during the year	<b>(1,610,100)</b>	-
Vested during the year and shares issued	-	-
Expired during the year	<b>(1,051,000)</b>	(310,000)
Outstanding at the end of the year	<b><u>4,046,200</u></b>	<u>4,227,300</u>

The outstanding balance as at 30 June 2013 is represented by:

- 993,700 rights with an average fair value at grant date of \$0.335 that will potentially vest in August 2013;
- 1,172,500 rights with an average fair value at grant date of \$0.300 that will potentially vest in August 2014;
- 1,880,000 rights with an average fair value at grant date of \$0.200 that will potentially vest in August 2015.

#### Fair value of rights on grant date

The following factors and assumptions were used in determining the fair value of TSR related rights offered 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
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.

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
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
31-Aug-12*	3 years	31-Aug-15	20 cents	nil	20 cents

\* The grant dates of the EPS related rights for the Managing Director were 26 October 2011 and 7 November 2012, respectively.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 36. SHARE BASED PAYMENT PLANS (continued)

#### (d) Performance Rights Plan

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

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

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

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

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

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

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

- (a) Mr T D Stinson will be awarded 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;
- (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 years ended 30 June 2013 or 30 June 2012.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED  
2013                  2012  
\$'000                  \$'000

### 38. COMMITMENTS

#### (a) Operating leases

Non-cancellable future operating lease rentals not provided for in the financial statements and payable:

- Not later than one year	<b>1,214</b>	1,191
- Later than one year but not later than five years	<b>3,855</b>	3,983
- later than five years	<b>2,501</b>	3,399
	<b><u>7,570</u></b>	<b><u>8,573</u></b>

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. None of the leases include contingent rentals.

During the financial year ended 30 June 2013, \$1,066,256 was recognised as an expense in the income statement in respect of operating leases (2012:\$1,044,469).

#### (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	<b>20</b>	23
- Later than one year but not later than five years	<b>43</b>	63
	<b><u>63</u></b>	<b><u>86</u></b>

#### (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:

- Later than one year but not later than five years	<b>291</b>	391
	<b>-</b>	291
	<b><u>291</u></b>	<b><u>682</u></b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 39. 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 3 months 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.

### 40. EVENTS AFTER THE BALANCE SHEET DATE

On 31 July 2013, Orbital announced that it had been awarded a contract for the design, development and validation of a next generation production engine for a USA based customer that is one of the largest in the SUAS market. The development program will be conducted through 2013 and 2014 and if successful will lead to higher volume production of SUAS engines in 2015.

On 16 August 2013, Orbital announced that it had been awarded an Automotive New Markets Program grant of \$933,000 for the development of a new Electronic Control Unit (ECU) for use in SUAS applications. The development activities will be performed by the Consulting Services group through the next financial year.

Other than the matters above, 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.

CONSOLIDATED	
2013	2012
\$	\$

### 41. REMUNERATION OF AUDITORS

Amounts received or due and receivable for audit services by:

Auditors of the Company

- Audit and review of financial reports – Australian Reporting
- Audit and review of financial reports – USA Reporting

<b>225,600</b>	223,780
<b>112,500</b>	112,000

Amounts received or due and receivable for other services by:

Auditors of the Company

-	<u>16,910</u>
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Total auditors' remuneration

<b><u>338,100</u></b>	<b><u>352,690</u></b>
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The Auditors of the Group in 2013 and 2012 were Ernst & Young.

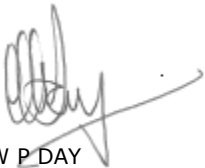


## DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2013

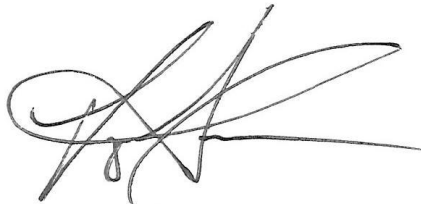
In accordance with a resolution of the directors of Orbital Corporation Limited, we state that:

1. In the opinion of the Directors:
  - (a) the financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, of the Group are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Group as at 30 June 2013 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001.
  - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001, from the chief executive officer and chief financial officer for the financial year 30 June 2013.

On behalf of the Board:



W P DAY  
Chairman



T D STINSON  
Managing Director

Dated at Perth, Western Australia this 23rd day of August 2013

# Independent auditor's report to the members of Orbital Corporation Limited

## Report on the financial report

We have audited the accompanying financial report of Orbital Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

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

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

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

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

## **Opinion**

In our opinion:

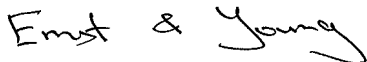
- a. the financial report of Orbital Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

## **Report on the remuneration report**

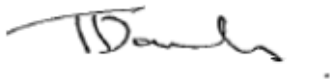
We have audited the Remuneration Report included in pages 12 to 25 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## **Opinion**

In our opinion, the Remuneration Report of Orbital Corporation Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



T G Dachs  
Partner  
Perth  
23 August 2013

# SHAREHOLDING DETAILS

## Class of Shares and Voting Rights

As at 31 July 2013 there were 4,758 shareholders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 8 of the Company's Constitution, subject to any rights or restrictions for the time being attached to any class or classes of shares, are:-

- a) at meetings of members or class of members, each member entitled to vote may vote in person or by proxy or representative; and
- b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or representative has one vote for each ordinary share held.

## Substantial Shareholders and Holdings as at 31 July 2013

SG Hiscock & Company Ltd (as notified on 01 August 2013)	4,760,107	9.65%
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## Distribution of Shareholdings as at 31 July 2013

1-1,000	2,925
1,001-5,000	1,088
5,001-10,000	320
10,001-100,000	376
100,001 and over	49

<b>Number of shareholders</b>	<b>4,758</b>
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Total Shares on Issue	<u>49,334,591</u>
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Number of shareholders holding less than a marketable parcel	<u>3,607</u>
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## Top 20 Shareholders as at 31 July 2013

NAME	NUMBER OF SHARES HELD	% OF SHARES
1 National Nominees Limited*	13,625,156	27.62%
2 Citicorp Nominees Pty Ltd	3,329,389	6.75%
3 Mr RN Sweetman & Mrs BA Sweetman	1,284,187	2.60%
4 Bond Street Custodians Limited	1,044,350	2.12%
5 Annapurna Pty Limited	1,000,000	2.03%
6 Equity Trustees Limited SGH Tiger A/C	792,901	1.61%
7 Mr CI Wallin & Ms FK Wallin	689,200	1.40%
8 Morgan Stanley Australia Securities (Nominee) Pty Ltd	661,860	1.34%
9 Twokind Pty Ltd	575,000	1.17%
10 Sino West Assets Limited	524,485	1.06%
11 Papi Ebsco Pty Ltd	487,747	0.99%
12 Mr PA Mc Carthy & Mrs MH Mc Carthy	484,000	0.98%
13 Mr JL Sweetman	462,283	0.94%
14 Ms BL Gallisath	441,930	0.90%
15 Mr MW Ford & Mrs NB Ford	427,122	0.87%
16 Equity Trustees Limited SGH PI Smaller Co's Fund	417,145	0.85%
17 Mr TD Stinson	392,690	0.80%
18 Mr J Ayres	356,667	0.72%
19 Pra Trading Pty Ltd	350,000	0.71%
20 Texas Holdings Pty Ltd	349,728	0.71%
<b>Top 20 Shareholders Total</b>	<b>27,695,840</b>	<b>56.14%</b>

The twenty largest shareholders hold 56.14% of the ordinary shares of the Company.

\* Denotes The Bank of New York Mellon nominee company for United States American Depository Receipts. This nominee company is the main representative body for Orbital's US shareholders.

## On-market buy-back

There is no current on-market buy-back.

# OFFICES AND OFFICERS

## REGISTERED AND PRINCIPAL OFFICE

4 Whipple Street  
Balcatta, Western Australia 6021

## CONTACT DETAILS

Australia: -  
Telephone: 61 (08) 9441 2311  
Facsimile: 61 (08) 9441 2111

## INTERNET ADDRESS

<http://www.orbitalcorp.com.au>  
Email: [info@orbitalcorp.com.au](mailto:info@orbitalcorp.com.au)

## DIRECTORS

Peter Day – Chairman  
Terry Stinson – Chief Executive Officer  
Mervyn Jones  
Vijoleta Braach-Maksvytis

## COMPANY SECRETARY

Ian Veitch

## SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
Perth, Western Australia, 6000  
Telephone: 61 (08) 9323 2000  
Facsimile: 61 (08) 9323 2033

## ADR FACILITY

The Bank of New York Mellon  
101 Barclay Street  
New York, NY, 10286  
United States of America  
Telephone: 1 (212) 815 2218  
Facsimile: 1 (212) 571 3050

## SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")  
NYSE Amex (Code: "OBT")

## AUDITORS

Ernst & Young  
The Ernst & Young Building  
11 Mounts Bay Road  
Perth, Western Australia, 6000