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

**FORM 20-F**

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

OR

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

For the fiscal year ended June 30, 2013

OR

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

OR

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

Commission file number 1-10936

**ORBITAL CORPORATION LIMITED**

Australian Company Number: 009 344 058

Western Australia, Australia  
(Jurisdiction of incorporation)

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

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

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

None

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

American Depositary Shares\*

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

None

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

Ordinary Shares 49,334,591

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES  NO

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

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

\* Evidenced by American Depositary Receipts. Each American Depositary Share ("ADS") represents sixteen Ordinary Shares.

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## CURRENCY OF PRESENTATION AND DEFINITIONS

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

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

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

## FORWARD LOOKING STATEMENTS

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

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

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

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

## PART 1

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

NOT APPLICABLE

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

NOT APPLICABLE

### ITEM 3. KEY INFORMATION

#### *Exchange Rate Information*

The following table sets forth, for the fiscal years indicated, the high, low, average and period-end noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York. Orbital's fiscal year ends on June 30 of each year.

| <u>Fiscal Year Ended June 30</u> | <u>At Period End</u> | <u>Average Rate (1)</u> | <u>High</u> | <u>Low</u> |
|----------------------------------|----------------------|-------------------------|-------------|------------|
| 2009                             | US\$0.8055           | US\$0.7423              | US\$0.9797  | US\$0.6073 |
| 2010                             | US\$0.8480           | US\$0.8868              | US\$0.9369  | US\$0.7751 |
| 2011                             | US\$1.0732           | US\$0.9986              | US\$1.0970  | US\$0.8380 |
| 2012                             | US\$1.0236           | US\$1.0388              | US\$1.1026  | US\$0.9453 |
| 2013                             | US\$0.9165           | US\$1.0222              | US\$1.0591  | US\$0.9165 |

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

| <u>Month</u>   | <u>At Period End</u> | <u>Average</u> | <u>High</u> | <u>Low</u> |
|----------------|----------------------|----------------|-------------|------------|
| April 2013     | US\$1.0372           | US\$1.0380     | US\$1.0564  | US\$1.0255 |
| May 2013       | US\$0.9608           | US\$0.9919     | US\$1.0313  | US\$0.9608 |
| June 2013      | US\$0.9165           | US\$0.9440     | US\$0.9770  | US\$0.9165 |
| July 2013      | US\$0.8957           | US\$0.9155     | US\$0.9259  | US\$0.8957 |
| August 2013    | US\$0.8901           | US\$0.9037     | US\$0.9193  | US\$0.8901 |
| September 2013 | US\$0.9342           | US\$0.9303     | US\$0.9444  | US\$0.9055 |

On September 30, 2013 the Dollar Fix Rate was US\$0.9342 per A\$1.00.

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

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

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

Orbital's financial statements for the years ended June 30, 2013, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The selected financial data below expressed in Australian dollars has been derived from Orbital's consolidated financial statements for the years ended June 30, 2013, 2012, 2011, 2010, and 2009, which have been audited by Ernst & Young, an independent registered public accounting firm. The consolidated financial statements as of June 30, 2013 and 2012 and for the years ended June 30, 2013, 2012 and 2011, and the Report of independent registered public accounting firm thereon, are included elsewhere in this report, see F1 – F48. The consolidated financial statements as of June 30, 2011, 2010 and 2009 and for the years ended June 30, 2010 and 2009 and the Report of independent registered public accounting firm thereon have not been included in this report.

**Selected Financial Data**

Amounts prepared in accordance with IFRS

(in 000's except number of shares and per Ordinary Share amounts)

|   | 2013 (1)<br>US\$ | 2013<br>A\$   | 2012<br>A\$    | 2011<br>A\$   | 2010<br>A\$   | 2009<br>A\$    |
|---|------------------|---------------|----------------|---------------|---------------|----------------|
| <b>Consolidated Income Statement Data</b>                           |                  |               |                |               |               |                |
| <b>During the periods</b>   |                  |               |                |               |               |                |
| Operating revenue   |                  |               |                |               |               |                |
| Revenue from trading operations                                     | 24,942           | 26,699        | 22,361         | 16,638        | 17,265        | 16,513         |
| Other income  | 3,633            | 3,889         | 1,325          | 6,110         | 8,759         | 4,048          |
|   | <u>28,575</u>    | <u>30,588</u> | <u>23,686</u>  | <u>22,748</u> | <u>26,024</u> | <u>20,561</u>  |
| Costs and expenses  |                  |               |                |               |               |                |
| Materials and consumables   | (9,742)          | (10,428)      | (8,116)        | (4,484)       | (4,607)       | (4,897)        |
| Employee benefits expenses  | (10,472)         | (11,210)      | (11,670)       | (10,494)      | (10,792)      | (9,820)        |
| Selling, corporate and administration                               | (8,771)          | (9,389)       | (9,945)        | (8,742)       | (7,616)       | (7,268)        |
| Share of profit from equity accounted investment                    | 3,008            | 3,220         | 3,480          | 3,233         | 1,874         | 1,846          |
| Finance costs   | (642)            | (687)         | (692)          | (688)         | (755)         | (726)          |
| Profit/(loss) before income tax                                     | 1,956            | 2,094         | (3,257)        | 1,573         | 4,128         | (304)          |
| Income tax credit/(expense) attributable to operating profit/(loss) | (1,616)          | (1,730)       | 204            | 190           | 388           | (2,147)        |
| Net profit/(loss) after income tax                                  | <u>340</u>       | <u>364</u>    | <u>(3,053)</u> | <u>1,763</u>  | <u>4,516</u>  | <u>(2,451)</u> |
| Dividends paid or payable   | —                | —             | —              | —             | —             | —              |
| Earnings/(loss) per ordinary share (3)(4)                           |                  |               |                |               |               |                |
| - Basic (cents)   | 0.69             | 0.74          | (6.28)         | 3.65          | 9.39          | (5.13)         |
| - Diluted (cents)   | 0.69             | 0.74          | (6.28)         | 3.65          | 9.29          | (5.13)         |
| Dividends per ordinary share (cents)                                | —                | —             | —              | —             | —             | —              |
| Weighted average number of shares                                   | 49,079,683       | 49,079,683    | 48,612,706     | 48,325,837    | 48,086,676    | 47,756,379     |

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

|   | 2013 (1)<br>US\$ | 2013<br>A\$ | 2012<br>A\$ | 2011<br>A\$ | 2010<br>A\$ | 2009<br>A\$ |
|---|------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Consolidated Financial Position Data at period end</b> |                  |             |             |             |             |             |
| Total assets  | 33,754           | 36,131      | 40,204      | 40,774      | 38,599      | 42,535      |
| Total long-term debt (2)                                  | 7,247            | 7,757       | 7,650       | 7,489       | 7,604       | 14,873      |
| Net assets  | 18,214           | 19,497      | 17,431      | 19,482      | 20,800      | 17,114      |
| Total shareholders' equity                                | 18,214           | 19,497      | 17,431      | 19,482      | 20,800      | 17,114      |

- (1) For the convenience of the reader the 2013 Statement of Financial Position and Income Statement data has been translated at the period-end noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York, on September 30, 2013 which was US\$0.9342 = A\$1.00. Such translations are unaudited and provided for information purposes only. These translations should not be construed as representations of the amount that the Australian dollar amounts actually represent US dollar amounts, or could be converted into US dollars at the conversion rate used.
- (2) The long-term debt consists principally of a loan facility with the State of Western Australia (A\$14.3 million for 2013, 2012 and 2011; A\$19.0 million for 2009 and 2008). In January 2010, Orbital reached agreement with the State of Western Australia through the Department of Commerce for the restructure of the Non-Interest Bearing Loan.

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

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

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

- (3) The share rights exercisable under the Orbital employee share plan have no dilutive effect in respect of any year. At June 30, 2013 there were 49,334,591 ordinary shares on issue.
- (4) On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of ordinary shares on the basis that every ten ordinary shares be consolidated into one ordinary share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share. The share consolidation became effective on October 28, 2010. The effect of the share consolidation has been retroactively applied to the number of shares and earnings per share calculations above.

## **Risk Factors**

### *Risks specific to the Company*

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

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



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

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

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

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

Two customers (AAI Corporation and Ford Australia) accounted for 63% of the total revenue of the Company for the financial year ended June 30, 2013 (and 44% for the year ended June 30, 2012). The loss of these key customers would have an adverse effect on the Company’s business and its operating results.

Responsibility for the production of SUAS engines for AAI is being transitioned to a non-Orbital USA based company. Revenues from SUAS will thus be significantly lower in the next financial year as Orbital will move from being a supplier of complete engines to a supplier of engine management systems, fuel system components and spare parts. As announced on July 13, 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 Company will remain dependent on a key customer for its SUAS related revenue in fiscal 2014.

The Company supplies Ford Australia with LPG fuel system components for utilization in its EcoLPi Ford Falcon vehicle range. The Company’s sales to Ford Australia are dependent on Ford’s sales of vehicles with this technology. The Company is aware that Ford Australia’s sales of large vehicles have in recent times suffered a decrease and Ford Australia made an announcement that it will cease the manufacture of vehicles in Australia in 2016. This is expected to have an adverse effect on the Company’s sales to Ford Australia. In the event that demand for large vehicles continues to fall, this will have an adverse effect on the Company’s profitability.

In addition, the Company also derives a significant portion of its revenue from its 30% ownership interest in Synerject LLC. (Synerject), whose business of engine management systems for non-automotive markets is also reliant on a small number of key customers for the majority of its revenues. A loss of these key customers, for whatever reason, is likely to have material adverse effect on the Company’s profitability.

- **The Company may not be able to satisfactorily develop the next generation SUAS engine**

The Company has recently 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.

This contract carries the risk that the Company will be unable to successfully convert the development of the next generation SUAS engine into production by 2015. This may have an adverse impact on the Company’s financial position, ability to win future contracts and may negatively impact the Company’s reputation in the market place.

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

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

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

- **The Company relies on royalty income**

The Company's licence agreements with engine manufacturers who utilise the Company's FlexDi™ technology typically entitle the Company to receive a royalty payment upon the production of each engine incorporating the FlexDi™ technology. In the financial year ended June 30, 2013, royalty payments from these licence arrangements accounted for approximately 4% of the Company's operating revenue. The royalties paid to the Company ultimately depend on the level of sales achieved by the engine manufacturers of their engines. As at September 30, 2013, three of the Company's sixteen licensed engine manufacturers are in commercial production and selling products using FlexDi™ technology.

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

- **The Company relies on key employees**

The Company depends on the talent and experience of its employees as its primary asset. Whilst every effort is made to retain key employees and contractors and to recruit new personnel as the need arises, loss of a number of key personnel may adversely affect the Company's earnings or growth prospects.

- **The Company relies on key suppliers**

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

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

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

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

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

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

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

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

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

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

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

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

The Company is subject to business risk from product liability or professional indemnity suits if third parties claim that defects in technology supplied, or in consulting services provided, by the Company resulted in personal injury or other losses. The Company is also subject to business risk for product recall actions where a product supplied by the Company needs to be recalled due to an issue arising from its manufacture. The Company may also be required to indemnify licensees for claims arising from alleged defects in products, which use FlexDi™ technology or are designed or manufactured by the Company. The Company believes that sufficient product liability, product recall and professional indemnity insurance is held for the range of products and services currently provided to licensees and other customers, but sufficient coverage may not be able to be obtained in the future at affordable premiums, or at all. Even if the Company has such insurance, a judgement against the Company in a large product liability or professional indemnity suit or product recall action could have a material adverse effect on the Company's business or financial position.

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

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

#### ITEM 4. INFORMATION ON THE COMPANY

##### *History And Development of the Company*

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

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

#### PARTICULARS IN RELATION TO CONTROLLED ENTITIES

| <u>Orbital Corporation Limited</u>                                     | Class of<br>Shares | Consolidated<br>Entity<br>Interest |           |
|--|--------------------|------------------------------------|-----------|
|  |                    | 2013<br>%                          | 2012<br>% |
| Controlled Entities, incorporated and carrying on business in:         |                    |                                    |           |
| <b>Australia</b>   |                    |                                    |           |
| - Orbital Australia Pty Ltd  | Ord                | 100                                | 100       |
| - Orbital Australia Manufacturing Pty Ltd                              | Ord                | 100                                | 100       |
| - OEC Pty Ltd  | Ord                | 100                                | 100       |
| - S T Management Pty Ltd   | Ord                | 100                                | 100       |
| - OFT Australia Pty Ltd  | Ord                | 100                                | 100       |
| - Investment Development Funding Pty Ltd                               | Ord                | 100                                | 100       |
| - Power Investment Funding Pty Ltd                                     | Ord                | 100                                | 100       |
| - Kala Technologies Pty Ltd (previously Orbital Environmental Pty Ltd) | Ord                | 100                                | 100       |
| - Orbital Share Plan Pty Ltd   | Ord                | 100                                | 100       |
| - Orbital Autogas Systems Pty Ltd                                      | Ord                | 100                                | 100       |
| - Sprint Gas (Aust) Pty Ltd  | Ord                | 100                                | 100       |
| <b>United States of America</b>  |                    |                                    |           |
| - Orbital Holdings (USA) Inc   | Ord                | 100                                | 100       |
| - Orbital Engine Company (USA) Inc                                     | Ord                | 100                                | 100       |
| - Orbital Fluid Technologies Inc.                                      | Ord                | 100                                | 100       |
| <b>United Kingdom</b>  |                    |                                    |           |
| - Orbital Engine Company (UK) Ltd                                      | Ord                | 100                                | 100       |

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

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

The Orbital group earns income from multiple sources including:

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

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

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

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

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

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

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

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

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

Effective July 1, 2004, Orbital's ADRs were de-listed from the NYSE as the continued listing requirements relating to market capitalization and shareholder equity were not met. Trading in the Company's ADRs was transferred to the OTC Bulletin Board with effect from July 1, 2004. On August 25, 2011 Orbital listed on the NYSE MKT and ceased trading on the OTC Bulletin Board. On September 9, 2013 the Company announced the cancellation of the ADR program and delisting from NYSE MKT taking effect on December 6, 2013, being the last day of trading for Orbital's ADRs on the NYSE MKT. The Company intends to deregister twelve months after its ADRs are delisted from the NYSE MKT, or as soon as possible thereafter, pursuant to the applicable U.S federal securities laws and regulations. As of September 30, 2013, approximately 20% of Orbital's outstanding shares were held in the form of ADRs traded on the NYSE MKT. See Item 9. – "The Offer and Listing – Nature of Trading Market".

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

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

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

## ***Business Overview***

Orbital's strategy is as follows:

- Develop and supply engine management systems, engines and engine parts
- Expand the alternate fuels LPG business building on the Orbital Autogas Systems and Sprint Gas acquisitions.
- Continue our commitment to grow Synerject as a profitable systems provider in the non-automotive markets and increase the value of this asset.
- Target R&D to enhance FlexDi™ products to respond to requests raised by existing and potential customers who require improved performance or lower unit cost to extend the roll out of our technology. In turn this will enhance the company's intellectual property portfolio.
- Judicious acquisitions, where we can add shareholder value.
- Maintain Orbital's consulting services by winning projects and establishing strategic alliances with Australian and Asian partners.
- Target future growth of licences and royalties for FlexDi™ in niche markets.
- Targeted growth in liquid natural gas/compressed natural gas for the Australian and Asian heavy transport sector.

Orbital technology has been commercialised in the motorcycle, marine and recreational vehicle, LPG (automotive) and Unmanned Aircraft Systems markets. Orbital's goal is to broaden the application of Orbital technology in these and other markets.

## ***Orbital Combustion Process ("FlexDi™")***

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

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

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

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

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

## ***Sources of Revenue***

Orbital's primary sources of revenue are currently from:

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

Further details on segment revenue are contained in note 6 of the Consolidated Financial Statements on page F-24.

During the last three fiscal years Orbital spent approximately A\$3.206 million on research and development programs.

The Orbital group's licence fee income and royalties relate to the sale of rights to its intellectual property, such as patents and know-how, to major vehicle, engine and component manufacturers through licence and consulting service agreements. These agreements grant the licensee limited rights to manufacture, use and sell products utilising FlexDi™ Technology.

As at September 30, 2013, Orbital has 16 agreements to end users of technology or suppliers, which grant licence rights related to FlexDi™ Technology. Orbital's customer base covers applications in the automotive, marine, recreational and motorcycle markets.

At September 30, 2013 Orbital had three customers (2012: four customers) using FlexDi™ Technology in commercial production.

At September 30, 2013 the following agreements granting rights to Orbital's FlexDi™ Technology were in place:

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

| <u>Date</u>    | <u>Company</u>   | <u>Market</u>                |
|----------------|--|------------------------------|
| September 1987 | Brunswick Corporation<br>(Manufacturer of Mercury and Mariner engines) | Marine                       |
| June 1988      | Ford Motor Company<br>(Incorporating Jaguar Motor Cars)                | Automotive                   |
| June 1989      | General Motors Corporation   | Automotive                   |
| January 1991   | Fiat Auto Company  | Automotive                   |
| February 1997  | Tohatsu Corporation  | Marine and Fire Pump Engines |
| June 1997      | Kymco  | Motorcycles                  |
| June 1997      | Synerject, LLC<br>(Joint Venture with Continental Corporation)         | Fuel Injection Systems       |
| August 2001    | Delphi Automotive Systems  | Automotive                   |
| May 2002       | Peugeot Motorcycles  | Motorcycles                  |
| January 2003   | UCAL Fuel Systems Ltd  | Motorcycles                  |
| May 2004       | Bajaj Auto Limited   | Auto-rickshaws               |
| April 2005     | Goebler-Hirth Motoren KG   | Heavy fuelled UAVs           |
| May 2005       | Envirofit International Limited  | Retrofit Applications        |
| February 2006  | Polaris Industries Inc.  | Marine & Recreational        |
| September 2006 | Bajaj Auto Limited   | Auto-rickshaws (gaseous)     |
| January 2012   | RGN srl  | Generator Sets               |

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

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

Generally, under the terms of Orbital's licence agreements, royalty payments will become payable if licensees commence commercial production and sale of engines or components incorporating the FlexDi™ Technology. Such royalties will usually be based on several factors, which may include a base amount, the engine's particular horsepower rating, an adjustment for inflation, the benefit delivered to the Original Equipment Manufacturer, access to improvements and the level of technology applied. Royalties currently achieved for the non-automotive application of FlexDi™ Technology range from approximately US\$6.00 for a small scooter to US\$70.00 for a large multi-cylinder marine outboard engine.

Commercial production or sale of engines with FlexDi™ Technology commenced in 1996. Production royalties of approximately A\$1.01 million were received by Orbital in the 2013 fiscal year compared to approximately A\$0.97 million in fiscal 2012. There can be no assurance that Orbital will be successful in entering into additional licence agreements, that other licensees will commence commercial manufacture of products incorporating the FlexDi™ Technology, or that Orbital will receive additional fees under existing agreements. Orbital's financial results have varied from period to period in the past and will continue to experience such fluctuations in the future. There can also be no assurance that products incorporating FlexDi™ Technology will achieve market success.

### *Strategic Alliances*

#### *Continental*

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

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

During 1998 Orbital's relationship with Synerject was expanded to create an alliance that facilitates the supply of fuel systems incorporating FlexDi™ Technology to automotive customers.

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

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

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



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

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

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

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

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

During fiscal year 2007 Synerject established a manufacturing facility in Changchun, China and an engineering support facility in Chongqing, China. These facilities have been established to produce low cost electronic control units for motorcycle applications, with manufacturing commencing in fiscal year 2008.

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

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

In March 2013, Orbital sold a further portion of its interest in Synerject to Continental for US\$6,000,000 such that the ownership interests became Orbital 30% and Continental 70%.

#### *UCAL Fuel Systems*

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

In April 2013, Orbital entered into a Co-operation Agreement with UCAL for the establishment of a joint venture in India for engineering, testing and product development.

#### *Vialle*

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

#### *Motonic Corporation*

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

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

## ***Competition***

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

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

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

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

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

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

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

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

Orbital's competitors in the Australian LPG market include Apollo Gas, Boemo Engineering, LPG Warehouse and Impco.

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

## ***System Sales***

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 A\$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 to Ford Australia of Liquid LPG systems for the Ford EcoLPi Falcon range of passenger cars and utilities. The Ford EcoLPi Falcon offers performance of a big family car with fuel running cost better than many mid/small sized cars. 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.

Revenues for the year were A\$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 A\$380,000 last year to a A\$2,163,000 profit this year.

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.

As announced on July 31, 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.

### *Synerject*

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.

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 June 30, 2013, Synerject held cash of US\$7,138,000 and borrowings of US\$nil (June 2012: net cash of US\$1,617,000).

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.

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.

### ***Consulting Services***

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

Throughout the year, Orbital's engineering group have provided research and development support across the Orbital group. This is a key service made available to the group, ranging from technical support of existing products and customers through to analysis and design of potential future product offerings. At June 30, 2013, the OCS order book stood at approximately \$1,100,000 (June 30, 2012 \$1,000,000).

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.

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.

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 August 16, 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.

### ***Royalties and Licenses***

Orbital earns royalties from products 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.

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.

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.

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.

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

Orbital's R&D is central to Orbital's activities aimed at transitioning the company from a consulting company to a systems sales company. The R&D includes Engine Management System product incubation and development through to production in fields such as alternative fuels, and Unmanned Aircraft Systems.

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

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

### ***Patent Protection***

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

As at September 30, 2013, Orbital had 58 individual patent families with a total of 126 patents and patent applications around the world. As of September 30, 2013 there were 29 granted patents and 3 patent applications pending in the United States (including PCT patent applications). There are numerous other developments for which patent protection has not been obtained and these form part of Orbital's proprietary know-how. Trade secrets and confidential know-how are protected through confidentiality agreements, contractual provisions and administrative procedures. There can be no assurance that such arrangements will provide meaningful protection for Orbital in the event of any unauthorised use or disclosures.

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

### ***Marketing channels***

#### *System sales:*

- LPG Original equipment manufacturers ("OEM's") – We directly market our LPG fuel systems to Australian OEM's who provide an LPG fuel system option (currently Ford Australia – Falcon models). After OEM – We directly market our LPG fuel systems to Australian After-OEM's that provide an LPG fuel system option (currently Holden Special Vehicles "HSV").
- LPG Aftermarket – We are also a supplier to aftermarket retro-fitters who supply the retail customer, and also automotive distributors who supply fleet operators. This sector is supported by our own dedicated sales force based in Sydney, and Orbital's recently acquired Sprint Gas Australia.
- UAS – We have developed commercial relationships through development projects initiated by Orbital's consulting services business.

#### *Consulting Services:*

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

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

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

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

The Balcatta premises comprise two leased properties. Rent under the lease is payable monthly in advance. Orbital is responsible for its proportionate costs of insurance, rates and taxes of the leased property. The primary focuses of the Balcatta facility is the provision of consulting services, the preparation of engines utilising FlexDi™ Technology, research and development activities and administration functions.

Equipment includes engine development test cells, engine durability test cells, vehicle emission chassis dynamometer cells, outboard motor test tanks, a personal water craft test tank, and an environmental test cell (incorporating both an engine and vehicle test cell). Other facilities include a comprehensive electronics laboratory, extensive emissions measuring equipment and a specialised computer system. The computer system supports a range of complex and data intensive consulting requirements, including computer-aided design, manufacturing and engineering programs, combustion analysis and fluid mechanics. The Balcatta facility also includes a number of fuel systems laboratories with high speed transient fuelling analysis equipment and environmental and durability test equipment. A portion of the leased premises is currently underutilised for which a provision for surplus lease space has been provided.

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

### ***Government Regulation***

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

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

On July 31, 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 August 16, 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.

As at the date of issuing this report, the Company has a balance of overdue invoices from a customer in excess of A\$1,600,000 including A\$1,122,000 of invoices for goods and services supplied prior to June 30, 2013. The Company is presently in discussions with the customer for the payment of the invoices and does not currently consider the invoices to be impaired.

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.

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

None.

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

#### ***General***

During the 2013 fiscal year Orbital's revenues were generated from sale of goods, contracts for consulting services, including engine development programs, and licensing related agreements for FlexDi™ Technology. In addition, Orbital equity accounted its share in Synerject LLC's result.

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

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

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

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

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

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

The financial statements of the equity accounted associate, Synerject LLC, are prepared under IFRS for Small and Medium sized entities and adjusted to reflect consistent accounting policies with Orbital.

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

#### ***(a) Significant accounting judgements***

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

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 recognized 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 May 27, 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specializing in the importation and wholesaling of 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 recognized 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). Refer to note 28 for further information.

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

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of shares granted under the Employee Share Plan No.1 is the market value on the date of issue. The fair value of the 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 19 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 recognized 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 recognized 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. Refer to note 25 for further information.

### *Taxation*

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognized 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 recognized on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.



## *Income Tax*

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

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

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

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

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

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

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

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

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

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

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

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

### ***Deferred taxation***

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

At June 30, 2013, our deferred tax asset included A\$4.656 million (A\$5.439 million at June 30, 2012), in relation to prior period tax losses.

### ***Temporary differences***

Temporary taxation differences, arising due to timing differences between the periods in which transactions are recognized for accounting purposes differing to the periods in which those transactions are recognized for income taxation purposes, of the Company and its Australian resident controlled entities. The group did not recognize any net deferred tax assets or liabilities in relation to temporary differences at June 30, 2013.

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

#### ***Australia***

Tax carry forward losses of the Company and its Australian resident controlled entities increased during fiscal 2013 by A\$2.373 million to A\$68.443 million at June 30, 2013 from A\$66.070 million at June 30, 2012.

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

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

Potential future income tax benefits in Australia have not been recognized as assets at June 30, 2013 because it is not probable that future profits will be available against which the consolidated entity can utilise the losses and timing differences.

For the consolidated entity to fully realize its potential Australian future income tax benefits it will need to generate future Australian taxable income of approximately A\$68.443 million and be in a position to utilize the taxable income against the benefits in the Company and the controlled entities retaining those benefits in accordance with the consolidations legislation.

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

At June 30, 2013, tax carry forward losses of approximately A\$27.513 million (US\$25.518 million) (2012: A\$31.085 million (US\$31.679 million)) are available to certain controlled entities in the United States. A deferred tax asset of A\$4.656 million (US\$4.318 million) (2012: A\$5.439 million (US\$5.691 million)) has been recognized as an asset as it is probable that future profits will be available against which the consolidated entity can utilise the losses.

Under the tax laws of the United States, tax losses that cannot be fully utilized for tax purposes during the current year may, subject to some statutory limitations, be carried forward to reduce taxable income in future years. At June 30, 2013, the US\$25.518 million of tax carry forward losses available expire between the years 2014 and 2024.

For the controlled entities in the United States to realize their potential United States future income tax benefits they will need to generate future taxable income of approximately US\$25.518 million. Approximately US\$3.082 million of taxable income will be required in fiscal 2014 when the next portion of the benefit is due to expire.

Based upon the level of historical taxable income and current projections for future taxable income over the periods in which the tax carry forward losses are deductible in both Australia and the United States, management are only in a position to state that it is probable that benefits totalling A\$4.656 million in respect of carry forward losses will be realised in full.

The deferred tax asset recognized as at June 30 each year represents management's assessment of the amount of carry forward losses that it is probable will be deductible in the foreseeable future. The movement in the recognized deferred tax asset from June 30, 2012 to June 30, 2013 is the result of the movement of the assessment period and also updates to future forecast results.

### ***Results of Operations Fiscal 2013 Compared with Fiscal 2012***

Orbital's net profit after tax was A\$0.364 million for the year ended June 30, 2013 compared to a net loss of A\$3.053 million for the year ended June 30, 2012.

Revenue from trading activities in fiscal 2013 increased as compared to fiscal 2012 by 19.4% to A\$26.699 million:

- Sale of goods increased 67.1% (A\$9.404 million) to A\$23.424 million 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 business. Contribution to the group improved from a profit of A\$0.380 million last year to a A\$2.163 million profit this year.
- Consulting services income decreased 71.2% (A\$5.074 million) to A\$2.057 million. 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.
- Royalty and Licence income increased by 4% to A\$1.007 million. 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.
- Export sales increased by A\$8.010 million to A\$14.352 million in fiscal 2013. Export sales represented 54.2% of total revenue (2012: 28.7%). The majority of export sales were invoiced in Australian Dollar.
- Other income was A\$3.889 million compared to A\$1.325 million in 2012. A gain of A\$1.410 million was recognized in 2013 due to a change in the fair value of the contingent consideration payable to Sprint Gas minority shareholders.  
The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business which is based on an estimated average EBITDA multiple discounted to the present value.
- During the year Orbital sold a portion of its investment in Synerject for US\$6.000 million. 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. The sale generated a net profit of A\$1.702 million.

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC and materials and consumables) decreased 4.58% to A\$21.286 million in fiscal 2013 from A\$22.307 million in fiscal 2012. The decrease is mainly due to tighter cost control and is also explained as follows:

- Total employee expenses decreased by 3.9% (A\$0.460 million) to A\$11.210 million primarily due to a reduction in headcount.
- Depreciation and amortisation decreased by 3.2% to A\$0.959 million primarily due to a reduction in additions to plant and equipment in 2013.
- Engineering consumables and contractor expenses decreased by 69.7% to A\$0.688 million reflecting the deployment of key resources to the launch of, and provision of technical support to our new SUAS engine business.
- Occupancy expenses increased by 4.6% to A\$1.814 million due to contractually agreed rental increases.
- Travel and accommodation expenses decreased by 5.8% to A\$0.407 million as a result of decreased overseas travel.
- Communication and computing expenses decreased by 20.7% to A\$0.621 million due to tighter cost control practices.
- Audit, compliance and listing costs decreased by 9.3% to A\$0.516 million as a result of decreased internal audit fees and legal expenses.
- Finance costs of A\$0.687 million were in line with the prior year.

- In fiscal 2013 (2012: A\$nil) an impairment charge of A\$1.965 million on goodwill was recognized for continuing operations. The impairment charge was recognized 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 recognized in the income statement in the line item "other expenses".
- Other expenses (excluding the goodwill impairment charge) decreased by 34.8% to A\$1.421 million. Fiscal 2013 included A\$0.175 million for impairment of receivables, decreased marketing of A\$0.020 million, decreased freight and courier of A\$0.105 million and increased warranty allowance and restoration obligations of A\$0.196 million (increased system sales).

The cost of materials and consumables in fiscal 2013 increased as compared to fiscal 2012 by 28.5% (A\$2.312 million) to A\$10.428 million. The increase in materials and consumables was due to the production and supply of SUAS engines, SUAS engine management systems and sales of SUAS spare parts in fiscal 2013. The increase was partially offset by a reduction in materials and consumables as a result of a reduction in sales at both of the LPG related businesses.

Orbital's share of Synerject's net profit decreased by 7.5% to A\$3.220 million in fiscal 2013 from A\$3.480 million in fiscal 2012 primarily due to the change in ownership percentage from 42% to 30% during the year. Synerject's revenue increased by 7.64% to US\$137.287 million as a result of Synerject's continued market and product expansion despite contractions in the recreational market during and following the global financial crisis. Development expenses of A\$0.423 million incurred by Synerject have been capitalised in Orbital's equity accounted results (fiscal 2012: A\$0.765 million) in accordance with IFRS.

The income tax expense for fiscal 2013 was A\$1.730 million, being primarily de-recognition of Deferred Tax Asset (A\$0.911 million), reversal of temporary tax differences (A\$0.729 million) and State and Federal income taxes in the United States (A\$0.090 million) as a result of our share of Synerject taxable income.

Inflation has had a minimal effect on Orbital's results of operations in fiscal 2013 compared to fiscal 2012.

### ***Results of Operations Fiscal 2012 Compared with Fiscal 2011***

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

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

- Sale of goods increased 139.8% to A\$14.020 million due to Ford commencing production of the new EcoLPi Falcon during the year and including Sprint Gas revenues for a full year compared to one month in 2011.
- Consulting services income decreased 24.9% (A\$2.361 million) to A\$7.131 million, reflecting reduced customer demand including the impact of the strong Australian dollar on the cost of services for traditional European, USA and Asian customers. Significant programs during the year included the development of the unmanned aircraft system (UAS) engine supplied to AAI in the USA for use in their Aerosonde 4.7 unmanned aerial vehicle (UAV). The engine uses Orbital's FlexDI™ technology enabling spark ignition of military specification kerosene fuels. In addition, Orbital continued development of a liquid natural gas (LNG) dual fuel system for use in heavy duty trucks.
- Licence and Royalty income decreased by 10.5% to A\$0.967 million due to the impact of the stronger Australian dollar and steady royalty volumes.
- Other income was A\$1.325 million compared to A\$6.110 million in 2011. A gain of A\$0.392 million was recognized in 2012 due to a change in the fair value of the contingent consideration payable to Sprint Gas minority shareholders and a gain on the sale of the property of A\$4.760 million is included in fiscal 2011.

The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business which is based on an estimated average EBITDA multiple discounted to the present value.

- In February 2011 Orbital completed the sale and leaseback of its land and buildings in Perth for A\$8.650 million. The sale generated a net profit of approximately A\$4.760 million.

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC) increased 11.9% to A\$22.307 million in fiscal 2012 from A\$19.924 million in fiscal 2011. The increase included the expenses of Sprint Gas for a full year (2011: 1 month) and is also explained as follows:

- Total employee expenses increased by 11.2% (A\$1.176 million) to A\$11.670 million. Employee expenses for Sprint Gas were A\$1.601 million offset by headcount reductions in other business segments and 2011 included the reversal of a medium term incentive bonus accrual.
- Depreciation and amortisation decreased by 15.6% to A\$0.991 million primarily due to the reduction in amortisation of capitalised development expenditures which were fully written off in 2011.
- Engineering consumables and contractor expenses increased by 16.3% to A\$2.272 million reflecting a different mix of consulting activity.
- Occupancy expenses increased by 48.8% to A\$1.734 million including a full year rental as a result of the sale and lease-back of the Balcatta premises (2011: 4 months) and the inclusion of Sprint Gas property rental.
- Travel and accommodation expenses decreased by 31.9% to A\$0.432 million as a result of decreased overseas travel.
- Communication and computing expenses increased by 32.0% to A\$0.783 million including Sprint Gas expenses and fiscal 2011 included the reversal of a prior year expense accrual.
- Audit, compliance and listing costs decreased by 19.2% to A\$0.569 million as a result of decreased internal audit fees and legal expenses. Fiscal 2011 included costs relating to the acquisition of Sprint gas and the sale of the Balcatta facilities.
- Finance costs of A\$0.692 million were in line with the prior year.
- In fiscal 2011, as a result of the contraction of the LPG aftermarket, it was decided to write down previously capitalised development expenses for Liquid LPi aftermarket kits (A\$1.065 million) and provision for slow moving Liquid LPi aftermarket inventory (A\$0.942 million).
- Other expenses (excluding the write-off of previously capitalised development expenditure A\$1.065 million) increased by 306% to A\$2.179 million. Fiscal 2012 included A\$0.429 million for impairment of receivables, increased marketing of A\$0.209 (Sprint Gas), increased freight and courier of A\$0.114 million (Sprint Gas) and increased warranty allowance of A\$0.100 million (increased system sales).

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

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

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

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

As at June 30, 2013, Orbital's cash balance, including short term deposits, was A\$7.607 million compared to A\$5.170 million at June 30, 2012 and A\$6.874 million at June 30, 2011. At September 30, 2013 the cash balance was A\$6.669 million. In Orbital's opinion, the working capital is sufficient for its present requirements.

For fiscal 2013 Orbital recorded a net cash outflow from operations of A\$1.717 million compared to cash outflows of A\$4.245 million in fiscal 2012 and A\$1.792 million in fiscal 2011. The cash outflow in fiscal 2013 resulted from cash flow used in operating activities of A\$2.231 million and working capital sources of A\$0.514 million. This compares with net cash used by operating activities in fiscal 2012 of A\$4.689 million (fiscal 2011 of A\$2.041 million) plus working capital sources of A\$0.444 million (fiscal 2011: working capital requirements of A\$0.249 million). Synerject's equity accounted result is non-cash and therefore has no impact on operating cash flow in either fiscal 2013 or fiscal 2012 (however Synerject paid dividends to Orbital in Fiscal 2013, Fiscal 2012 and Fiscal 2011).

Research and development expenditures were A\$1.094 million in fiscal 2013, A\$0.954 million in fiscal 2012 and A\$1.158 million in fiscal 2011. Research and development activity during fiscal years 2013, 2012 and 2011 was in developing new technology for advanced combustion systems, combustion of alternative fuels (liquid and gaseous) in internal combustion engines, further developing the air-assist DI system for application on new products, and in development of the next generation LPG fuel systems.

Orbital generated net cash of A\$7.684 million from investing activities in fiscal 2013 compared to A\$2.960 million in fiscal 2012 compared to A\$3.477 million cash inflow in fiscal 2011. Synerject paid Orbital dividends of A\$1.485 million in fiscal 2013 (A\$1.544 million in fiscal 2012 and A\$1.208 million in fiscal 2011). Proceeds on the sale of 12% share in Synerject generated A\$5.777 million in fiscal 2013. The capital expenditure in fiscal 2013 consisted mainly of building improvements and the acquisition of computer equipment (fiscal 2012 building improvements and the acquisition of computer equipment). In fiscal 2013, Orbital redeemed A\$0.666 million short term deposits which were acquired in fiscal 2011. In fiscal 2012, Orbital redeemed a short term deposit of A\$2.063 million.

In fiscal 2013 Orbital repaid a A\$2.500 million Business Bank Bill Loan with Westpac Banking Corporation that was acquired in fiscal 2012 to provide working capital support for the Group. A first ranking mortgage debenture with fixed and floating charges over the whole of the assets has been granted to the Company's banker for the establishment of credit facilities totalling A\$0.735 million (2012: A\$3.205 million). The Company has also provided the Company's banker with security over a short term deposit of A\$0.705 million (2012: A\$1.365 million) held by the Company's banker as cash collateral for the financing facilities.

Orbital had no capital expenditure contracted but not provided for as at June 30, 2013. In July 2008, Orbital received funding of A\$2.760 million from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. The total construction costs were approximately A\$3.500 million. Orbital is obliged to fund the maintenance and operation of the facility until at least fiscal 2015 and provide the Commonwealth with preferential access to the facility.

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

#### *Capital Expenditure*

The Company has budgeted capital expenditures of A\$0.584 million for fiscal year 2014 primarily to replace and upgrade plant and equipment, computer equipment and motor vehicles. Funds for such expenditure will be sourced internally. In the event of a delay or a reduction in capital expenditure during fiscal 2013 the Company would still have sufficient plant, equipment and other facilities to maintain operating levels in line with previous years. There are no long-term capital commitments by the Company, however see note 28 of the financial statements regarding a contingent consideration for the acquisition of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd.

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

Net cash provided by Synerject's operating activities (excluding capital expenditure) in fiscal 2013 was US\$10.559 million, fiscal 2012 was US\$4.989 million and fiscal 2011 was US\$7.727 million. In March 2009, Synerject negotiated a four (4) year term bank loan of US\$7.554 million that matured in March 2013. In addition Synerject had available a US\$5.0 million line of credit to be drawn as and when required that matured in June 2013. At June 30, 2013 Synerject had repaid all external borrowings. Synerject's cash at June 30, 2013 was US\$7.138 million (2012: US\$4.271 million) and total debt outstanding (including the line of credit) at June 30, 2013 was US\$nil (2012: US\$2.654 million). Member guarantees are not required to support Synerject's financing arrangements.

#### *Trend Information*

It is anticipated that the system supply business will continue to provide revenue in the year ending June 30, 2014. 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 2014 and 2015 and if successful will lead to higher volume production of SUAS engines in 2016.

The contraction of the Australian LPG retrofit market is expected to continue to adversely impact the LPG businesses. OAS will continue to supply Ford until 2016, the date Ford Motor Company of Australia announced that it will cease to manufacture vehicles in Australia.

Consulting services revenue can be cyclical in nature and the order book (thus future revenue and cash flows) at June 30, 2013 was approximately A\$1.100 million compared to A\$1.000 million at June 30, 2012.

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

### *Off-Balance Sheet Arrangements*

There have been no off-balance sheet arrangements in fiscal 2013, fiscal 2012 or fiscal 2011.

### *Inflation*

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

### *Market Exposures*

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

### *Interest rate sensitivity*

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

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

At balance date, the Group had the following mix of financial assets and financial liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

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

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

*At June 30, 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:*

|                        | <b>Post tax profit/(loss)</b> |                | <b>Other comprehensive income</b> |                |
|------------------------|-------------------------------|----------------|-----------------------------------|----------------|
|                        | <b>Higher/(Lower)</b>         |                | <b>Higher/(Lower)</b>             |                |
|                        | <b>2013</b>                   | <b>2012</b>    | <b>2013</b>                       | <b>2012</b>    |
|                        | <b>A\$'000</b>                | <b>A\$'000</b> | <b>A\$'000</b>                    | <b>A\$'000</b> |
| <b>Consolidated</b>    |                               |                |                                   |                |
| +1% (100 basis points) | <b>60</b>                     | <b>11</b>      | <b>—</b>                          | <b>—</b>       |
| -.5% (50 basis points) | <b>(30)</b>                   | <b>(5)</b>     | <b>—</b>                          | <b>—</b>       |

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.

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

| <u>Financial Instruments</u> | <u>A\$'000</u>                                 |             | <u>Weighted Average Interest rate %</u> |             |
|------------------------------|--|-------------|---|-------------|
|                              | <u>2013</u>                                    | <u>2012</u> | <u>2013</u>                             | <u>2012</u> |
|                              | Cash – Floating (and fixed less than 6 months) | 6,902       | 3,799                                   | 3.18        |
| Interest bearing liabilities | —  | 2,500       | —                                       | 7.35        |
| Contingent consideration     | 886  | 2,296       | 6.77                                    | 7.80        |

At June 30, 2013 and June 30, 2012 Orbital did not have any interest rate sensitive derivative instruments.

#### *Foreign currency exchange sensitivity*

The functional currency of the Company is Australian Dollars.

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

| <u>Financial Instruments</u>                        | <u>Fair Value A\$'000</u>          |             | <u>Year End Exchange Rate A\$</u> |             |
|---|------------------------------------|-------------|-----------------------------------|-------------|
|   | <u>2013</u>                        | <u>2012</u> | <u>2013</u>                       | <u>2012</u> |
|   | Cash held in United States Dollars | 13          | 42                                | 0.9275      |
| Cash held in European currency units                | 4                                  | 26          | 0.7095                            | 0.8092      |
| Receivables in United States Dollars                | 403                                | —           | 0.9275                            | 1.0191      |
| Receivables in European currency units              | —                                  | 36          | 0.7095                            | 0.8092      |
| Trade and other payables in United States Dollars   | (588)                              | (216)       | 0.9275                            | 1.0191      |
| Trade and other payables in European currency units | (46)                               | (12)        | 0.7095                            | 0.8092      |

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

| <u>Investment in equity accounted investee</u> | <u>Carrying Value A\$'000</u> |             | <u>Year End Exchange Rate A\$</u> |             |
|--|-------------------------------|-------------|-----------------------------------|-------------|
|  | <u>2013</u>                   | <u>2012</u> | <u>2013</u>                       | <u>2012</u> |
|  | Synerject LLC                 | 12,468      | 13,696                            | 0.9275      |

At June 30, 2013 and 2012, Orbital did not have any foreign currency sensitive derivative instruments.

Details of Orbital's foreign currency translation exposure as at June 30, 2013, where movements on re-translation in future periods will be recognized in net profit / (loss) are as follows:

|             | <u>Foreign Currency Amount</u> | <u>Translated Exchange Rate</u> | <u>A\$ Equivalent</u> |
|-------------|--------------------------------|---------------------------------|-----------------------|
| Cash        | US\$0.012m                     | 0.9275                          | A\$0.013m             |
| Cash        | Euro0.003m                     | 0.7095                          | A\$0.004m             |
| Receivables | US\$0.373m                     | 0.9275                          | A\$0.403m             |
| Payable     | (US\$0.546m)                   | 0.9275                          | (A\$0.588m)           |
| Payable     | (Euro0.033m)                   | 0.7095                          | (A\$0.046m)           |



*Maturity Profile of Commercial Commitments for the next 5 years*

| <u>Obligations (A\$'000s)</u>                                | At June 30, 2013                        |              |              |              |              | <u>Total</u> |
|--|---|--------------|--------------|--------------|--------------|--------------|
|  | <u>Expected Maturity or Expiry Date</u> |              |              |              |              |              |
|  | <u>2014</u>                             | <u>2015</u>  | <u>2016</u>  | <u>2017</u>  | <u>2018</u>  |              |
| Finance Leases   | 20                                      | 24           | 19           |              |              | 63           |
| Operating Leases (1)   | 1,214                                   | 1,012        | 1,006        | 938          | 899          | 5,069        |
| Long –Term Debt (2)  | 415                                     | 498          | 597          | 717          | 859          | 3,086        |
| Heavy Duty Engine Testing Facility Operations commitment (3) | 291                                     | —            | —            |              |              | 291          |
| Contingent consideration (4)                                 | 886                                     | —            | —            |              |              | 886          |
| Total  | <u>2,826</u>                            | <u>1,534</u> | <u>1,622</u> | <u>1,655</u> | <u>1,758</u> | <u>9,395</u> |

- (1) The Group leases premises and plant & equipment under operating leases. The lease for the head office and engineering premises in Balcatta, Western Australia is for a period of 10 years with options to extend for two further periods of five years each. Rent for the Balcatta premises is subject to a fixed 3% increase each year. In accordance with IFRS the total rent expense for the lease is recognized on a straight line basis over the 10 year period of the lease. Leases for warehousing premises typically run for a period of 5 years. The plant & equipment leases typically run for a period of 5 years and the lease payments are fixed. None of the leases include contingent rentals.
- (2) Fair value has been calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2013: 6.77% (2012: 7.35%). Refer also Item 5 – “Liquidity and Capital Resources.”
- (3) In June 2008, Orbital received funding of A\$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility.
- Orbital is obliged to fund the maintenance and operation of the facility until at least fiscal 2015 and provide the Commonwealth with preferential access to the facility (100 days at Nil cost and 100 days at 50% of commercial rates).
- (4) Refer to note 28 to the consolidated financial statements for more details on the contingent consideration.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### *Directors and Senior Management*

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

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

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

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

On September 2, 2013 the Company announced the appointment of Dr Mervyn Thomas Jones as Chairman of Orbital.

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

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

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

(1) Member of Audit Committee

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

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

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

#### *Chairman, Independent Non-Executive Director*

Joined the Board in March 2008 and appointed Chairman on September 2, 2013. 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 is a member of the Company's Audit Committee and is also a member of the Company's Human Resources, Remuneration and Nomination Committee.

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

*Managing Director and Chief Executive Officer*

Joined the Board in June 2008. Mr Stinson has been a senior executive with Siemens, Europe's largest engineering conglomerate with direct responsibility for sales in excess of US\$300 million per annum in their Gasoline Systems, Fuel Systems and Fuel Components operations in the United States, Germany, Italy, China and support in many others. Mr Stinson has also served as a representative Director for Siemens VDO on the Synerject Board.

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

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

MR WILLIAM PETER DAY, LLB (Hons), MBA, FCPA, FCA, FAICD

*Independent Non-Executive Director*

Joined the Board and appointed Chairman in August 2007. Mr Day stepped down as Chairman on September 2, 2013. 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 chairs the Company's Audit Committee and is also a member of the Company's Human Resources, Remuneration and Nomination Committee.

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

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.

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

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

| <u>Name and Date of Commencement</u>  | <u>Position and Experience</u>   |
|---------------------------------------|--|
| Ian Graham Veitch<br>June 14, 2006    | Chief Financial Officer and Company Secretary.<br>Mr Veitch 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. |
| Geoff Paul Cathcart<br>March 14, 1994 | Chief Technical Officer.<br>Dr. Cathcart has held a number of senior management positions within the engineering department. Dr. Cathcart has overall responsibility for the consulting services and engineering departments. Dr Cathcart is also a Director of Synerject.   |

### ***Board Practices***

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

### ***Compensation***

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

|                              | <u>2013</u><br>A\$ | <u>2012</u><br>A\$ | <u>2011</u><br>A\$ |
|------------------------------|--------------------|--------------------|--------------------|
| Short-term employee benefits | 1,011,679          | 1,028,635          | 876,810            |
| Post-employment benefits     | 110,193            | 114,847            | 131,555            |
| Equity compensation benefits | 107,015            | 251,062            | 223,405            |
| Termination Payments         | —                  | —                  | 288,241            |
|                              | <u>1,228,887</u>   | <u>1,394,544</u>   | <u>1,520,011</u>   |

For fiscal 2013 the aggregate amount of compensation paid and accrued to the directors and senior management of Orbital as a group, inclusive of retirement and share plans, was A\$1.229 million.

All permanent employees of Orbital (including executive directors and officers) are entitled to become members of Orbital's retirement plans. Such employees and Orbital contribute various percentages of gross salary and wages. For the fiscal year ended June 30, 2013 the aggregate amount of compensation paid or accrued by Orbital for the retirement plans of directors and officers totalled A\$0.110 million.

## REMUNERATION REPORT

### *Principles of compensation*

This Remuneration Report for the year ended June 30, 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:

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

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.

## 1. INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of KMP of the Group are set out below.

### *Key management personnel*

#### *(i) Directors*

W Peter Day Chairman (Non-executive) (ceased being Chairman September 2, 2013)  
Mervyn T Jones (Non-executive) (appointed as Chairman from September 2, 2013)  
Vijoleta Braach-Maksvytis (Non-executive)  
Terry D Stinson (Executive)

#### *(ii) Executives*

Geoff P Cathcart – Director, Consulting Services & Engineering  
Ian G Veitch – Chief Financial Officer (appointed February 11, 2013)  
Keith A Halliwell – Chief Financial Officer (ceased being a KMP February 8, 2013)

## 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.

### **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 100% based on total shareholder return.

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

| Company Performance<br>(Earnings per share) | % of offered shares<br>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 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.

## **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.

### ***Services from remuneration consultants***

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

|   |  |
|---|--|
| 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 January 1, 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> |
|--|---|

## **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 October 25, 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 January 1, 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.

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

## **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> |

***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 below in point 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.   |                    |  |                    |                    |                  |     |     |       |                     |     |     |       |                             |     |        |         |
| What are the performance conditions under the MTI for KMP in 2013?                  | <p>The MTI performance hurdles (and weighting %) for 2013 were:</p> <table border="1"> <thead> <tr> <th>KPI</th> <th>Proportion of MTI award KPI applies to</th> <th>Minimum KPI \$'000</th> <th>Stretch KPI \$'000</th> </tr> </thead> <tbody> <tr> <td>Profit after tax</td> <td>33%</td> <td>100</td> <td>4,000</td> </tr> <tr> <td>Operating Cash Flow</td> <td>33%</td> <td>100</td> <td>2,500</td> </tr> <tr> <td>Pro-rata Consolidated Sales</td> <td>33%</td> <td>80,000</td> <td>100,000</td> </tr> </tbody> </table>   | KPI                | Proportion of MTI award KPI applies to | Minimum KPI \$'000 | Stretch KPI \$'000 | Profit after tax | 33% | 100 | 4,000 | Operating Cash Flow | 33% | 100 | 2,500 | Pro-rata Consolidated Sales | 33% | 80,000 | 100,000 |
| KPI   | Proportion of MTI award KPI applies to   | Minimum KPI \$'000 | Stretch KPI \$'000                     |                    |                    |                  |     |     |       |                     |     |     |       |                             |     |        |         |
| 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?

| Name           | Position                | Amount (Min - Max) |
|----------------|-------------------------|--------------------|
| 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 June 30, 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 June 30, 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.

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.

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.

|   |   |
|---|---|
| What are the principal terms of the issue made under the LTI in 2013?                   | <ul style="list-style-type: none"> <li>• Grant date: August 31, 2012 (Managing Director grant date: November 7, 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: August 31, 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 June 30, 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 utilization 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?

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.

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**

| 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%   |

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**

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

No shares will vest under the FY2011, FY2012 and FY2013 offers unless the Company's TSR is at or above the 50th percentile or the EPS for the years ending June 30, 2013, June 30, 2014 and June 30, 2015 is at or above 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.

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

- (a) Mr T D Stinson will be awarded 1,150,000 performance rights;
- (b) the grant of performance rights will be in seven tranches, each tranche with a different specified share price target as set out below:

**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 June 30, 2013.

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

Shares were granted under the Employee Share Plan No.1 to a number of executives on November 29, 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 9.

**6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION**

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

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

***Company performance and its link to medium-term incentives***

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<br>\$'000 | 2010<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2013<br>\$'000 | Minimum<br>KPI<br>\$'000 | Stretch KPI<br>\$'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)          | (3,145)        | (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 June 30, 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<br>Minimum | 2015<br>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.

## **7. EXECUTIVE CONTRACTUAL ARRANGEMENTS**

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

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

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

- The CEO receives fixed remuneration of \$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**

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

*Other KMP*

All other KMP have rolling contracts.

Standard KMP termination provisions are as follows:

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

|                                    | Notice Period | Payment in lieu of notice | Treatment of MTI on termination    | Treatment of LTI on termination                       | Termination payments  |
|------------------------------------|---------------|---------------------------|------------------------------------|---|---|
| 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 February 8, 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.



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

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

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

|  | Year | Short Term                                |                       |             | Employment<br>Superannuation<br>Contributions<br>\$ | Share Based Payments                    |                                     |           | Total<br>\$ | Proportion of<br>remuneration<br>performance<br>related<br>% |
|--|------|---|-----------------------|-------------|---|---|-------------------------------------|-----------|-------------|--|
|  |      | Salary<br>and<br>Director's<br>Fees<br>\$ | Cash<br>Bonuses<br>\$ | Total<br>\$ |   | Employee<br>Share<br>Plans<br>\$(a)/(b) | Performance<br>Rights Plan<br>\$(c) |           |             |  |
| <b>Non-executive Directors</b>   |      |   |                       |             |   |   |                                     |           |             |  |
| W Peter Day<br><i>Chairman (Non-executive)</i>                             | 2013 | 90,459                                    | —                     | 90,459      | 8,141   | —                                       | —                                   | 98,600    | —           |  |
|  | 2012 | 100,183                                   | —                     | 100,183     | 9,017   | —                                       | —                                   | 109,200   | —           |  |
| Mervyn T Jones<br><i>Director (Non-executive)</i>                          | 2013 | 63,486                                    | —                     | 63,486      | 5,714   | —                                       | —                                   | 69,200    | —           |  |
|  | 2012 | 63,486                                    | —                     | 63,486      | 5,714   | —                                       | —                                   | 69,200    | —           |  |
| Violeta Braach-Maksyvis<br><i>Director (Non-executive)</i>                 | 2013 | 63,486                                    | —                     | 63,486      | 5,714   | —                                       | —                                   | 69,200    | —           |  |
|  | 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<br><i>Director and Chief Executive Officer</i>             | 2013 | 333,945                                   | —                     | 333,945     | 40,073  | 82,867                                  | 49,283                              | 506,168   | 26.1%       |  |
|  | 2012 | 333,945                                   | —                     | 333,945     | 40,073  | 105,525                                 | 49,283                              | 528,826   | 29.3%       |  |
| <b>Other Key Management Personnel</b>                                      |      |   |                       |             |   |   |                                     |           |             |  |
| Geoff P Cahcart<br><i>Chief Technical Officer</i>                          | 2013 | 213,525                                   | —                     | 213,525     | 25,623  | 33,774                                  | —                                   | 272,922   | 12.4%       |  |
|  | 2012 | 200,816                                   | —                     | 200,816     | 24,098  | 41,332                                  | —                                   | 266,246   | 15.5%       |  |
| Ian G Veitch (d)<br><i>Chief Financial Officer</i>                         | 2013 | 77,964                                    | —                     | 77,964      | 6,870   | 6,266                                   | —                                   | 91,100    | 6.9%        |  |
|  | 2012 | —   | —                     | —           | —   | —                                       | —                                   | —         | —           |  |
| Keith A Halliwell (e)<br><i>Chief Financial Officer</i>                    | 2013 | 168,814                                   | —                     | 168,814     | 18,058  | (65,175)                                | —                                   | 121,697   | (53.6)%     |  |
|  | 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%       |  |

## 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 utilization 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 recognized 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 |
|------------|---------|-------------|----------------------|----------------|--------------------------------------|---------------------|-------------------------|
| Aug-31-10  | 3 years | Aug-31-13   | 33 cents             | nil            | 34 cents                             | 60.00%              | 4.27%                   |
| Aug-31-11* | 3 years | Aug-31-14   | 25 cents             | nil            | 35 cents                             | 110.00%             | 3.79%                   |

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

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

**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 |
|------------|---------|-------------|----------------------|----------------|--------------------------------------|
| Aug-31-10  | 3 years | Aug-31-13   | 34 cents             | nil            | 34 cents                             |
| Aug-31-11* | 3 years | Aug-31-14   | 35 cents             | nil            | 35 cents                             |
| Aug-31-12* | 3 years | Aug-31-15   | 20 cents             | nil            | 20 cents                             |

\* The grant dates of the EPS related rights for the Managing Director were October 26, 2011 and November 7, 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 utilization 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 recognized 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 |
|------------|----------|----------------------|--------------|--------------------------------------|---------------------|-------------------------|
| Aug-31-08  | 10 years | 47 cents             | \$2.50       | 79 cents                             | 55.00%              | 5.75%                   |
| Aug-31-08  | 10 years | 35 cents             | \$5.00       | 79 cents                             | 55.00%              | 5.75%                   |
| Aug-31-08  | 10 years | 28 cents             | \$7.50       | 79 cents                             | 55.00%              | 5.75%                   |
| Aug-31-08  | 10 years | 23 cents             | \$10.00      | 79 cents                             | 55.00%              | 5.75%                   |
| Aug-31-08  | 10 years | 13 cents             | \$20.00      | 79 cents                             | 55.00%              | 5.75%                   |
| Aug-31-08  | 10 years | 9 cents              | \$30.00      | 79 cents                             | 55.00%              | 5.75%                   |
| Aug-31-08  | 10 years | 5 cents              | \$50.00      | 79 cents                             | 55.00%              | 5.75%                   |

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

## 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 October 31, 2012 and October 31, 2011 respectively) of shares offered. These awards are fully vested.
- (b) Represents the fair value of rights offered on August 31, 2012 and August 31, 2011 respectively using a Monte-Carlo simulation model for the TSR related rights (August 31, 2011 offer) and the market price on the grant date for EPS related right (August 31, 2011 and August 31, 2012 offers). The vesting of the shares offered on August 31, 2012 is subject to the Group achieving earnings in excess of 5 cents per share for the year ending June 30, 2015. The vesting of the shares offered on August 31, 2011 is subject to the achievement of two performance conditions; a) 50% related to the Total Shareholder Return (“TSR”) of the Company compared to a peer group of selected companies over a three year period, and b) 50% related to the Group achieving earnings in excess of 15 cents per share for the year ending June 30, 2014. 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.

## ***Corporate Governance***

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

### ***1. CORPORATE GOVERNANCE AT ORBITAL***

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

The Company, as a listed entity, must comply with the *Corporations Act 2001* (Cwth) (Corporations Act), the Australian Securities Exchange (ASX) Listing Rules (ASX Listing Rules) and other Australian and international laws. The ASX Listing Rules requires the Company to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's (ASXCGC) second edition of its Corporate Governance Principles and Recommendations with 2010 Amendments. Orbital believes that, throughout the 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 Item 6 on page 31.

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

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

An independent director is a non-executive director who:

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

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

### ***2.3 Conflicts of Interest***

In accordance with the Corporations Act 2001 and the Company's constitution, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the director concerned must not be present at the meeting whilst the item is considered or 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.

### ***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 34 to 48. 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**

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

## **3. COMMITTEES OF THE BOARD**

### **3.1 Board Committees, Membership and Charters**

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

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Audit Committee and a Human Resources, Remuneration and Nomination Committee. These committees have written mandates and

operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored. The Board has also established a framework for the management of the Group including a system of internal control and the establishment of appropriate ethical standards.

### **3.2 Audit Committee**

*ASXCGC Recommendations 4.1, 4.2, 4.3, 4.4*

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

Members of the Audit Committee during the year were Dr M T Jones (Chairman), Mr W P Day and Dr V Braach-Maksvytis. The external auditors, Chief Executive Officer, Chief Financial Officer, Company Secretary and other financial and accounting staff are invited to Audit Committee meetings at the discretion of the Committee. The Chief Executive Officer and Chief Financial Officer declared in writing to the Board that the Company's financial reports for the year ended June 30, 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.

##### **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.

### ***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 June 30, 2013

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

### Employees

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

| Category                       | June 2013 |    | June 2012 |    | June 2011 |    |
|--------------------------------|-----------|----|-----------|----|-----------|----|
|                                | Aus       | US | Aus       | US | Aus       | US |
| <b>Executive</b>               | 4         | —  | 4         | —  | 4         | —  |
| <b>Orbital Autogas Systems</b> | 12        | —  | 20        | —  | 23        | —  |
| <b>Sprint Gas</b>              | 17        | —  | 19        | —  | 21        | —  |
| <b>Administration</b>          | 11        | —  | 10        | —  | 10        | —  |
| <b>Engineers</b>               | 24        | —  | 31        | —  | 37        | —  |
| <b>Technicians</b>             | 20        | —  | 22        | —  | 21        | —  |
| <b>Others</b>                  | 2         | —  | 2         | —  | 2         | —  |
| <b>Total</b>                   | 90        | —  | 108       | —  | 118       | —  |

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

## Share Ownership

Details of share ownership by Directors and senior managers at September 30, 2013 are as follows:

| <u>Directors</u>       | <u>Ordinary Shares</u> |
|------------------------|------------------------|
| W P Day                | 10,000                 |
| T D Stinson            | 392,690                |
| M T Jones              | 70,000                 |
| <u>Senior Managers</u> |                        |
| G P Cathcart           | 61,563                 |
| I G Veitch             | 20,443                 |
| K A Halliwell          | —                      |

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

### Employee Share Plan - 2010 Offer

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2010 have been offered shares in the Company to the value of A\$1,000 (determined on the basis of the weighted average market price of the Company's shares as traded on the Australian Stock Exchange in the five trading days before that date). No shares have been offered to employees under the No. 2 Plan. On January 17, 2011, a total of 283,670 fully paid ordinary shares were issued to employees under the No. 1 Plan.

### Executive Long Term Share Plan - 2010 Offer

At the Company's Annual General Meeting on October 28, 2010, shareholders approved the participation of the Managing Director, Mr Terry Stinson, in the Company's Executive Long Term Share Plan. Under this Plan, a performance related offer of shares has been made to the Managing Director and eligible executives of the Company. Mr Stinson has been offered up to 748,125 fully paid ordinary shares. Mr Halliwell has been offered up to 379,762 fully paid ordinary shares. Mr Cathcart has been offered up to 284,287 fully paid ordinary shares.

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

- (a) 55.6% of the shares offered will be issued depending on the performance of the Company relative to a group of selected peers (being the 50 smallest companies by market capitalisation (other than resource companies and property and investment trust companies) within the S&P / ASX 300 Index. The peer group is ranked in terms of Total Shareholder Return ("TSR"). TSR is the percentage increase in a company's share price plus reinvested dividends over a three year period commencing on September 1, 2010 and ending on August 31, 2013 ("**Performance Period**").

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

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

- (b) 44.4% of the shares offered will be issued if the Company achieves earnings in excess of 11 cents per share for the year ending June 30, 2013.

### *Employee Share Plan - 2011 Offer*

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2011 have been offered shares in the Company to the value of A\$1,000 (determined on the basis of the weighted average market price of the Company's shares as traded on the Australian Stock Exchange in the five trading days before that date). No shares have been offered to employees under the No. 2 Plan. On December 15, 2011, a total of 239,919 fully paid ordinary shares were issued to employees under the No. 1 Plan.

### *Executive Long Term Share Plan - 2011 Offer*

At the Company's Annual General Meeting on October 26, 2011, shareholders approved the participation of the Managing Director, Mr Terry Stinson, in the Company's Executive Long Term Share Plan. Under this Plan, a performance related offer of shares has been made to the Managing Director and eligible executives of the Company. Mr Stinson has been offered up to 866,250 fully paid ordinary shares. Mr Halliwell has been offered up to 461,250 fully paid ordinary shares. Mr Cathcart has been offered up to 348,750 fully paid ordinary shares.

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

- (a) 55.6% of the shares offered will be issued depending on the performance of the Company relative to a group of selected peers (being the 50 smallest companies by market capitalisation (other than resource companies and property and investment trust companies) within the S&P / ASX 300 Index. The peer group is ranked in terms of Total Shareholder Return ("TSR"). TSR is the percentage increase in a company's share price plus reinvested dividends over a three year period commencing on September 1, 2011 and ending on August 31, 2014 ("**Performance Period**").

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

| <b>Company Performance (TSR Ranking)</b>                      | <b>% of Personal Allotment 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%  |

- (b) 44.4% of the shares offered will be issued if the Company achieves earnings in excess of 15 cents per share for the year ending June 30, 2014.

### *Employee Share Plan - 2012 Offer*

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2012 have been offered shares in the Company to the value of A\$1,000 (determined on the basis of the weighted average market price of the Company's shares as traded on the Australian Stock Exchange in the five trading days before that date). No shares have been offered to employees under the No. 2 Plan. On November 29, 2012, a total of 612,114 fully paid ordinary shares were issued to employees under the No. 1 Plan.

### *Executive Long Term Share Plan - 2012 Offer*

At the Company's Annual General Meeting on November 7, 2012, shareholders approved the participation of the Managing Director, Mr Terry Stinson, in the Company's Executive Long Term Share Plan. Under this Plan, a performance related offer of shares has been made to the Managing Director and eligible executives of the Company. Mr Stinson has been offered up to 1,100,000 fully paid ordinary shares. Dr Cathcart has been offered up to 450,000 fully paid ordinary shares. Mr Veitch has been offered up to 330,000 fully paid ordinary shares.

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

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**

| 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%   |

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Major Shareholders

Orbital's ordinary shares currently constitute the entire outstanding capital of the Company. As of September 30, 2013, Orbital had issued and outstanding 49,334,591 fully paid ordinary shares. Orbital is not directly or indirectly controlled by another corporation or by any foreign government and there are no arrangements known to Orbital, the operation of which may at a subsequent date result in a change in control of Orbital.

### September 2013:

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

| <u>Name</u>   | <u>Number of shares held</u> | <u>% of shares</u> |
|---|------------------------------|--------------------|
| SG Hiscock & Company Ltd<br>(as notified on August 1, 2013) | 4,760,107                    | 9.65%              |

### September 2012:

There were only two shareholders who had greater than 5% of the Company's issued capital. The details of the shareholders were:

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

The Executive Officers and Directors of Orbital as a group own 554,696 ordinary shares which represent 1.12% of that class.

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

### Shareholder Locations

There are 49,334,591 ordinary shares in the Company on issue at September 30, 2013, 75% of which are held by 4,489 shareholders located in Australia.

There are 613,823 ADS's (representing 9,821,168 ordinary shares in the Company) on issue at September 30, 2013 held by 171 registered holders located in the United States of America.

### Related Party Transactions

There were no related party transactions with Directors during fiscal 2013 (nil in both fiscal 2012 and 2011).

The aggregate amounts receivable from (net of provisions for doubtful debts)/ payable to wholly owned controlled entities by the Company at September 30, 2013 and June 30 in each of the preceding three years are as follows:

|                           | <u>September 30, 2013</u><br><u>(A\$000's)</u> | <u>2013</u><br><u>(A\$000's)</u> | <u>2012</u><br><u>(A\$000's)</u> | <u>2011</u><br><u>(A\$000's)</u> |
|---------------------------|--|----------------------------------|----------------------------------|----------------------------------|
| Receivables - Non-current | 44,820   | 44,820                           | 30,351                           | 27,942                           |
| Borrowings - Non-current  | 20,297   | 19,160                           | 14,571                           | 11,386                           |

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

|                           | <u>2013</u><br><u>(A\$000's)</u> | <u>2012</u><br><u>(A\$000's)</u> | <u>2011</u><br><u>(A\$000's)</u> |
|---------------------------|----------------------------------|----------------------------------|----------------------------------|
| Receivables - Non-current | 45,149                           | 30,639                           | 28,382                           |
| Borrowings - Non-current  | 19,160                           | 14,802                           | 12,571                           |

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

During fiscal 2013, nil interest expense (fiscal 2012: nil; fiscal 2011: nil) was recognized by the Company in relation to these loans. The interest rate charged during the year was nil (2012 and 2011: nil).

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

The aggregate amounts receivable from / payable to Synerject LLC by the Orbital Group at September 30, 2013 and June 30 in each of the preceding three years are:

|                       | <u>September 30, 2013</u><br><u>(A\$000's)</u> | <u>2013</u><br><u>(A\$000's)</u> | <u>2012</u><br><u>(A\$000's)</u> | <u>2011</u><br><u>(A\$000's)</u> |
|-----------------------|--|----------------------------------|----------------------------------|----------------------------------|
| Receivables - Current | —  | 3                                | —                                | —                                |
| Payables - Current    | —  | —                                | 63                               | 7                                |

During fiscal 2013, the Group purchased goods and services to the value of A\$148,000 (2012: A\$178,000) from Synerject LLC. All trading transactions are in the ordinary course of business and on normal commercial terms and conditions. The Group received dividends of A\$1,484,854 (2102: A\$1,543,686) from Synerject LLC.



**ITEM 8. FINANCIAL INFORMATION**

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

Refer pages F-1 through F-48 included herein.

***Significant Changes***

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

***Legal Proceedings***

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

***Dividend Policy***

Orbital's Board of Directors annually reviews the Group's ability to pay dividends, which may be declared out of current year profits or retained earnings of the Company. The Company does not anticipate being in a position to pay a dividend in the 2013 fiscal year.

## ITEM 9. THE OFFER AND LISTING

### *Nature Of Trading Market*

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

The ordinary shares are also traded in the United States in the form of ADSs evidenced by American Depositary Receipts ("ADRs") issued by The Bank of New York Mellon as depositary under a deposit agreement dated April 16, 2010. Each ADS represents sixteen ordinary shares. The ADSs have traded on NYSE MKT with effect from August 25, 2011, under the symbol "OBT". Prior to that time, the ADSs were traded on the Over the Counter Bulletin Board (OTCBB) with effect from July 1, 2004 until August 25, 2011, under the symbol "OBTMY".

The following table sets forth, for the periods indicated, the high and low closing sale prices per share and the high and low day trade volume of Orbital's fully paid ordinary shares based upon information provided by the ASX Automated Trading System, and the high and low closing sale prices per ADS and the high and low day trade volume as reported on the OTCBB and NYSE MKT. On October 28, 2010 the shareholders in Annual General Meeting approved the consolidation of ordinary shares on the basis that every ten ordinary shares be consolidated into one ordinary share, and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share. The share consolidation became effective on October 28, 2010. Note that effective April 19, 2010 the ratio of ordinary shares to ADSs was changed from 1 : 40 to 1 : 160 and effective October 31, 2010 the ratio of ordinary shares to ADSs was changed from 1 : 16. Please note that the ADS prices quoted below for dates prior to April 19, 2010 and October 31, 2010 have not been restated to account for the change of ratio of ordinary shares to ADSs.

|           | Ordinary Shares |             |           |            | American Depositary Shares |             |           |            |   |
|-----------|-----------------|-------------|-----------|------------|----------------------------|-------------|-----------|------------|---|
|           | High Price      | High Volume | Low Price | Low Volume | High Price                 | High Volume | Low Price | Low Volume |   |
| 2008-09   | A\$0.115        | 7,330,005   | A\$0.030  | 1,574      | US\$4.50                   | 52,600      | US\$0.78  | 0          |   |
| 2009-10   | A\$0.080        | 8,644,033   | A\$0.025  | 0          | US\$6.00                   | 17,000      | US\$1.36  | 0          |   |
| 2010-11   | A\$ 0.46        | 653,072     | A\$ 0.18  | 0          | US\$7.30                   | 11,800      | US\$2.88  | 0          |   |
| 2011-12   | A\$ 0.40        | 360,000     | A\$ 0.18  | 0          | US\$6.48                   | 12,100      | US\$3.06  | 0          |   |
| 2012-13   | A\$ 0.40        | 3,368,100   | A\$ 0.13  | 0          | US\$7.00                   | 29,500      | US\$2.43  | 0          |   |
| 2011-12   | Q1              | A\$ 0.38    | 309,000   | A\$ 0.25   | 0                          | US\$6.48*   | 5,100     | US\$4.33   | 0 |
|           | Q2              | A\$ 0.40*   | 357,700   | A\$ 0.25   | 0                          | US\$5.92    | 8,300     | US\$3.64   | 0 |
|           | Q3              | A\$ 0.35    | 360,000   | A\$ 0.24   | 0                          | US\$5.90    | 12,100    | US\$3.74   | 0 |
|           | Q4              | A\$ 0.34    | 197,100   | A\$ 0.18*  | 0                          | US\$5.91    | 7,300     | US\$3.06*  | 0 |
| 2012-13   | Q1              | A\$ 0.25    | 3,300,000 | A\$ 0.18   | 0                          | US\$4.30    | 7,300     | US\$2.92   | 0 |
|           | Q2              | A\$ 0.22    | 3,368,100 | A\$ 0.13*  | 0                          | US\$3.42    | 3,800     | US\$2.59   | 0 |
|           | Q3              | A\$ 0.40*   | 925,000   | A\$ 0.17   | 0                          | US\$7.00*   | 29,500    | US\$2.64   | 0 |
|           | Q4              | A\$ 0.22    | 3,021,200 | A\$ 0.15   | 0                          | US\$3.17    | 6,400     | US\$2.43*  | 0 |
| Apr 2013  | A\$ 0.22        | 514,000     | A\$ 0.15  | 0          | US\$3.17                   | 3,700       | US\$2.62  | 0          |   |
| May 2013  | A\$ 0.20        | 2,516,900   | A\$ 0.15  | 0          | US\$2.92                   | 3,400       | US\$2.57  | 0          |   |
| Jun 2013  | A\$ 0.18        | 3,021,200   | A\$ 0.15  | 0          | US\$2.72                   | 6,400       | US\$2.43  | 0          |   |
| Jul 2013  | A\$ 0.18        | 327,400     | A\$ 0.15  | 0          | US\$2.76                   | 8,900       | US\$2.29  | 0          |   |
| Aug 2013  | A\$ 0.22        | 459,600     | A\$ 0.16  | 0          | US\$4.32                   | 147,500     | US\$2.05  | 0          |   |
| Sept 2013 | A\$ 0.22        | 395,700     | A\$ 0.17  | 500        | US\$3.28                   | 59,400      | US\$2.22  | 0          |   |

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

On September 30, 2013, the closing sale price of the ordinary shares on the ASX was A\$0.17 per ordinary share and the closing sale price of the ADSs on the NYSE MKT on that date was US\$2.49 per ADS. On September 30, 2013, 613,823 ADSs, representing 9,821,168 ordinary shares, or approximately 20% of the outstanding ordinary shares, were outstanding and were held by 171 holders of record including nominee companies holding on behalf of beneficial shareholders.

## **ITEM 10. ADDITIONAL INFORMATION**

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

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

#### **1. Our objects and purposes**

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

#### **2. Directors**

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

A Director may not vote in relation to any contract or proposed contract or arrangement in which the Director has, directly or indirectly, a material interest. The maximum total of fees payable to Directors is required to be approved by the Company in general meeting.

##### ***2.2 Borrowing powers***

Directors may at any time exercise all the powers of the Company to borrow money, except to the extent that such powers are required by law or the Listing Rules of Australian Stock Exchange Limited to be exercised by the Company in general meeting.

##### ***2.3 Age limit for retirement***

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

##### ***2.4 Director's holding of office***

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

##### ***2.5 Directors' qualifying shares***

A Director is not required to have a share qualification.

#### **3. Rights attaching to shares**

##### ***3.1 Dividend rights***

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

##### ***3.2 Voting rights***

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

##### ***3.3 Rights to share profits***

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

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

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

### ***3.5 Redemption provisions***

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

### ***3.6 Sinking fund provisions***

There are no provisions within our Constitution for sinking funds.

### ***3.7 Liability to further calls by the company***

The Company has fully paid ordinary shares on issue.

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

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

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

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

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

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

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

## **6. Limitations on rights of non-resident shareholders**

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

## **7. Change in control of company**

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

### ***Material Contracts***

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

### ***Exchange Controls***

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

### ***Taxation***

The following is a summary of material United States federal income and Australian tax consequences of the ownership of ADSs or ordinary shares by US Holders. Except as otherwise noted, the statements of Australian and United States tax laws set out below are based on the laws in force, as of the date of this Annual Report, and are subject to any changes in United States or Australian law and in the Convention Between the Government of the United States of America and the Government of Australia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income as amended (the “Treaty”), occurring after that date, possibly with retrospective effect.

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

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

### ***Australian Taxation***

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

### ***Residency***

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

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

### ***Taxation of Dividends***

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

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

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

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

#### *Withholding Tax on Dividends*

The Treaty limits to 15% the Australian withholding tax on the unfranked portion of a dividend paid by an Australian company to a US Holder who is a resident of the United States for the purposes of the Treaty and who is beneficially entitled to the dividend, unless the recipient carries on business in Australia through a permanent establishment, or performs independent personal services from a fixed base in Australia, and his share holding is effectively connected with the permanent establishment or fixed base, in which case a 30% withholding tax applies. Where a US resident company holds at least 10%, but less than 80%, of the voting power of an Australian company, Australian withholding tax on the unfranked portion of a dividend is chargeable at 5%. No withholding tax is chargeable on dividends paid to a US resident company which is a listed public company from an 80% or more beneficially owned subsidiary. The limitations on the rate of Australian withholding tax chargeable on dividend payments under the Treaty are not applicable in the case of recipients who are not "qualified persons" under the Treaty. Holders of ADSs or ordinary shares should consult their tax advisor as to whether they are "qualified persons" under the Treaty.

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

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

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

- natural persons or corporations who are residents of Australia;
- non-residents of Australia who, together with their associates, beneficially hold or, at any time during the five years prior to the sale, held 10% or more of the issued capital of Orbital, or options or rights to acquire ADSs or ordinary shares; or

non-residents and are used in carrying on a trade or business through a permanent establishment in Australia.

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

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

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

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

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

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

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

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

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

#### *Stamp Duty*

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

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

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

#### *United States Federal Income Taxation*

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

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

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

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

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

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

#### *Taxation of Dividends*

Under the United States federal income tax laws, and subject to the passive foreign investment company ("PFIC") rules discussed below, US Holders will include in gross income the gross amount of any dividend paid, before reduction for Australian withholding taxes, by Orbital out of its current or accumulated earnings and profits, as determined for United States

federal income tax purposes. Dividends paid to non-corporate US Holders in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable at a maximum rate of 15 percent provided that the US Holder holds the ADSs or ordinary shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid with respect to the ADSs or ordinary shares generally will be qualified dividend income.

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

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

Subject to foreign tax credit limitations, the Australian tax withheld in accordance with the Treaty and paid over to Australia will be creditable against the US Holder's United States federal income tax liability or, at the US Holder's election, deductible from the US Holder's gross income for United States federal income tax purposes. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15 percent tax rate. To the extent a refund of the tax withheld and paid over to Australia is available to a US Holder, the amount of tax withheld is not eligible for credit against such US Holder's United States federal income tax liability. Dividends will generally be income from sources without the United States. Dividends paid in taxable years beginning after December 31, 2006 will, depending on the US Holder's circumstances, be "passive" or "general" income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to US Holders.

It is possible that Orbital is or will be at least 50% owned by persons treated as United States persons under the Code. Under Section 904(h) of the Code, dividends paid by a non-U.S. corporation that is at least 50% owned by United States persons may be treated as income derived from sources within the United States rather than from sources without the United States for foreign tax credit purposes to the extent the non-US corporation has more than an insignificant amount of income from sources within the United States. The effect of this rule, if applicable in future years, may be to treat a portion of the dividends paid by Orbital as income derived from sources within the United States for foreign tax credit purposes. Such treatment may adversely affect a shareholder's ability to use foreign tax credits.

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

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

#### *Taxation of Capital Gains*

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

#### *Passive Foreign Investment Company Rules*

Orbital believes that the ADSs and ordinary shares should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change. If Orbital were to be treated as a PFIC, unless a US Holder elects to be taxed annually on a mark-to-market basis with respect to the ADSs or



ordinary shares, gain realized on the sale or other disposition of ADSs or ordinary shares would in general not be treated as capital gain. The US Holder would be treated as if such holder had realized such gain and certain “excess distributions” ratably over the holder’s holding period for the ADSs or ordinary shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, ADSs or ordinary shares will be treated as stock of a PFIC if Orbital was a PFIC at any time during the US Holder’s holding period in the ADSs or ordinary shares. Dividends that a US Holder receives from Orbital will not be eligible for the special tax rates applicable to qualified dividend income if Orbital is treated as a PFIC with respect to a US Holder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

***Documents on Display***

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

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

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

### *Market Exposures*

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

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

### *Interest rate risk*

The Group’s exposure to market interest rates relates primarily to the Group’s cash, cash equivalents on deposit and term deposits with Loan 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.

### *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% of the Group’s sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 18% 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.

### *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.

*Liquidity risk*

The Group repaid its finance facility with its bankers during fiscal 2013. The Group's does not have any other bank overdrafts, bank loans, preference shares or committed available credit lines as at June 30, 2013.

The only external borrowing of the Group is the interest free Western Australian Government loan of A\$14.3 million repayable in installments commencing in May 2010. See the "Maturity Profile of Commercial Commitments" on page 30 for scheduled repayments over the next five years.

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

|                                |                |
|--------------------------------|----------------|
| (A) Debt Securities            | Not Applicable |
| (B) Warrants and Rights        | Not Applicable |
| (C) Other Securities           | Not Applicable |
| (D) American Depositary Shares |                |

### *Fees and charges payable by a holder of ADSs.*

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

| <u>Category</u>  | <u>Depositary actions</u>   | <u>Associated fee</u>  |
|--|---|--|
| Depositing or substituting the underlying shares                           | Issuance of ADSs against the deposit of shares, including deposits and issuance in respect of: <ul style="list-style-type: none"> <li>• Share distributions, stock splits, rights, mergers</li> <li>• Exchange of securities or other transactions</li> <li>• Other events or distributions affecting the ADSs or the deposited securities</li> </ul>   | US\$5.00 per 100 ADSs (or portion thereof) evidenced by the new ADSs delivered   |
| Selling or exercising rights   | Distribution or sale of securities, the fee being an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities   | US\$5.00 for each 100 ADSs (or portion thereof)  |
| Withdrawing an underlying share  | Acceptance of ADSs surrendered for withdrawal of deposited securities   | US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADSs surrendered  |
| Transferring, splitting or grouping receipts                               | Transfers, combining or grouping of depositary receipts   | US\$2.50 per ADS   |
| General depositary services, particularly those charged on an annual basis | Services performed by the depositary in administering the ADSs  | US\$0.02 per ADS not more than once each calendar year and payable at the sole discretion of the depositary by billing holders or deducting such charge from one or more cash dividends or other cash distributions. |
| Expenses of the depositary   | Expenses incurred on behalf of the holders in connection with: <ul style="list-style-type: none"> <li>• Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment</li> <li>• The depositary's or its custodian's compliance with applicable law, rule or regulation</li> <li>• Stock transfer or other taxes and government charges</li> <li>• Cable, telex, facsimile and electronic transmission/delivery</li> <li>• Expenses of the depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency)</li> </ul> | Expenses payable at the sole discretion of the depositary by billing holders or deducting such charge from one or more cash dividends or other cash distribution.  |

- Any other charge payable by depositary or its agents

***Fees and payments made by the depositary to the issuer***

The Bank of New York Mellon has agreed to pay third parties on behalf of Orbital for certain expenses incurred in connection with the ADR programme. For the year ended June 30, 2013, The Bank of New York paid US\$2,979 to third parties on behalf of Orbital. The Bank of New York Mellon also waived certain of its standard fees and expenses associated with the administration of the programme relating to routine programme maintenance, reporting, distribution of cash dividends, annual meeting services and report mailing services.

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

## PART II

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

None

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

None

### ITEM 15. CONTROLS AND PROCEDURES

#### *(a) Disclosure Controls and Procedures:*

Orbital has carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of Orbital, of the effectiveness of the design and operation of Orbital's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report. Based upon that evaluation, Orbital's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2013, Orbital's disclosure controls and procedures were effective.

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

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

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

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

Orbital's management assessed the effectiveness of its internal control over financial reporting as of June 30, 2013. In making this assessment, Orbital's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework. Based upon its assessment, Orbital's management concluded that, as of June 30, 2013, its internal control over financial reporting is effective based upon those criteria.

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

The Group is a non-accelerated filer and as such Ernst & Young, an Independent Registered Public Accounting Firm that audited the Fiscal 2013 consolidated financial statements included in this annual report on Form 20-F, is not required to issue an Attestation Report for Fiscal 2013.

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

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

**ITEM 16. [RESERVED]**

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

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

**ITEM 16B. CODE OF ETHICS**

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

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

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

| <u>Services Rendered</u>          | <u>2013</u>       |              | <u>2012</u>       |          |
|-----------------------------------|-------------------|--------------|-------------------|----------|
|                                   | <u>Fees (A\$)</u> | <u>%</u>     | <u>Fees (A\$)</u> | <u>%</u> |
| Audit Fees – Australian Reporting | <b>225,600</b>    | <b>66.7%</b> | 223,780           | 63.4%    |
| Audit Fees – USA Reporting        | <b>112,500</b>    | <b>33.3%</b> | 112,000           | 31.8%    |
| Audit – Related Fees              | —                 | —            | —                 | —        |
| All Other Fees (1)                | —                 | —            | 16,910            | 4.8%     |

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

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

Orbital's Audit Committee has adopted policies and procedures for the pre-approval of permitted services provided by the Company's independent public accounting firm, Ernst & Young. Prior to the commencement of each financial year the Company's chief financial officer and its auditors submit to the Audit Committee a schedule of the types of services that are expected to be performed during the following year for its approval. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the Audit Committee's approval of the scope of the engagement of the auditor or on an individual basis. The policy prohibits retaining the auditor to perform the prohibited non-audit functions as defined for the purposes of section 201 of the Sarbanes-Oxley Act.

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

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

Not Applicable

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

Not Applicable

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

Not Applicable

### **ITEM 16G. CORPORATE GOVERNANCE**

In compiling this report, the directors have referred to the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations 2<sup>nd</sup> edition (the ASX Principles), and Part 8. Corporate Governance Requirements of the NYSE MKT Rules (the NYSE MKT Rules).

Orbital confirms that throughout fiscal 2013, and at the date of this document the Group applied the principles of, and was compliant with, the provisions of the ASX Principles and that, since listing on the NYSE MKT, applied the principles of, and was compliant with, the NYSE MKT Rules.

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

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



### PART III

#### ITEM 17. FINANCIAL STATEMENTS

Not Applicable

#### ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-48 included herein.

#### ITEM 19. EXHIBITS

##### *(a) Financial Statements and Financial Statement Schedules*

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

|   |     |
|---|-----|
| <u>Report of Independent Registered Public Accounting Firm for the years ended June 30, 2013, 2012 and 2011</u> | F-2 |
| <u>Consolidated Income Statements for the years ended June 30, 2013, 2012 and 2011</u>                          | F-3 |
| <u>Consolidated Statements of Comprehensive Income for the years ended June 30, 2013, 2012 and 2011</u>         | F-4 |
| <u>Consolidated Statements of Changes in Equity for the years ended June 30, 2013, 2012 and 2011</u>            | F-4 |
| <u>Consolidated Statements of Financial Position as at June 30, 2013 and 2012</u>                               | F-5 |
| <u>Consolidated Statements of Cash Flows for the years ended June 30, 2013, 2012 and 2011</u>                   | F-6 |
| <u>Notes to the Consolidated Financial Statements</u>   | F-7 |

##### *(b) Financial Statements – Synerject LLC (I)*

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

|   |   |
|---|---|
| Report of Independent Registered Public Accounting Firm   | 1 |
| Consolidated Balance Sheets at December 31, 2012 and 2011   | 2 |
| Consolidated Statements of Income for the 12 month periods ended December 31, 2012 and December 31, 2011, and the 18 month period ended December 31, 2010                                   | 3 |
| Consolidated Statements of Members' Equity and Comprehensive Income for the 12 month periods ended December 31, 2012 and December 31, 2011, and the 18 month period ended December 31, 2010 | 4 |
| Consolidated Statements of Cash Flows for the 12 month periods ended December 31, 2012 and December 31, 2011, and the 18 month period ended December 31, 2010                               | 5 |
| Notes to the Consolidated Financial Statements  | 7 |

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

##### *(c) Exhibits*

|      |   |
|------|---|
| 1.1  | Constitution of Orbital Corporation Limited dated October 26, 2004 (incorporated herein by reference from Item 19.(c)1.1 of our Annual Report on Form 20-F for the fiscal year ended June 30, 2004 filed on December 30, 2004.) |
| 1.2  | Membership Interest Transfer Agreement dated March 1, 2013 for the sale of a portion of the interest in Synerject LLC   |
| 12.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 12.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 13.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 13.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |

## GLOSSARY OF TECHNICAL TERMS

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

## SIGNATURES

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

ORBITAL CORPORATION LIMITED  
(Registrant)

Date: October 29, 2013

**/s/ Ian Graham Veitch**

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**Ian Graham Veitch**  
Chief Financial Officer

***(a) Financial Statements and Financial Statement Schedules***

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

|  |     |
|--|-----|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2 |
| <u>Consolidated Income Statements</u>                          | F-3 |
| <u>Consolidated Statements of Comprehensive Income</u>         | F-4 |
| <u>Consolidated Statements of Changes in Equity</u>            | F-4 |
| <u>Consolidated Statements of Financial Position</u>           | F-5 |
| <u>Consolidated Statements of Cash Flows</u>                   | F-6 |
| <u>Notes to the Consolidated Financial Statements</u>          | F-7 |

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

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

|   |   |
|---|---|
| Report of Independent Registered Public Accounting Firm             | 1 |
| Consolidated Balance Sheets   | 2 |
| Consolidated Statements of Income                                   | 3 |
| Consolidated Statements of Members' Equity and Comprehensive Income | 4 |
| Consolidated Statements of Cash Flows                               | 5 |
| Notes to the Consolidated Financial Statements                      | 7 |

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Orbital Corporation Limited

We have audited the accompanying consolidated statements of financial position of Orbital Corporation Limited (the “Company”) as of June 30, 2013 and 2012, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended June 30, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orbital Corporation Limited at June 30, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young  
Perth, Australia

October 29, 2013

**CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 30 JUNE 2013, 2012 AND 2011**

|   | NOTE  | CONSOLIDATED    |                 |                 |
|---|-------|-----------------|-----------------|-----------------|
|   |       | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| Sale of goods   |       | <b>23,424</b>   | 14,020          | 5,847           |
| Consulting services income  |       | <b>2,057</b>    | 7,131           | 9,492           |
| Licence and royalty income  |       | <b>1,007</b>    | 967             | 1,081           |
| Other revenue   | 7     | <b>211</b>      | 243             | 218             |
| <b>Total revenue</b>  |       | <b>26,699</b>   | 22,361          | 16,638          |
| Other income  | 8     | <b>3,889</b>    | 1,325           | 6,110           |
| Materials and consumables   | 9(d)  | <b>(10,428)</b> | (8,116)         | (4,484)         |
| Employee benefits expenses  | 9(a)  | <b>(11,210)</b> | (11,670)        | (10,494)        |
| Depreciation and amortisation   |       | <b>(959)</b>    | (991)           | (1,174)         |
| Engineering consumables and contractors   |       | <b>(688)</b>    | (2,272)         | (1,954)         |
| Occupancy expenses  |       | <b>(1,814)</b>  | (1,734)         | (1,165)         |
| Travel and accommodation  |       | <b>(407)</b>    | (432)           | (634)           |
| Communications and computing  |       | <b>(621)</b>    | (783)           | (593)           |
| Patent costs  |       | <b>(308)</b>    | (322)           | (300)           |
| Insurance costs   |       | <b>(690)</b>    | (663)           | (441)           |
| Audit, compliance and listing costs   |       | <b>(516)</b>    | (569)           | (704)           |
| Finance costs   | 9(b)  | <b>(687)</b>    | (692)           | (688)           |
| Other expenses  | 9(c)  | <b>(3,386)</b>  | (2,179)         | (1,777)         |
| Share of profit from associate  | 16(c) | <b>3,220</b>    | 3,480           | 3,233           |
| <b>Profit / (loss) before income tax</b>  |       | <b>2,094</b>    | (3,257)         | 1,573           |
| Income tax (expense) / benefit  | 10(a) | <b>(1,730)</b>  | 204             | 190             |
| <b>Profit / (Loss) for the year attributable to the owners of the parent entity</b> |       | <b>364</b>      | (3,053)         | 1,763           |
| <b>Earnings/(loss) per share:</b>   |       |                 |                 |                 |
| Basic earnings / (loss) per share (in cents)  | 11    | <b>0.74</b>     | (6.28)          | 3.65            |
| Diluted earnings / (loss) per share (in cents)                                      | 11    | <b>0.74</b>     | (6.28)          | 3.65            |

The income statement is to be read in conjunction with the notes to the financial statements set out on pages F-7 to F-48.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED  
30 JUNE 2013, 2012 AND 2011**

|   | CONSOLIDATED    |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Net profit / (loss) for the year</b>   | <b>364</b>      | <b>(3,053)</b>  | <b>1,763</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)           | 343             |
| Foreign currency translation reserve released on sale of share in equity accounted investment | (18)            | —               | —               |
| Foreign currency translation  | 1,505           | 830             | (3,758)         |
| <b>Other comprehensive income / (loss) for the year, net of tax</b>                           | <b>1,522</b>    | <b>631</b>      | <b>(3,415)</b>  |
| <b>Total comprehensive income / (loss) for the year</b>                                       | <b>1,886</b>    | <b>(2,422)</b>  | <b>(1,652)</b>  |
| <b>Total comprehensive income / (loss) for the year attributable to owners of the parent</b>  | <b>1,886</b>    | <b>(2,422)</b>  | <b>(1,652)</b>  |

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages F-7 to F-48.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2013, 2012  
AND 2011**

|   | Share<br>Capital<br>A\$'000 | Retained<br>Profits<br>A\$'000 | Employee<br>Equity<br>Benefits<br>Reserve<br>A\$'000 | Foreign<br>Currency<br>Translation<br>Reserve<br>A\$'000 | Total<br>A\$'000 |
|---|-----------------------------|--------------------------------|--|--|------------------|
| <b>At 1 July 2010</b>                                       | 19,261                      | 1,292                          | 1,017  | (770)  | 20,800           |
| Profit for the period                                       | —                           | 1,763                          | —  | —  | 1,763            |
| Other comprehensive loss                                    | —                           | —                              | —  | (3,415)  | (3,415)          |
| Total comprehensive income / (loss) for the period          | —                           | 1,763                          | —  | (3,415)  | (1,652)          |
| <b>Transactions with owners in their capacity as owners</b> |                             |                                |  |  |                  |
| Share based payments  | 84                          | —                              | 250  | —  | 334              |
| <b>Balance at 30 June 2011</b>                              | <b>19,345</b>               | <b>3,055</b>                   | <b>1,267</b>   | <b>(4,185)</b>   | <b>19,482</b>    |
| <b>At 1 July 2011</b>                                       | 19,345                      | 3,055                          | 1,267  | (4,185)  | 19,482           |
| Loss for the period   | —                           | (3,053)                        | —  | —  | (3,053)          |
| Other comprehensive income                                  | —                           | —                              | —  | 631  | 631              |
| Total comprehensive (loss) / income 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>                                       | 19,436                      | 2                              | 1,547  | (3,554)  | 17,431           |
| Profit for the period                                       | —                           | 364                            | —  | —  | 364              |
| Other comprehensive income                                  | —                           | —                              | —  | 1,522  | 1,522            |
| Total comprehensive income 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 F-7 to F-48.

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013 AND 2012**

|                                      | NOTE | CONSOLIDATED         |                 |
|--------------------------------------|------|----------------------|-----------------|
|                                      |      | 2013<br>A\$'000      | 2012<br>A\$'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><u>15,478</u></b> | <u>14,535</u>   |
| <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><u>20,653</u></b> | <u>25,669</u>   |
| <b>Total Assets</b>                  |      | <b><u>36,131</u></b> | <u>40,204</u>   |
| <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><u>7,292</u></b>  | <u>10,889</u>   |
| <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><u>9,342</u></b>  | <u>11,884</u>   |
| <b>Total Liabilities</b>             |      | <b><u>16,634</u></b> | <u>22,773</u>   |
| <b>Net Assets</b>                    |      | <b><u>19,497</u></b> | <u>17,431</u>   |
| <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><u>19,497</u></b> | <u>17,431</u>   |

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages F-7 to F-48.



**STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2013, 2012 AND 2011**

|  | NOTE | CONSOLIDATED    |                 |                 |
|--|------|-----------------|-----------------|-----------------|
|  |      | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Cash Flows from Operating Activities</b>  |      |                 |                 |                 |
| Cash receipts from customers   |      | 29,524          | 25,209          | 17,070          |
| Cash paid to suppliers and employees   |      | (30,920)        | (29,233)        | (18,742)        |
| Cash used in operations  |      | (1,396)         | (4,024)         | (1,672)         |
| Interest received  |      | 211             | 243             | 218             |
| Interest paid  |      | (206)           | (250)           | (104)           |
| Income taxes paid  |      | (326)           | (214)           | (234)           |
| <b>Net cash used in operating activities</b>   | 35   | <b>(1,717)</b>  | <b>(4,245)</b>  | <b>(1,792)</b>  |
| <b>Cash Flows from Investing Activities</b>  |      |                 |                 |                 |
| Dividends received from associate  |      | 1,485           | 1,544           | 1,208           |
| Proceeds from sale of share in investment  |      | 5,777           | —               | —               |
| Net proceeds from sale of plant & equipment  |      | 9               | 49              | 8,557           |
| Acquisition of plant & equipment   |      | (253)           | (696)           | (481)           |
| Costs incurred on development of intangibles   |      | —               | —               | (593)           |
| Acquisition of subsidiary  |      | —               | —               | (1,780)         |
| Redemption of short term deposits  |      | 666             | 2,063           | (3,434)         |
| <b>Net cash provided by investing activities</b>   |      | <b>7,684</b>    | <b>2,960</b>    | <b>3,477</b>    |
| <b>Cash Flows from Financing Activities</b>  |      |                 |                 |                 |
| Proceeds from borrowings   |      | —               | 1,930           | —               |
| Repayment of borrowings  |      | (2,864)         | (288)           | (1,848)         |
| <b>Net cash (used in) /provided by financing activities</b>                              |      | <b>(2,864)</b>  | <b>1,642</b>    | <b>(1,848)</b>  |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                            |      | <b>3,103</b>    | <b>357</b>      | <b>(163)</b>    |
| Cash and cash equivalents at 1 July  |      | 3,799           | 3,440           | 3,608           |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies |      | —               | 2               | (5)             |
| <b>Cash and cash equivalents at 30 June</b>  | 12   | <b>6,902</b>    | <b>3,799</b>    | <b>3,440</b>    |

**Non-Cash Investing and Financing Activities**

There were no non-cash investing or financing activities for the years ended 30 June 2011, 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 F-7 to F-48.

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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 29 October 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 report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, International Financial Reporting Standards, 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) *Going Concern*

The Group incurred a net loss after tax for the year ended 30 June 2012 of \$3,053,000 and experienced net cash outflows from operating activities of \$4,245,000. At 30 June 2012, the Group had net current assets of \$3,646,000. The cash and term deposit position of the Group at 30 June 2012 was \$5,170,000. These factors raised substantial doubt about the Company's ability to continue as a going concern at 30 June 2012.

The financial performance of the Group has significantly improved from a loss of \$3,053,000 for the year ended 30 June 2012 to a profit of \$364,000 for the year ended 30 June 2013, primarily due to the combined benefits of increased system sales and tighter cost control. The result was achieved despite significant expenses recognised for goodwill impairment and termination costs incurred in restructuring the operations of the Group. With the changes made over the year, the business is now on a better base to be profitable in the future.

The Company's net assets increased by 12% from \$17,431,000 at 30 June 2012 to \$19,497,000 at 30 June 2013. 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 30 June 2013. Inventory and trade payables have been managed in line with the activity levels of the LPG businesses.

The Company sold a portion of its equity method investment in Synerject during the year ended 30 June 2013 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 for the year ended 30 June 2013 was \$232,000 (2012: \$2,701,000), which reflects a significant improvement in the operating performance of the Group from the previous year. At 30 June 2013, the cash balance of the Group was \$6,902,000 (2012: \$3,799,000).

The directors have taken into consideration of the factors above and are confident that the Group has sufficient cash and liquid assets at 30 June 2013 to meet its ongoing working capital requirements in the next 12 months.

#### (d) *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.

#### (e) *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 International Financial Reporting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

## 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.

*(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.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(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.

***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 A\$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.



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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *(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.

##### *(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 is 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.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *(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.

#### *(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.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(j) Employee Benefits**

##### *(i) Short-term benefits - refer note 23*

The provisions for employee entitlements to wages, salaries and annual leave due to be settled within 12 months of year end represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers' compensation and payroll tax. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

##### *(ii) Long Service Leave - refer note 23*

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to balance sheet date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on the Group's experience with staff departures and is discounted using the rates attached to national government securities at balance sheet date, which most closely match the terms of maturity of the related liabilities.

##### *(iii) Defined Contribution Superannuation Fund - refer note 37*

Obligations for contributions to the defined contribution superannuation fund are recognised as an expense in the income statement as incurred.

##### *(iv) Share-based payment transactions - refer note 36*

Employees have been offered the right to take up shares in the Company under three plans (i) the Employee Share Plan No.1 provides A\$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.

*(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.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *(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.

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

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

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

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

- Nature of the regulatory environment.

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

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

***(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.



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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(q) Goods and Services Tax (continued)*

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

#### *(r) Earnings Per Share - refer note 11*

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### *(s) Government Grants - refer note 27*

Government grants are recognised in the Statement of Financial Position as a liability when the grant is received. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants received on compensation for expenses and losses already incurred or for the purpose of giving immediate financial support are recognised immediately in profit and loss for the period.

When the grant relates to a discount on services to be rendered in the future, the fair value is credited to deferred revenue and is released to the income statement over the periods that the discounted services are rendered.

When the grant relates to an asset (investment grants relating to the construction of a heavy duty engine test facility), the fair value is credited to deferred income and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

#### *(t) Business 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 IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity

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

### *(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:

| Reference          | Title                 | Summary   | Application date of standard* | Application date for Group* |
|--------------------|-----------------------|---|-------------------------------|-----------------------------|
| IFRS 9<br>(AASB 9) | Financial Instruments | <p>IFRS 9 (AASB 9) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39 (AASB 139). The main changes from IAS 39 (AASB 139) are described below.</p> <ul style="list-style-type: none"> <li>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in IAS 39 (AASB 139), each of which had its own classification criteria.</li> <li>(b) IFRS 9 (AASB 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.</li> <li>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> <li>(d) Where the fair value option is used for financial liabilities the change</li> </ul> | 1 January 2015                | 1 July 2015                 |

in fair value is to be accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

**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)*

| <u>Reference</u>     | <u>Title</u>                              | <u>Summary</u>   | <u>Application date of standard*</u> | <u>Application date for Group*</u> |
|----------------------|---|--|--------------------------------------|------------------------------------|
| IFRS 10<br>(AASB 10) | Consolidated Financial Statements         | <p>IFRS 10 (AASB 10) establishes a new control model that applies to all entities. It replaces parts of IAS 27 (AASB 127) Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities (Interpretation 112).</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                        |
| IFRS 11<br>(AASB 11) | Joint Arrangements                        | <p>IFRS 11 (AASB 11) replaces IAS 31 (AASB 131) <i>Interests in Joint Ventures</i> and SIC-13 (Interpretation 113) <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i>. IFRS 11 (AASB 11) uses the principle of control in IFRS10 (AASB 10) to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 (AASB 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.</p> | 1 January 2013                       | 1 July 2013                        |
| IFRS 12<br>(AASB 12) | Disclosure of Interests in Other Entities | <p>IFRS 12 (AASB 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.</p>   | 1 January 2013                       | 1 July 2013                        |
| IFRS 13              | Fair Value Measurement                    | <p>IFRS 13 (AASB 13) establishes a single</p>  | 1 January 2013                       | 1 July 2013                        |

|                                 |                             |   |                |             |
|---------------------------------|-----------------------------|---|----------------|-------------|
| (AASB 13)                       |                             | source of guidance under IFRS (AASB) for determining the fair value of assets and liabilities. IFRS 13 (AASB 13) does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS (AASB) when fair value is required or permitted by IFRS (AASB). Application of this definition may result in different fair values being determined for the relevant assets.<br><br>IFRS 13 (AASB 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. |                |             |
| IAS 19<br>(AASB 119)            | 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 |
| IFRIC 21<br>(Interpretation 21) | Levies                      | This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.   | 1 January 2014 | 1 July 2014 |

## 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)

| <u>Reference</u>                                  | <u>Title</u>  | <u>Summary</u>   | <u>Application date of standard*</u> | <u>Application date for Group*</u> |
|---|---|--|--------------------------------------|------------------------------------|
| Improvements to IFRSs -2009-2011<br>(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>IFRS 1 (AASB 1) First-time Adoption of International Financial Reporting Standards</p> <ul style="list-style-type: none"> <li>• Repeated application of IFRS 1 (AASB 1)</li> <li>• Borrowing costs</li> </ul> <p>IAS 1 (AASB 101) Presentation of Financial Statements Clarification of the requirements for comparative information</p> <p>IAS 16 (AASB 116) Property, Plant and Equipment Classification of servicing equipment</p> <p>IAS 32 (AASB 132) Financial Instruments: Presentation Tax effect of distribution to holders of equity instruments</p> <p>IAS 34 (AASB 134) Interim Financial Reporting</p> <ul style="list-style-type: none"> <li>• Interim financial reporting and segment information for total assets and liabilities</li> </ul> | 1 January 2013                       | 1 July 2013                        |
| IAS 36<br>(AASB 136)                              | IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 | <p>The amendments clarify the disclosure requirements in respect of IAS 36 Impairment of Assets (AASB 136). The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.</p>   | 1 January 2014**                     | 1 July 2014                        |

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

\*\* This standard cannot be early adopted. Revisions are currently being made to the Australian Corporations Law to bring this disclosure into the Directors' Report.

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 MANAGERMENTS 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<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Financial assets</b>      |                 |                 |                 |
| Cash and cash equivalents    | <u>6,902</u>    | <u>3,799</u>    | <u>3,440</u>    |
| <b>Financial liabilities</b> |                 |                 |                 |
| Interest bearing liabilities | —               | 2,500           | 648             |
| Contingent consideration     | <u>886</u>      | <u>2,296</u>    | <u>2,688</u>    |
|                              | <u>886</u>      | <u>4,796</u>    | <u>3,336</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)<br>Higher/(Lower) |                 |                 | Other comprehensive income<br>Higher/(Lower) |                 |                 |
|------------------------|--|-----------------|-----------------|--|-----------------|-----------------|
|                        | 2013<br>A\$'000                          | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000                              | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Consolidated</b>    |  |                 |                 |  |                 |                 |
| +1% (100 basis points) | <u>60</u>                                | <u>11</u>       | <u>8</u>        | —  | —               | —               |
| -.5% (50 basis points) | <u>(30)</u>                              | <u>(5)</u>      | <u>(4)</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 and 2011.

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

### 4. FINANCIAL RISK MANAGERMENTS 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<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Financial assets</b>      |                 |                 |                 |
| Cash and cash equivalents    | 13              | 42              | 68              |
| Trade and other receivables  | 403             | —               | 120             |
|                              | <u>416</u>      | <u>42</u>       | <u>188</u>      |
| <b>Financial liabilities</b> |                 |                 |                 |
| Trade and other payables     | <u>588</u>      | <u>216</u>      | <u>139</u>      |

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        | 13         |
| Trade and other receivables  | —         | 36        | 23         |
|                              | <u>4</u>  | <u>62</u> | <u>36</u>  |
| <b>Financial liabilities</b> |           |           |            |
| Trade and other payables     | <u>46</u> | <u>12</u> | <u>130</u> |

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)<br>Higher/(Lower) |                 |                 | Other comprehensive<br>income Higher/(Lower) |                 |                 |
|---------------------|--|-----------------|-----------------|--|-----------------|-----------------|
|                     | 2013<br>A\$'000                          | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000                              | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Consolidated</b> |  |                 |                 |  |                 |                 |
| AUD/USD/EURO +10%   | 20                                       | 12              | 4               | —  | —               | —               |
| AUD/USD/EURO -5%    | <u>(11)</u>                              | <u>(6)</u>      | <u>(2)</u>      | <u>—</u>                                     | <u>—</u>        | <u>—</u>        |

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 sheet date.



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

### 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 A\$14,346,000 repayable in yearly instalments from May 2010 to May 2025.

The Group has recognised a contingent consideration liability of A\$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<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
|------------------|-----------------|-----------------|-----------------|
| 6 months or less | 2,794           | 5,482           | 4,101           |
| 6-12 months      | 1,309           | 355             | 288             |
| 1-5 years        | 2,714           | 4,986           | 5,329           |
| Over 5 years     | 9,986           | 10,846          | 11,763          |
|                  | <b>16,803</b>   | <b>21,669</b>   | <b>21,481</b>   |

#### *Fair value*

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

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

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

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

A gain of A\$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 A\$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 A\$162,000/decrease by A\$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.

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

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

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.

#### *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. An impairment charge was recognised for continuing operations in the 2013 financial year. Refer to note 19 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.

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

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

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

##### *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. Refer to note 25 for further information.

### 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.

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

### 6. OPERATING SEGMENTS (continued)

#### *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 and suppliers*

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. The Group has one system sales supplier that accounted for 10% of purchases (2012: 13%). No other supplier accounts for more than 10% of purchases.

#### *(a) Operating segments*

|  | System sales    |                 |                 | Consulting services |                 |                 | Royalties and licences(i) |                 |                 | Consolidated    |                 |                 |
|--|-----------------|-----------------|-----------------|---------------------|-----------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000     | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000           | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Segment Revenue - external customers</b>            | <b>23,424</b>   | 14,020          | 5,847           | <b>2,057</b>        | 7,131           | 9,492           | <b>1,007</b>              | 967             | 1,081           | <b>26,488</b>   | 22,118          | 16,420          |
| Unallocated other revenue                              |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>211</b>      | 243             | 218             |
| <b>Total Revenue</b>                                   |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>26,699</b>   | 22,361          | 16,638          |
| <b>Segment result</b>                                  | <b>2,163</b>    | 380             | (2,764)         | <b>(2,206)</b>      | (2,259)         | 161             | <b>517</b>                | 463             | 610             | <b>474</b>      | (1,416)         | (1,993)         |
| Research & development                                 |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>(1,094)</b>  | (954)           | (1,158)         |
| Unallocated expenses - net (ii)                        |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>(1,524)</b>  | (3,675)         | (2,581)         |
| Gain on sale of property, plant and equipment          |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>3</b>        | —               | 4,760           |
| Finance costs  |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>(687)</b>    | (692)           | (688)           |
| Share of profit from associate                         |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>3,220</b>    | 3,480           | 3,233           |
| 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)         | 1,573           |
| Income tax (expense)/benefit                           |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>(1,730)</b>  | 204             | 190             |
| <b>Profit/(loss) after tax attributable to members</b> |                 |                 |                 |                     |                 |                 |                           |                 |                 | <b>364</b>      | (3,053)         | 1,763           |

  

|   | System sales    |                 |                 | Consulting services |                 |                 | Royalties and licences |                 |                 | Consolidated    |                 |                 |
|---|-----------------|-----------------|-----------------|---------------------|-----------------|-----------------|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000     | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000        | 2012<br>A\$'000 | 2011<br>A\$'000 | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Non-cash (revenue) and expenses</b>            |                 |                 |                 |                     |                 |                 |                        |                 |                 |                 |                 |                 |
| <b>Depreciation and amortisation</b>              | <b>498</b>      | 458             | 488             | <b>461</b>          | 533             | 686             | —                      | —               | —               | <b>959</b>      | 991             | 1,174           |
| <b>Equity settled employee compensation</b>       | <b>29</b>       | 26              | 9               | <b>60</b>           | 111             | 122             | <b>1</b>               | 1               | 1               | <b>90</b>       | 138             | 132             |
| Other non-cash (income)/expenses                  | <b>1,064</b>    | (262)           | 1,990           | <b>(225)</b>        | 245             | (216)           | —                      | —               | —               | <b>839</b>      | (17)            | 1,774           |
| <b>Segment non-cash expenses</b>                  | <b>1,591</b>    | 222             | 2,487           | <b>296</b>          | 889             | 592             | <b>1</b>               | 1               | 1               | <b>1,888</b>    | 1,112           | 3,080           |
| Equity settled employee compensation              |                 |                 |                 |                     |                 |                 |                        |                 |                 | <b>90</b>       | 233             | 202             |
| <b>Amortisation of non-interest bearing loans</b> |                 |                 |                 |                     |                 |                 |                        |                 |                 | <b>521</b>      | 507             | 614             |
| <b>Share of profit from associate</b>             |                 |                 |                 |                     |                 |                 |                        |                 |                 | <b>(3,220)</b>  | (3,480)         | (3,233)         |

|  |                     |                       |                       |
|--|---------------------|-----------------------|-----------------------|
| <b>Gain on sale of property, plant &amp; equipment</b> | <b>—</b>            | <b>—</b>              | <b>(4,760)</b>        |
| <b>Movement in provision for surplus lease space</b>   | <b>(47)</b>         | <b>177</b>            | <b>372</b>            |
| <b>Foreign exchange translation gain</b>               | <b><u>(122)</u></b> | <b><u>(120)</u></b>   | <b><u>(79)</u></b>    |
| <b>Total non-cash (revenue) and expenses</b>           | <b><u>(890)</u></b> | <b><u>(1,571)</u></b> | <b><u>(3,804)</u></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**

**7. OTHER REVENUE**

|                  | CONSOLIDATED    |                 |                 |
|------------------|-----------------|-----------------|-----------------|
|                  | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| Interest revenue | <b>211</b>      | 243             | 218             |

**8. OTHER INCOME**

|   |              |       |       |
|---|--------------|-------|-------|
| Gain on sale of plant and equipment                       | <b>3</b>     | 15    | 4,760 |
| Gain on sale of share in equity accounted investment      | <b>1,702</b> | —     | —     |
| Automotive grant income (a)                               | <b>323</b>   | 545   | 680   |
| Net foreign exchange gains                                | <b>122</b>   | 120   | 79    |
| Other income  | <b>329</b>   | 253   | 591   |
| Fair value movement in contingent consideration (note 28) | <b>1,410</b> | 392   | —     |
|   | <b>3,889</b> | 1,325 | 6,110 |

- (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.

**9. EXPENSES**

*(a) Employee benefits expense*

|   |               |        |        |
|---|---------------|--------|--------|
| Salaries and wages  | <b>9,169</b>  | 9,718  | 8,249  |
| Contributions to defined contributions superannuation funds | <b>815</b>    | 984    | 892    |
| Share based payments  | <b>180</b>    | 371    | 334    |
| Decrease in liability for annual leave                      | <b>(38)</b>   | (54)   | 18     |
| Decrease in liability for long service leave                | <b>(53)</b>   | (108)  | 19     |
| Termination costs   | <b>563</b>    | 113    | 418    |
| Other associated personnel expenses                         | <b>574</b>    | 646    | 564    |
|   | <b>11,210</b> | 11,670 | 10,494 |

*(b) Finance costs*

|  |            |     |     |
|--|------------|-----|-----|
| Interest on borrowings                       | <b>166</b> | 185 | 74  |
| Non-cash interest expense WA Government Loan | <b>521</b> | 507 | 614 |
|  | <b>687</b> | 692 | 688 |

*(c) Other expenses*

|  |              |       |       |
|--|--------------|-------|-------|
| Administration   | <b>324</b>   | 363   | 145   |
| Marketing  | <b>262</b>   | 282   | 73    |
| Investor relations                                       | <b>30</b>    | 59    | 28    |
| Freight & courier  | <b>90</b>    | 195   | 81    |
| Motor vehicle expenses                                   | <b>69</b>    | 73    | 8     |
| Impairment of receivables                                | <b>175</b>   | 429   | 43    |
| Allowance for warranty                                   | <b>387</b>   | 191   | 91    |
| Goodwill impairment                                      | <b>1,965</b> | —     | —     |
| Write-off previously capitalised development expenditure | <b>—</b>     | —     | 1,065 |
| Other  | <b>84</b>    | 587   | 243   |
|  | <b>3,386</b> | 2,179 | 1,777 |

*(d) Materials and consumables*

|   |                      |              |              |
|---|----------------------|--------------|--------------|
| Raw materials and consumables purchased | <b>8,603</b>         | 9,253        | 3,182        |
| Inventory (write-backs) / write-downs   | <b>(214)</b>         | —            | 942          |
| Change in inventories                   | <b>2,039</b>         | (1,137)      | 360          |
|   | <b><u>10,428</u></b> | <u>8,116</u> | <u>4,484</u> |

*(e) Lease payments included in income statement*

|  |              |       |     |
|--|--------------|-------|-----|
| Minimum lease payments - operating lease | <b>1,066</b> | 1,044 | 490 |
|--|--------------|-------|-----|

*(f) Research and development costs*

|   |              |     |       |
|---|--------------|-----|-------|
| Research and development costs charged directly to the income statement | <b>1,094</b> | 954 | 1,158 |
|---|--------------|-----|-------|

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

10. INCOME TAX

(a) Recognised in the income statement

|   | CONSOLIDATED    |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| <b>Current income tax</b>                                       |                 |                 |                 |
| Current year expense  | (90)            | (252)           | (342)           |
| <b>Deferred tax</b>   |                 |                 |                 |
| Relating to originating and reversing temporary differences     | (729)           | (13)            | —               |
| (Expense)/Benefit on (de-recognition)/recognition of tax losses | (911)           | 469             | 532             |
|   | <u>(1,640)</u>  | <u>456</u>      | <u>532</u>      |
| <b>Total income tax (expense)/benefit in income statement</b>   | <u>(1,730)</u>  | <u>204</u>      | <u>190</u>      |

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

|  |                |                |              |
|--|----------------|----------------|--------------|
| Profit/(loss) before tax                                       | <u>2,094</u>   | <u>(3,257)</u> | <u>1,573</u> |
| Income tax using the statutory tax rates                       | (628)          | 977            | (472)        |
| - Non deductible expenditure                                   | (355)          | (274)          | (711)        |
| - Non assessable items   | —              | 118            | 706          |
| - Deferred tax assets recognised in prior years now recognised | (503)          | (330)          | 922          |
| - Net withholding tax (paid)/recouped                          | (22)           | 8              | (70)         |
| - United States of America Federal and State taxes             | (222)          | (295)          | (185)        |
| Income tax (expense)/benefit on pre-tax net profit             | <u>(1,730)</u> | <u>204</u>     | <u>190</u>   |

(c) Tax consolidation

Members of the tax consolidated group and the tax sharing arrangement

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

11. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2013 was based on profit attributable to ordinary shareholders of A\$364,000 (2012: loss A\$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<br>A\$       | 2012<br>A\$        | 2011<br>A\$       |
| <b>Profit/(Loss) attributable to ordinary shareholders</b>               | <u>364,000</u>    | <u>(3,053,000)</u> | <u>1,763,084</u>  |
| <b>Weighted average number of ordinary shares</b>                        | Number            | Number             | Number            |
| Weighted average number of ordinary shares at 30 June                    | 49,079,683        | 48,612,706         | 48,325,837        |
| Effect of potential dilutive ordinary shares                             | —                 | —                  | —                 |
| Weighted average number of potential dilutive ordinary shares at 30 June | <u>49,079,683</u> | <u>48,612,706</u>  | <u>48,325,837</u> |
| <b>Earnings/(loss) per share</b>   | Cents             | Cents              | Cents             |
| Basic earnings/(loss) per share  | <u>0.74</u>       | <u>(6.28)</u>      | <u>3.65</u>       |
| Diluted earnings/(loss) per share  | <u>0.74</u>       | <u>(6.28)</u>      | <u>3.65</u>       |

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.

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

### 12. CASH AND CASH EQUIVALENTS

|   | CONSOLIDATED    |                 |
|---|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 |
| Cash at bank                              | 760             | 503             |
| Cash at bank - US dollars                 | 13              | 42              |
| Cash at bank - European currency units    | 4               | 26              |
| At call deposits - financial institutions | 6,125           | 3,228           |
|   | <b>6,902</b>    | <b>3,799</b>    |

### 13. OTHER FINANCIAL ASSETS

|  |     |       |
|--|-----|-------|
| Short term deposits - financial institutions | 705 | 1,371 |
|--|-----|-------|

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.

### 14. TRADE AND OTHER RECEIVABLES

| <b>Current</b>                    |              |              |
|-----------------------------------|--------------|--------------|
| Trade receivables                 | 4,246        | 3,572        |
| Allowance for impairment loss (a) | (180)        | (5)          |
|                                   | <b>4,066</b> | <b>3,567</b> |
| Accrued royalties                 | 299          | 264          |
| Other receivables                 | 73           | 48           |
| Prepayments                       | 275          | 289          |
|                                   | <b>4,713</b> | <b>4,168</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 A\$180,000 (2012: A\$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 | (175)        | (429)      |
| Amounts written off | —            | 578        |
| At 30 June          | <b>(180)</b> | <b>(5)</b> |

At 30 June, the ageing analysis of trade receivables is as follows:

|      |              | Total | 0-30<br>days | 31-60<br>days | 61-90<br>days<br>PDNI* | +91<br>days<br>PDNI* | +91<br>days<br>CI** |
|------|--------------|-------|--------------|---------------|------------------------|----------------------|---------------------|
| 2013 | Consolidated | 4,246 | 2,576        | 1,347         | 108                    | 35                   | 180                 |
| 2012 | Consolidated | 3,572 | 2,288        | 1,074         | 202                    | 3                    | 5                   |

\* PDNI "Past due not considered impaired"

\*\* CI "Considered impaired"

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

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

### 14. TRADE AND OTHER RECEIVABLES (continued)

#### (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.

### 15. INVENTORIES

|   | CONSOLIDATED    |                 |
|---|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 |
| Materials and production supplies - at lower of cost and net realisable value | 3,158           | 5,197           |

#### (a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2013 totalled A\$10,428,000 (2012: A\$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<br>US\$'000 | 2012<br>US\$'000 | 2011<br>US\$'000 |
|-------------------------|------------------|------------------|------------------|
| Revenues (100%)         | 137,287          | 127,548          | 121,673          |
| Profit (100%)           | 8,275            | 8,045            | 7,315            |
| Current assets          | 49,858           | 45,789           | 45,427           |
| Non-current assets      | 11,510           | 12,880           | 12,058           |
| Current liabilities     | 28,424           | 27,936           | 29,562           |
| Non-current liabilities | —                | 2,654            | 3,463            |
| Net assets              | 32,944           | 28,079           | 24,460           |



|  | <u>2013</u><br><u>A\$'000</u> | <u>2012</u><br><u>A\$'000</u> | <u>2012</u><br><u>A\$'000</u> |
|--|-------------------------------|-------------------------------|-------------------------------|
| Revenues (100%)                                  | <b>133,665</b>                | 124,413                       | 123,163                       |
| Profit (100%)                                    | <b><u>8,057</u></b>           | <u>7,847</u>                  | <u>7,405</u>                  |
| Current assets                                   | <b>53,755</b>                 | 44,931                        | 42,301                        |
| Non-current assets                               | <b>12,410</b>                 | 12,639                        | 11,228                        |
| Current liabilities                              | <b>30,645</b>                 | 27,412                        | 27,528                        |
| Non-current liabilities                          | <u>—</u>                      | <u>2,604</u>                  | <u>3,224</u>                  |
| Net assets                                       | <b><u>35,520</u></b>          | <u>27,554</u>                 | <u>22,777</u>                 |
| Share of Synerject's net profit recognised       | <b><u>3,220</u></b>           | <u>3,480</u>                  | <u>3,233</u>                  |
| Share of Synerject's net assets equity accounted | <b><u>12,468</u></b>          | <u>13,696</u>                 | <u>11,406</u>                 |

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

16. INVESTMENT IN ASSOCIATE (continued)

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

|                                       | CONSOLIDATED    |                 |
|---------------------------------------|-----------------|-----------------|
|                                       | 2013<br>A\$'000 | 2012<br>A\$'000 |
| Beginning of year                     | 13,696          | 11,406          |
| Sale of interest                      | (4,086)         | —               |
| Share of profits after tax            | 3,220           | 3,480           |
| Share of reserves                     | 35              | (199)           |
| Dividends received                    | (1,485)         | (1,544)         |
| Unrealised foreign exchange movements | 1,088           | 553             |
| End of year                           | <u>12,468</u>   | <u>13,696</u>   |

(c) Results of Synerject

|   | CONSOLIDATED    |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| Share of Synerject's profit before income tax                 | 3,126           | 3,254           | 3,181           |
| Share of income tax (expense)/benefit                         | (72)            | 42              | (71)            |
| Share of Synerject's net profit                               | 3,054           | 3,296           | 3,110           |
| Adjustments:  |                 |                 |                 |
| - dissimilar accounting treatment with respect to intangibles | 166             | 184             | 123             |
|   | <u>3,220</u>    | <u>3,480</u>    | <u>3,233</u>    |

(d) Commitments

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

|  | CONSOLIDATED    |                 |
|--|-----------------|-----------------|
|  | 2013<br>A\$'000 | 2012<br>A\$'000 |
| Within one year                                | 288             | 376             |
| One year or later and no later than five years | 699             | 1,090           |
| Later than 5 years                             | 78              | 257             |
|  | <u>1,065</u>    | <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<br>A\$'000     | 2012<br>A\$'000 | 2013<br>A\$'000          | 2012<br>A\$'000 | 2013<br>A\$'000 | 2012<br>A\$'000 |
| Tax value of loss carry-forwards recognised | 4,656               | 5,439           | —                        | —               | 4,656           | 5,439           |
| Other net temporary differences (a)         | 682                 | 1,574           | (682)                    | (1,246)         | —               | 328             |
| Net tax assets                              | <u>5,338</u>        | <u>7,013</u>    | <u>(682)</u>             | <u>(1,246)</u>  | <u>4,656</u>    | <u>5,767</u>    |

Under the tax laws of the United States, tax losses that cannot be fully utilised for tax purposes during the current year may be carried forward, subject to some statutory limitations, to reduce taxable income in future years. At 30 June 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)**

|  | <b>Consolidated</b>                     |   |   |   | <b>Balance<br/>30-Jun-12<br/>A\$'000</b> |
|--|---|---|---|---|--|
|  | <b>Balance<br/>1-Jul-11<br/>A\$'000</b> | <b>Acquired<br/>during the<br/>year<br/>A\$'000</b> | <b>Recognised<br/>in income<br/>A\$'000</b> | <b>Recognised<br/>in equity<br/>(b) A\$'000</b> |  |
| <b>Movement in temporary differences during the year</b> |   |   |   |   |  |
| 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>                             |

|   | <b>Consolidated</b>                     |   |   |   | <b>Balance<br/>30-Jun-13<br/>A\$'000</b> |
|---|---|---|---|---|--|
|   | <b>Balance<br/>1-Jul-12<br/>A\$'000</b> | <b>Acquired<br/>during the<br/>year<br/>A\$'000</b> | <b>Recognised<br/>in income<br/>A\$'000</b> | <b>Recognised<br/>in equity (b)<br/>A\$'000</b> |  |
| 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>                             |

*(a) Other net temporary differences*

|  | <b>CONSOLIDATED</b>     |                         |
|--|-------------------------|-------------------------|
|  | <b>2013<br/>A\$'000</b> | <b>2012<br/>A\$'000</b> |
| <i>Deferred tax assets</i>                             |                         |                         |
| Annual leave   | 545                     | 293                     |
| Long service leave                                     | 17                      | 378                     |
| Staff bonus  | 5                       | —                       |
| Revenue in advance                                     | 115                     | 594                     |
| Inventory provision                                    | —                       | 309                     |
|  | <b>682</b>              | <b>1,574</b>            |
| <i>Deferred tax liabilities</i>                        |                         |                         |
| Unrealised foreign exchange gain on inter-company loan | (534)                   | (1,071)                 |
| Other  | (148)                   | (175)                   |
|  | <b>(682)</b>            | <b>(1,246)</b>          |
| <b>Net temporary differences</b>                       | <b>—</b>                | <b>328</b>              |

(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:

|   |               |               |
|---|---------------|---------------|
| <b>Australia (net at 30%)</b>                                   |               |               |
| Tax losses  | 20,533        | 19,821        |
| Timing difference from provision for capital loss on investment | 1,934         | 1,934         |
| Other net temporary differences                                 | 2,029         | 621           |
|   | <b>24,496</b> | <b>22,376</b> |
| <b>United States of America (net at 34%)</b>                    |               |               |
| Tax losses  | 4,699         | 5,130         |
| Other net temporary differences                                 | 775           | 2,949         |
|   | <b>5,474</b>  | <b>8,079</b>  |

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

18. PLANT AND EQUIPMENT

|  | CONSOLIDATED    |                 |
|--|-----------------|-----------------|
|  | 2013<br>A\$'000 | 2012<br>A\$'000 |
| <i>Plant and equipment</i>                 |                 |                 |
| At cost                                    | 18,044          | 17,797          |
| Less: accumulated depreciation             | (14,661)        | (13,848)        |
| Total plant and equipment - net book value | <u>3,383</u>    | <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 | 3,949        | 4,134        |
| Additions                            | 253          | 696          |
| Disposals                            | (6)          | (35)         |
| Depreciation                         | (813)        | (846)        |
| Carrying amount at end of year       | <u>3,383</u> | <u>3,949</u> |
| <i>Total</i>                         |              |              |
| Carrying amount at beginning of year | 3,949        | 4,134        |
| Carrying amount at end of year       | <u>3,383</u> | <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 A\$59,000 (2012: A\$77,000). No additions to plant and equipment under finance leases were made during the year (2012: A\$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               | 146        | 292          |
| Total intangibles and goodwill - net book value   | <u>146</u> | <u>2,257</u> |
| <b>Net carrying value</b>                         |            |              |
| <i>Goodwill acquired in business combinations</i> |            |              |
| At cost   | 1,965      | 1,965        |
| Less: allowance for impairment                    | (1,965)    | —            |
|   | <u>—</u>   | <u>1,965</u> |
| <i>Capitalised development expenditure</i>        |            |              |
| At cost   | 826        | 826          |
| Less: accumulated amortisation and impairment     | (680)      | (534)        |
|   | <u>146</u> | <u>292</u>   |

(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 | 1,965    | 1,965        |
| Impairment charge                    | (1,965)  | —            |
| 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><u>(146)</u></b> | <u>(145)</u> |
| Carrying amount at end of year       | <b><u>146</u></b>   | <u>292</u>   |

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

### 19. INTANGIBLES AND GOODWILL (continued)

#### *(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 (A\$363,000) and Sprint Gas (Aust) Pty Ltd on 27 May 2011 (A\$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 A\$1,965,000 on goodwill was recognised for continuing operations in the 2013 financial year (2012: A\$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 A\$363,000 against goodwill previously carried of A\$363,000.

##### **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 A\$1,602,000 against goodwill previously carried of A\$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<br>A\$'000         | 2012<br>A\$'000 | 2013<br>A\$'000 | 2012<br>A\$'000 | 2013<br>A\$'000 | 2012<br>A\$'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.

## 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)

(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 A\$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 A\$371,000. However, management is confident that the revenues will be achieved due to the historic revenues achieved by the unit.

### 20. TRADE PAYABLES AND OTHER LIABILITIES

|                              | CONSOLIDATED    |                 |
|------------------------------|-----------------|-----------------|
|                              | 2013<br>A\$'000 | 2012<br>A\$'000 |
| <b>Current</b>               |                 |                 |
| Trade creditors and accruals | 2,785           | 3,038           |
| Revenues received in advance | 16              | 1,868           |
|                              | 2,801           | 4,906           |

#### (a) Fair value

Due to the short term nature of trade payables and other liabilities, their carrying value is assumed to approximate their fair value.

#### (b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.

### 21. BORROWINGS

|   |     |       |
|---|-----|-------|
| <b>Current</b>  |     |       |
| Obligations under hire purchase contracts             | 17  | 18    |
| Current portion of long term borrowings (see note 26) | 415 | 346   |
| Loans and advances - secured (a)                      | —   | 2,500 |
|   | 432 | 2,864 |
| <b>Non-current</b>                                    |     |       |
| Obligations under hire purchase contracts             | 42  | 59    |

#### (a) Security

A first ranking mortgage debenture with fixed and floating charges over the whole of the assets has been granted to the Company's banker for the establishment of the credit facilities totalling A\$735,000 (2012: A\$3,205,000).

#### (b) Maturity

Obligations under hire purchase contracts mature in 2014 and 2015.



***(c) Interest***

Interest calculations on the hire purchase contracts are based on fixed interest rates applicable at the date of drawdown and payable monthly. The average interest rate on hire purchase contracts at reporting date is 7.35% (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%).

***(d) Fair value***

Due to the short term nature of these loans, their carrying value is assumed to approximate their fair value.

***(e) Interest rate, foreign exchange and liquidity risk***

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.

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

### 22. FINANCING ARRANGEMENTS

The consolidated entity has standby arrangements with Westpac Banking Corporation to provide support facilities:

|  | CONSOLIDATED    |                 |
|--|-----------------|-----------------|
|  | 2013<br>A\$'000 | 2012<br>A\$'000 |
| <b>Total facilities available</b>              |                 |                 |
| Bank Bill Business Loan                        | —               | 2,500           |
| Corporate credit card facility                 | 230             | 200             |
| Bank guarantee                                 | 505             | 505             |
|  | <u>735</u>      | <u>3,205</u>    |
| <b>Facilities utilised at balance date</b>     |                 |                 |
| Bank Bill Business Loan                        | 21              | 2,500           |
| Corporate credit card facility                 | 26              | 25              |
| Bank guarantee                                 | 505             | 505             |
|  | <u>531</u>      | <u>3,030</u>    |
| <b>Facilities not utilised at balance date</b> |                 |                 |
| Corporate credit card facility                 | 204             | 175             |
|  | <u>204</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 A\$735,000 (2012: A\$3,205,000).

The Company has also provided the Company's banker with security over short term deposits of A\$705,000 (2012: A\$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

|  |              |              |
|--|--------------|--------------|
| <b>(a) Current</b>                                       |              |              |
| Annual leave   | 765          | 1,012        |
| Long service leave                                       | 1,072        | 1,105        |
|  | <u>1,837</u> | <u>2,117</u> |
| <b>(b) Non-Current</b>                                   |              |              |
| Long service leave                                       | 55           | 119          |
|  | <u>55</u>    | <u>119</u>   |
| <b>(c) Aggregate Liability for employee entitlements</b> | <u>1,892</u> | <u>2,236</u> |

The present value of employee entitlements have been calculated using the following weighted averages:

|   |           |            |
|---|-----------|------------|
| Assumed rate of increase in wage and salary rates | 4.0%      | 4.0%       |
| Discount rate at 30 June                          | 3.1%      | 3.0%       |
| Settlement term (years)                           | 10        | 10         |
| <b>Number of employees</b>                        |           |            |
| Number of employees at year end                   | <u>87</u> | <u>108</u> |

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

**24. DEFERRED REVENUE**

*(a) Current*

|  | CONSOLIDATED    |                 |
|--|-----------------|-----------------|
|  | 2013<br>A\$'000 | 2012<br>A\$'000 |
| Deferred revenue for operation of heavy duty engine testing facility | <u>316</u>      | <u>316</u>      |

*(b) Movement in deferred revenue*

|            |            |            |
|------------|------------|------------|
| At 1 July  | <u>316</u> | <u>316</u> |
| At 30 June | <u>316</u> | <u>316</u> |

In June 2008 the Group received funding of A\$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. 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. This discount to commercial rates of A\$512,000 has been transferred from government grants (see note 27) and recorded as deferred revenue.

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

**25. OTHER PROVISIONS**

*(a) Current*

|                     |            |            |
|---------------------|------------|------------|
| Warranties          | 111        | 229        |
| Surplus lease space | 182        | 182        |
| Other               | 502        | 50         |
|                     | <u>795</u> | <u>461</u> |

*(b) Non-Current*

|                     |            |            |
|---------------------|------------|------------|
| Surplus lease space | <u>289</u> | <u>336</u> |
|---------------------|------------|------------|

*(c) Reconciliations*

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

|  |            |            |
|--|------------|------------|
| <i>Warranties - current</i>              |            |            |
| Carrying amount at beginning of year     | 229        | 88         |
| Arising during the year                  | 1          | 141        |
| Utilised                                 | (119)      | —          |
| Carrying amount at end of year           | <u>111</u> | <u>229</u> |
| <i>Surplus lease space - current</i>     |            |            |
| Carrying amount at beginning of year     | 182        | 37         |
| Utilised                                 | (182)      | (214)      |
| Reclassified from non-current            | 182        | 359        |
| Carrying amount at end of year           | <u>182</u> | <u>182</u> |
| <i>Other provisions - current</i>        |            |            |
| Carrying amount at beginning of year     | 50         | 70         |
| Arising during the year                  | 452        | 50         |
| Utilised                                 | —          | (70)       |
| Carrying amount at end of year           | <u>502</u> | <u>50</u>  |
| <i>Surplus lease space - non-current</i> |            |            |
| Carrying amount at beginning of year     | 336        | 304        |
| Arising during the year                  | 135        | 391        |
| Reclassified to current                  | (182)      | (359)      |
| Carrying amount at end of year           | <u>289</u> | <u>336</u> |

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

### 25. OTHER PROVISIONS (continued)

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.

### 26. LONG TERM BORROWINGS

|                              | <b>CONSOLIDATED</b> |                |
|------------------------------|---------------------|----------------|
|                              | <b>2013</b>         | <b>2012</b>    |
|                              | <b>A\$'000</b>      | <b>A\$'000</b> |
| <b>Non-Current</b>           |                     |                |
| Loans and advances - secured | <b>7,757</b>        | <b>7,650</b>   |

The Government of Western Australia had previously provided the company with a fully utilised loan facility of A\$19,000,000 under the terms of a "Development Agreement". During the 2010 financial 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 A\$14,346,000 with the following terms and conditions.

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

The restructured loan's net fair value utilising a market interest rate of 6.52% was A\$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 of A\$8,127,486 at 30 June 2013 (2012:A\$7,605,365) is calculated by discounting the expected future cash flows at the prevailing market interest rate of 6.77% (2012: 7.35%) at the reporting date.

### 27. GOVERNMENT GRANTS

|   |              |              |
|---|--------------|--------------|
| <b>Current liabilities</b>  |              |              |
| Investment grant for construction of heavy duty engine testing facility | 225          | 225          |
| <b>Non-current liabilities</b>  |              |              |
| Investment grant for construction of heavy duty engine testing facility | 1,199        | 1,424        |
| <b>Total government grants deferred</b>                                 | <b>1,424</b> | <b>1,649</b> |

#### *Movement in government grants*

|                                  |              |              |
|----------------------------------|--------------|--------------|
| At 1 July                        | 1,649        | 1,874        |
| Released to the income statement | (225)        | (225)        |
| At 30 June                       | <b>1,424</b> | <b>1,649</b> |

In June 2008 the Group received funding of A\$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. 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 A\$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.

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

### 28. CONTINGENT CONSIDERATION

|   | CONSOLIDATED    |                 |
|---|-----------------|-----------------|
|   | 2013<br>A\$'000 | 2012<br>A\$'000 |
| <b>Current liabilities</b>                        |                 |                 |
| Contingent consideration for business acquisition | <u>886</u>      | <u>—</u>        |
| <b>Non-current liabilities</b>                    |                 |                 |
| Contingent consideration for business acquisition | <u>—</u>        | <u>2,296</u>    |

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

#### *Movement in contingent consideration*

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

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

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.

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

**30. RETAINED PROFITS AND RESERVES**

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

|                   | <u>CONSOLIDATED</u> |                |
|-------------------|---------------------|----------------|
|                   | <u>2013</u>         | <u>2012</u>    |
|                   | <u>A\$'000</u>      | <u>A\$'000</u> |
| Balance 1 July    | 2                   | 3,055          |
| Net profit/(loss) | 364                 | (3,053)        |
| Balance 30 June   | <u>366</u>          | <u>2</u>       |

*(b) Other reserves*

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



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

**31. CONSOLIDATED ENTITY**

|  | Note | Class of Shares | Consolidated Entity Interest |           |
|--|------|-----------------|------------------------------|-----------|
|  |      |                 | 2013<br>%                    | 2012<br>% |
| <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 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.

**32. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED**

|   | 2013<br>A\$'000       | 2012<br>A\$'000 |
|---|-----------------------|-----------------|
| 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>1,645</b>          | 1,547           |
| 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.

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

### 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<br>A\$'000 | 2012<br>A\$'000 |
| <i>Receivables</i> |                 |                 |
| Current            | 3               | —               |
| <i>Payables</i>    |                 |                 |
| Current            | —               | 63              |

#### (ii) Transactions

During the year, the Group purchased goods and services to the value of A\$148,000 (2012: A\$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 A\$1,484,854 (2012: A\$1,543,686) from Synerject LLC.

### 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

Dr MT Jones (Chairman) (from 2 September 2013)  
Mr WP Day (ceased being Chairman on 2 September 2013)  
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<br>A\$  | 2012<br>A\$ | 2011<br>A\$ |
| Short-term employee benefits | 1,011,679    | 1,028,635   | 876,810     |
| Post-employment benefits     | 110,193      | 114,847     | 131,555     |
| Equity compensation benefits | 107,015      | 251,062     | 223,405     |
| Termination benefits         | —            | —           | 288,241     |

1,228,887

1,394,544

1,520,011

***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.

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

34. KEY MANAGEMENT PERSONNEL (continued)

*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:

|                                | <u>Held at<br/>1-Jul-12</u> | <u>Purchases</u> | <u>Granted as compensation</u>     |              | <u>Sales</u> | <u>Other(a)</u> | <u>Held at<br/>30-Jun-13</u> |
|--------------------------------|-----------------------------|------------------|------------------------------------|--------------|--------------|-----------------|------------------------------|
|                                |                             |                  | <u>ESP #1</u>                      | <u>ELTSP</u> |              |                 |                              |
| <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)       | —                            |
|                                | <u>Held at<br/>1-Jul-11</u> | <u>Purchases</u> | <u>Granted as compensation</u>     |              | <u>Sales</u> | <u>Other(a)</u> | <u>Held at<br/>30-Jun-12</u> |
|                                |                             |                  | <u>ESP #1</u>                      | <u>ELTSP</u> |              |                 |                              |
| <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                      |
|                                | <u>Held at<br/>1-Jul-10</u> | <u>Purchases</u> | <u>Granted as<br/>compensation</u> |              | <u>Sales</u> | <u>Other(a)</u> | <u>Held at<br/>30-Jun-11</u> |
|                                |                             |                  | <u>ESP #1</u>                      | <u>ELTSP</u> |              |                 |                              |
| <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)              | 230,088                     | 145,602          | —                                  | —            | —            | —               | 375,690                      |
| <b>Executives</b>              |                             |                  |                                    |              |              |                 |                              |
| Dr GP Cathcart                 | 48,091                      | —                | 3,369                              | —            | —            | 2               | 51,462                       |
| Mr KA Halliwell                | 136,734                     | 37,500           | 3,369                              | —            | —            | 2               | 177,605                      |

(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.

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

**34. KEY MANAGEMENT PERSONNEL (continued)**

*Movements in ELTSP rights*

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

|                           | <u>Held at<br/>1-Jul-12</u> | <u>Offered</u> | <u>Forfeited</u>   | <u>Vested</u> | <u>Expired</u>   | <u>Other(a)</u> | <u>Held at<br/>30-Jun-13</u> |
|---------------------------|-----------------------------|----------------|--------------------|---------------|------------------|-----------------|------------------------------|
| <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           | <u>1,014,067</u>            | <u>600,000</u> | <u>(1,347,567)</u> | <u>—</u>      | <u>(266,500)</u> | <u>—</u>        | <u>—</u>                     |

|                           | <u>Held at<br/>1-Jul-11</u> | <u>Offered</u> | <u>Forfeited</u> | <u>Vested</u> | <u>Expired</u>  | <u>Other</u> | <u>Held at<br/>30-Jun-12</u> |
|---------------------------|-----------------------------|----------------|------------------|---------------|-----------------|--------------|------------------------------|
| <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           | <u>674,067</u>              | <u>410,000</u> | <u>—</u>         | <u>—</u>      | <u>(70,000)</u> | <u>—</u>     | <u>1,014,067</u>             |

|                           | <u>Held at<br/>1-Jul-10</u> | <u>Offered</u> | <u>Forfeited</u> | <u>Vested</u> | <u>Expired</u>  | <u>Other</u> | <u>Held at<br/>30-Jun-11</u> |
|---------------------------|-----------------------------|----------------|------------------|---------------|-----------------|--------------|------------------------------|
| <b>Executive director</b> |                             |                |                  |               |                 |              |                              |
| Mr TD Stinson             | 655,000                     | 665,000        | —                | —             | —               | —            | 1,320,000                    |
| <b>Executives</b>         |                             |                |                  |               |                 |              |                              |
| Dr GP Cathcart            | 256,500                     | 252,700        | —                | —             | (17,000)        | —            | 492,200                      |
| Mr KA Halliwell           | <u>363,500</u>              | <u>337,567</u> | <u>—</u>         | <u>—</u>      | <u>(27,000)</u> | <u>—</u>     | <u>674,067</u>               |

(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:

|                           | <u>Held at<br/>1-Jul-12</u> | <u>Offered</u> | <u>Forfeited</u> | <u>Vested</u> | <u>Expired</u> | <u>Held at<br/>30-Jun-13</u> |
|---------------------------|-----------------------------|----------------|------------------|---------------|----------------|------------------------------|
| <b>Executive director</b> |                             |                |                  |               |                |                              |
| Mr TD Stinson             | <u>1,150,000</u>            | <u>—</u>       | <u>—</u>         | <u>—</u>      | <u>—</u>       | <u>1,150,000</u>             |
|                           | <u>Held at<br/>1-Jul-11</u> | <u>Offered</u> | <u>Forfeited</u> | <u>Vested</u> | <u>Expired</u> | <u>Held at<br/>30-Jun-12</u> |
| <b>Executive director</b> |                             |                |                  |               |                |                              |
| Mr TD Stinson             | <u>1,150,000</u>            | <u>—</u>       | <u>—</u>         | <u>—</u>      | <u>—</u>       | <u>1,150,000</u>             |
|                           | <u>Held at<br/>1-Jul-10</u> | <u>Offered</u> | <u>Forfeited</u> | <u>Vested</u> | <u>Expired</u> | <u>Held at<br/>30-Jun-11</u> |
| <b>Executive director</b> |                             |                |                  |               |                |                              |
| Mr TD Stinson             | <u>1,150,000</u>            | <u>—</u>       | <u>—</u>         | <u>—</u>      | <u>—</u>       | <u>1,150,000</u>             |

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

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

**35. NOTES TO THE STATEMENT OF CASH FLOWS**

*Reconciliation of cash flows from operating activities*

|  | NOTE  | CONSOLIDATED    |                 |                 |
|--|-------|-----------------|-----------------|-----------------|
|  |       | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| Profit/(loss) after income tax   |       | <b>364</b>      | (3,053)         | 1,763           |
| <i>Adjustments for:</i>  |       |                 |                 |                 |
| Profit on sale of property, plant and equipment                                | 8     | <b>(3)</b>      | (15)            | (4,760)         |
| Depreciation   | 18    | <b>813</b>      | 846             | 930             |
| Amortisation   | 19    | <b>146</b>      | 145             | 253             |
| Amortisation of deferred revenue and government grants                         |       | <b>(225)</b>    | (225)           | (225)           |
| Inventory write-down   |       | —               | —               | 942             |
| Impairment, write-off of trade receivables                                     |       | <b>175</b>      | 429             | 38              |
| Movement in fair value of financial liability                                  | 28    | <b>(1,410)</b>  | (392)           | —               |
| Impairment of goodwill   | 19    | <b>1,965</b>    | —               | —               |
| Impairment of capitalised development costs                                    | 19    | —               | —               | 1,065           |
| Amortisation of non-interest bearing loans                                     | 9(b)  | <b>521</b>      | 507             | 613             |
| Amounts set aside to warranty and other provisions                             |       | <b>287</b>      | 298             | 318             |
| Share of net profit of equity accounted investment                             | 16    | <b>(3,220)</b>  | (3,480)         | (3,233)         |
| Profit on sale of share in equity accounted investment                         | 8     | <b>(1,702)</b>  | —               | —               |
| Employee compensation expense  | 36(a) | <b>180</b>      | 371             | 334             |
| Net foreign exchange gains   |       | <b>(122)</b>    | (120)           | (79)            |
| Net cash used in operating activities before changes in assets and liabilities |       | <b>(2,231)</b>  | (4,689)         | (2,041)         |
| <i>Changes in assets and liabilities during the year:</i>                      |       |                 |                 |                 |
| (Increase)/decrease in receivables   |       | <b>(713)</b>    | 2,262           | (621)           |
| Decrease/(increase) in inventories   |       | <b>2,039</b>    | (1,137)         | 360             |
| Decrease/(increase) in deferred tax assets                                     |       | <b>1,640</b>    | (456)           | (532)           |
| (Decrease)/increase in payables  |       | <b>(2,108)</b>  | 25              | 1,629           |
| (Decrease) in employee provisions  |       | <b>(344)</b>    | (250)           | (587)           |
|  |       | <b>514</b>      | 444             | 249             |
| Net cash used in operating activities  |       | <b>(1,717)</b>  | (4,245)         | (1,792)         |

**36. SHARE BASED PAYMENT PLANS**

*(a) Recognised share-based payment expenses*

|  |            |     |     |
|--|------------|-----|-----|
| Expense arising from equity-settled share-based payment transactions | <b>180</b> | 371 | 334 |
|--|------------|-----|-----|

The share-based payment plans are described below.

*(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 A\$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 A\$82,000 (2012: A\$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 ELTSP 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.

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)

Vesting schedule for the EPS tested ELTSP awarded for the performance year 2013

| Company Performance<br>(Earnings per share) | % of offered shares<br>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 ELTSP 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 ELTSP awarded for the performance year 2012

| Company Performance<br>(TSR Ranking)                          | % of Personal Allotment<br>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.

Summary of rights granted under the ELTSP

|  | 2013<br>No. | 2012<br>No. | 2011<br>No. |
|--|-------------|-------------|-------------|
| Outstanding at the beginning of the year | 4,227,300   | 2,849,800   | 1,855,000   |
| Granted during the year                  | 2,480,000   | 1,687,500   | 1,730,900   |
| Forfeited during the year                | (1,610,100) | —           | (642,600)   |
| Vested during the year and shares issued | —           | —           | —           |
| Expired during the year                  | (1,051,000) | (310,000)   | (93,500)    |
| Outstanding at the end of the year       | 4,046,200   | 4,227,300   | 2,849,800   |

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

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

## 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)

##### *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*

| <u>Grant Date</u> | <u>Life</u> | <u>Expiry Date</u> | <u>Fair Value per right</u> | <u>Exercise Price</u> | <u>Market price of shares on grant date</u> | <u>Expected volatility</u> | <u>Risk free interest rate</u> |
|-------------------|-------------|--------------------|-----------------------------|-----------------------|---|----------------------------|--------------------------------|
| 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*

| <u>Grant Date</u> | <u>Life</u> | <u>Expiry Date</u> | <u>Fair Value per right</u> | <u>Exercise Price</u> | <u>Market price of shares on grant date</u> |
|-------------------|-------------|--------------------|-----------------------------|-----------------------|---|
| 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.

#### (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:

| <u>Tranche</u> | <u>Number of performance rights</u> | <u>Share price target<br/>A\$</u> | <u>Fair Value at grant date<br/>A\$</u> |
|----------------|-------------------------------------|-----------------------------------|---|
| 1              | 200,000                             | A\$ 2.50                          | 94,000                                  |
| 2              | 200,000                             | A\$ 5.00                          | 70,000                                  |
| 3              | 200,000                             | A\$ 7.50                          | 56,000                                  |
| 4              | 200,000                             | A\$ 10.00                         | 46,000                                  |
| 5              | 125,000                             | A\$ 20.00                         | 16,250                                  |
| 6              | 125,000                             | A\$ 30.00                         | 11,250                                  |
| 7              | 100,000                             | A\$ 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;

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

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

#### (d) Performance Rights Plan (continued)

- (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, 2012 and 2011.

### 37. DEFINED CONTRIBUTION SUPERANNUATION FUND

The Group contributes to a defined contribution plan for the provision of benefits to Australian employees on retirement, death or disability. Employee and employer contributions are based on various percentages of gross salaries and wages. Apart from the contributions required under superannuation legislation, there is no legally enforceable obligation on the Company or its controlled entities to contribute to the superannuation plan.

### 38. COMMITMENTS

#### (a) Operating leases

|  | CONSOLIDATED    |                 |                 |
|--|-----------------|-----------------|-----------------|
|  | 2013<br>A\$'000 | 2012<br>A\$'000 | 2011<br>A\$'000 |
| Non-cancellable future operating lease rentals not provided for in the financial statements and payable: |                 |                 |                 |
| - Not later than one year  | 1,214           | 1,191           | 1,022           |
| - Later than one year but not later than five years  | 3,855           | 3,983           | 3,536           |
| - later than five years  | 2,501           | 3,399           | 4,273           |
|  | <u>7,570</u>    | <u>8,573</u>    | <u>8,831</u>    |

The Group leases premises and plant & equipment under operating leases. The lease for the engineering premises is for a period of 10 years with options to extend for two further periods of five years each. Leases for warehousing premises typically run for a period of 5 years. The Group's lease arrangements have no renewal options, rent escalation clauses, restrictions or contingent rents and are all conducted with third parties.

During the financial year ended 30 June 2013, A\$1,066,256 was recognised as an expense in the income statement in respect of operating leases (2012:A\$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                           | 20        | 23        | —        |
| - Later than one year but not later than five years | 43        | 63        | —        |
|   | <u>63</u> | <u>86</u> | <u>—</u> |

#### (c) Other

In June 2008 the Group received funding of A\$2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility.

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:

|   |            |            |              |
|---|------------|------------|--------------|
|   | 291        | 391        | 391          |
| - Later than one year but not later than five years | —          | 291        | 682          |
|   | <u>291</u> | <u>682</u> | <u>1,073</u> |

### **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.

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

### 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 A\$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.

As at the date of issuing this report, the Company has a balance of overdue invoices from a customer in excess of A\$1,600,000 including A\$1,122,000 of invoices for goods and services supplied prior to 30 June, 2013. The Company is presently in discussions with the customer for the payment of the invoices and does not currently consider the invoices to be impaired.

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.

### 41. REMUNERATION OF AUDITORS

|  | CONSOLIDATED   |                |                |
|--|----------------|----------------|----------------|
|  | 2013<br>A\$    | 2012<br>A\$    | 2011<br>A\$    |
| Amounts received or due and receivable for audit services by:    |                |                |                |
| Auditors of the Company  |                |                |                |
| - Audit and review of financial reports – Australian Reporting   | 225,600        | 223,780        | 235,900        |
| - Audit and review of financial reports – USA Reporting          | 112,500        | 112,000        | 112,000        |
| Amounts received or due and receivable for taxation services by: |                |                |                |
| Auditors of the Company  |                |                |                |
|  | —              | —              | 10,000         |
| Amounts received or due and receivable for other services by:    |                |                |                |
| Auditors of the Company  |                |                |                |
|  | —              | 16,910         | 5,150          |
| <b>Total auditors' remuneration</b>                              | <b>338,100</b> | <b>352,690</b> | <b>363,050</b> |

The Auditors of the Group in 2013, 2012 and 2011 were Ernst & Young.



*Synerject, LLC and Subsidiaries*

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2012 AND 2011



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**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

To the Board of Directors  
Synerject, LLC  
Newport News, Virginia

We have audited the accompanying consolidated statement of financial position of Synerject, LLC and Subsidiaries (the Company) as of December 31, 2012 and the related consolidated statements of comprehensive income, changes in members' equity, and cash flows for the year ended December 31, 2012. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synerject, LLC and Subsidiaries as of December 31, 2012 and the results of their operations and their cash flows for the year ended December 31, 2012 in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities.

The accompanying consolidated financial statements as of and for the year ended December 31, 2011 and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the 18 month period ended December 31, 2010, were audited by Witt Mares, PLC, who merged with PBGH, LLP to form PBMares, LLP as of January 1, 2013, and whose report dated February 3, 2012, expressed an unmodified opinion on those consolidated statements.

*PBMares, LLP*

Norfolk, Virginia  
February 6, 2013

## CONSOLIDATED FINANCIAL STATEMENTS





**SYNERJECT, LLC AND SUBSIDIARIES**  
Consolidated Statements of Financial Position  
December 31, 2012 and 2011

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash and cash equivalents   | \$ 2,734,632        | \$ 5,290,127        |
| Trade accounts receivable, net of provision for impairment of \$239,938 in 2012 and \$223,522 in 2011 | 29,155,896          | 25,885,871          |
| Inventories   | 6,438,807           | 6,340,489           |
| Prepaid expenses and other assets   | 1,089,380           | 1,189,464           |
| Total current assets  | <u>39,418,715</u>   | <u>38,705,951</u>   |
| Property, plant and equipment, net  | 5,869,498           | 4,829,932           |
| Other receivables   | 3,152,678           | 2,490,592           |
| License agreements, net of accumulated amortization of \$11,420,978 in 2012 and \$10,283,958 in 2011  | 2,031,818           | 3,167,271           |
| Total other assets  | <u>5,184,496</u>    | <u>5,657,863</u>    |
| Total assets  | <u>\$50,472,709</u> | <u>\$49,193,746</u> |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>  |                     |                     |
| <b>CURRENT LIABILITIES</b>  |                     |                     |
| Accounts payable  | \$16,302,091        | \$17,374,035        |
| Accrued expenses and other liabilities  | 5,235,512           | 6,067,499           |
| Current portion of long-term debt   | 629,532             | 1,888,596           |
| Line of credit  | 107,784             | —                   |
| Total current liabilities   | <u>22,274,919</u>   | <u>25,330,130</u>   |
| Long-term debt, excluding current portion   | —                   | 629,531             |
| Total liabilities   | <u>22,274,919</u>   | <u>25,959,661</u>   |
| Members' equity   | 27,277,480          | 22,664,484          |
| Accumulated other comprehensive income  | 920,310             | 569,601             |
| Total members' equity   | <u>28,197,790</u>   | <u>23,234,085</u>   |
| Total liabilities and members' equity   | <u>\$50,472,709</u> | <u>\$49,193,746</u> |

See accompanying notes.



**SYNERJECT, LLC AND SUBSIDIARIES**  
 Consolidated Statements of Comprehensive Income  
 Years Ended December 31, 2012 and 2011 and 18 Month Period Ended December 31, 2010

|  | <u>Year Ended<br/>December 31, 2012</u> | <u>Year Ended<br/>December 31, 2011</u> | <u>18 Months Ended<br/>December 31, 2010</u> |
|--|---|---|--|
| <b>Revenue</b>                               |   |   |  |
| Net sales                                    | <b>\$ 128,180,368</b>                   | \$ 125,879,643                          | \$ 145,123,722                               |
| Engineering services revenue                 | <b>3,238,635</b>                        | 4,765,428                               | 4,960,464                                    |
| Total revenue                                | <b><u>131,419,003</u></b>               | <u>130,645,071</u>                      | <u>150,084,186</u>                           |
| <b>Costs and expenses</b>                    |   |   |  |
| Cost of goods sold                           | <b>102,992,071</b>                      | 102,113,245                             | 118,218,938                                  |
| Engineering expenses                         | <b>12,037,289</b>                       | 12,218,067                              | 13,213,292                                   |
| Selling, general and administrative expenses | <b>8,489,327</b>                        | 7,609,555                               | 10,893,989                                   |
| Total costs and expenses                     | <b><u>123,518,687</u></b>               | <u>121,940,867</u>                      | <u>142,326,219</u>                           |
| Operating income                             | <b><u>7,900,316</u></b>                 | <u>8,704,204</u>                        | <u>7,757,967</u>                             |
| <b>Other income (expense)</b>                |   |   |  |
| Interest, net                                | <b>37,170</b>                           | (70,252)                                | (395,160)                                    |
| Other  | <b>(96,592)</b>                         | 69,295                                  | (46,634)                                     |
|  | <b><u>(59,422)</u></b>                  | <u>(957)</u>                            | <u>(441,794)</u>                             |
| Net income                                   | <b>7,840,894</b>                        | 8,703,247                               | 7,316,173                                    |
| <b>Other comprehensive income</b>            |   |   |  |
| Foreign currency translation adjustment      | <b>350,709</b>                          | (300,635)                               | (155,275)                                    |
| Total comprehensive income                   | <b><u>\$ 8,191,603</u></b>              | <u>\$ 8,402,612</u>                     | <u>\$ 7,160,898</u>                          |

See accompanying notes.



**SYNERJECT, LLC AND SUBSIDIARIES**

Consolidated Statements of Changes in Members' Equity

Years Ended December 31, 2012 and 2011 and 18 Month Period Ended December 31, 2010

|   | Members' equity |               |              | Accumulated other comprehensive income |            |             | Total members' equity |
|---|-----------------|---------------|--------------|--|------------|-------------|-----------------------|
|   | CAS             | OFI           | Total        | CAS                                    | OFI        | Total       |                       |
| Balances at June 30, 2009               | \$ 6,482,065    | \$ 6,315,126  | \$12,797,191 | \$ 495,635                             | \$ 529,876 | \$1,025,511 | \$13,822,702          |
| Net income                              | 4,243,380       | 3,072,793     | 7,316,173    | —                                      | —          | —           | 7,316,173             |
| Foreign currency translation adjustment | —               | —             | —            | (90,060)                               | (65,215)   | (155,275)   | (155,275)             |
| Total comprehensive income              | 4,243,380       | 3,072,793     | 7,316,173    | (90,060)                               | (65,215)   | (155,275)   | 7,160,898             |
| Distributions to members                | (1,871,697)     | (1,355,367)   | (3,227,064)  | —                                      | —          | —           | (3,227,064)           |
| Balances at December 31, 2010           | 8,853,748       | 8,032,552     | 16,886,300   | 405,575                                | 464,661    | 870,236     | 17,756,536            |
| Net income                              | 5,047,883       | 3,655,364     | 8,703,247    | —                                      | —          | —           | 8,703,247             |
| Foreign currency translation adjustment | —               | —             | —            | (174,368)                              | (126,267)  | (300,635)   | (300,635)             |
| Total comprehensive income              | 5,047,883       | 3,655,364     | 8,703,247    | (174,368)                              | (126,267)  | (300,635)   | 8,402,612             |
| Distributions to members                | (1,696,537)     | (1,228,526)   | (2,925,063)  | —                                      | —          | —           | (2,925,063)           |
| Balances at December 31, 2011           | 12,205,094      | 10,459,390    | 22,664,484   | 231,207                                | 338,394    | 569,601     | 23,234,085            |
| Net income                              | 4,547,719       | 3,293,175     | 7,840,894    | —                                      | —          | —           | 7,840,894             |
| Foreign currency translation adjustment | —               | —             | —            | 203,411                                | 147,298    | 350,709     | 350,709               |
| Total comprehensive income              | 4,547,719       | 3,293,175     | 7,840,894    | 203,411                                | 147,298    | 350,709     | 8,191,603             |
| Distributions to members                | (1,872,181)     | (1,355,717)   | (3,227,898)  | —                                      | —          | —           | (3,227,898)           |
| Balances at December 31, 2012           | \$14,880,632    | \$ 12,396,848 | \$27,277,480 | \$ 434,618                             | \$ 485,692 | \$ 920,310  | \$28,197,790          |

See accompanying notes.



**SYNERJECT, LLC AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011 and 18 Month Period Ended December 31, 2010

|   | Year Ended<br>December 31, 2012 | Year Ended<br>December 31, 2011 | 18 Months Ended<br>December 31, 2010 |
|---|---------------------------------|---------------------------------|--------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |                                 |                                      |
| Net income  | \$ 7,840,894                    | \$ 8,703,247                    | \$ 7,316,173                         |
| Adjustments to reconcile net income to net cash provided by operating activities:     |                                 |                                 |                                      |
| Depreciation and amortization of property, plant and equipment                        | 1,174,402                       | 1,275,768                       | 2,003,132                            |
| Amortization of license agreements  | 1,199,783                       | 583,892                         | 832,657                              |
| Write-off of accrued interest on license agreement                                    | —                               | —                               | 444,261                              |
| Changes in assets and liabilities increasing (decreasing) cash flows from operations: |                                 |                                 |                                      |
| Accounts receivable   | (2,725,644)                     | (4,981,344)                     | (1,245,827)                          |
| Inventories   | (88,919)                        | (618,512)                       | (1,163,680)                          |
| Prepaid expenses and other assets   | (395,704)                       | (1,151,641)                     | 433,199                              |
| Accounts payable  | (716,356)                       | 3,148,967                       | 2,425,394                            |
| Accrued expenses and other liabilities  | (725,458)                       | (243,360)                       | 1,572,357                            |
| Net cash provided by operating activities   | <u>5,562,998</u>                | <u>6,717,017</u>                | <u>12,617,666</u>                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |                                 |                                      |
| Acquisitions of property, plant and equipment   | <u>(2,077,807)</u>              | <u>(1,250,822)</u>              | <u>(1,617,365)</u>                   |
| Net cash used in investing activities   | <u>(2,077,807)</u>              | <u>(1,250,822)</u>              | <u>(1,617,365)</u>                   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                 |                                 |                                      |
| Distributions to members  | (3,227,898)                     | (2,925,063)                     | (3,227,064)                          |
| Net borrowings (repayments) on line of credit   | 107,784                         | (594,139)                       | (1,042,365)                          |
| Principal payments on long-term debt  | <u>(1,888,595)</u>              | <u>(1,888,595)</u>              | <u>(2,832,895)</u>                   |
| Net cash used in financing activities   | <u>(5,008,709)</u>              | <u>(5,407,797)</u>              | <u>(7,102,324)</u>                   |
| Effect of exchange rate changes on cash and cash equivalents                          | <u>(1,031,977)</u>              | <u>1,245,936</u>                | <u>(990,517)</u>                     |
| Net increase (decrease) in cash and cash equivalents                                  | <u>(2,555,495)</u>              | 1,304,334                       | 2,907,460                            |

(Continued)

See accompanying notes.



**SYNERJECT, LLC AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011 and 18 Month Period Ended December 31, 2010

| (Concluded)  | <u>Year Ended<br/>December 31, 2012</u> | <u>Year Ended<br/>December 31, 2011</u> | <u>18 Months Ended<br/>December 31, 2010</u> |
|--|---|---|--|
| <b>Cash and cash equivalents</b>                       |   |   |  |
| Beginning of period                                    | <u>\$ 5,290,127</u>                     | <u>\$ 3,985,793</u>                     | <u>\$ 1,078,333</u>                          |
| End of period  | <u>\$ 2,734,632</u>                     | <u>\$ 5,290,127</u>                     | <u>\$ 3,985,793</u>                          |
| <b>Supplement disclosure of cash flow information:</b> |   |   |  |
| Cash paid for interest                                 | <u>\$ 87,935</u>                        | <u>\$ 115,571</u>                       | <u>\$ 591,881</u>                            |
| Cash paid for foreign income taxes                     | <u>\$ 85,775</u>                        | <u>\$ —</u>                             | <u>\$ 645,559</u>                            |

See accompanying notes.



## SYNERJECT, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

#### *Organization and Description of Business*

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

The Company is the result of a Joint Venture and Limited Liability Company Agreement (Agreement) between Continental Automotive Systems US, Inc. (CAS) and Orbital Fluid Technologies, Inc. (OFT). During March 2009, a second amendment to the Company's joint venture and limited liability company agreement was executed whereby CAS and OFT's percentage interests changed to 58% and 42%, respectively.

CAS is a wholly owned subsidiary of Continental AG (CAG), a corporation organized under the laws of the Federal republic of Germany. OFT is a wholly owned subsidiary of Orbital Corporation Limited (OCL), a corporation organized under the laws of West Australia.

Pursuant to the terms of the Agreement, allocation of net income (loss) will be to and among the members in accordance with their ownership percentages.

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

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

(Continued)



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

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

***Basis of Preparation***

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB). They are presented in U.S. dollars. These are the Company's first set of financial statements prepared in accordance with the IFRS for SMEs (see Note 16 for an explanation of the transition).

The preparation of financial statements in conformity with IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. The actual outcomes may differ.

***Principles of Consolidation***

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

***Cash and Cash Equivalents***

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

***Trade Accounts Receivable***

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The provision for impairment is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines a general provision utilizing percentages applied to aged overdue receivable balances. The Company reviews its provision for impairment accounts monthly. Account balances are charged off against the provision after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(Continued)



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

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

***Inventories***

Inventories, which include raw materials and finished goods, are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes material, labor and applicable manufacturing overhead and is determined using standard costs, which approximate average costs. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognized immediately in profit or loss.

***Property, Plant and Equipment***

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

|  |          |
|--|----------|
| Leasehold improvements                     | 10 Years |
| Manufacturing machinery and equipment      | 10 Years |
| Testing equipment and motor vehicles       | 5 Years  |
| Tooling                                    | 3 Years  |
| Office and computer equipment and software | 3 Years  |

***Intangible Assets – License Agreements***

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

In September 2010, the Company reversed the previously accrued capitalized interest that had been accrued on the third of three installments of license fees to Orbital as outlined in the 1998 license agreement, as the conditions in the agreement that require Synerject's obligation to pay this installment of fees had not been satisfied to date. In October 2012, the remaining net book value of the motorcycle portion of the above noted license agreement was expensed as it is considered fully impaired.

***Warranty Liability***

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

(Continued)





**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

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

***Income Taxes***

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

The Company is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax provisions as of December 31, 2012 and 2011. With few exceptions, the Company is no longer subject to income tax examinations by U.S. federal, state or local authorities for years before 2009.

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

No election was made to have the income or loss of one subsidiary, Synerject SAS, reported by the individual members on their income tax return. Synerject SAS incurs and pays foreign income taxes. In addition, the Company incurred a tax (unrecoverable VAT) relating to shipments from its locations in China to other countries in 2009 and 2010. During 2011, this tax was suspended and to date has not been reinstated. The individual members may be entitled to a tax credit for such foreign income taxes paid if dividends are paid. For the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010, foreign income tax expense (benefit) of approximately \$59,000, \$(8,000), and \$47,000, respectively, were included in other expense on the accompanying consolidated statements of comprehensive income.

***Translation of Foreign Currencies***

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

For the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010, assets and liabilities are translated at the exchange rate in effect and set forth by CAG at the consolidated financial statement date. Income statement accounts are translated at the average CAG rate of exchange prevailing during the period.

(Continued)



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

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

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

***Impairment of Non-Financial Assets other than Inventories***

Assets that are subject to depreciation or amortization are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

***Revenue Recognition***

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

The Company recognizes revenue related to engineering services based upon the achievement of certain billable milestones for work that is considered to take less than one year. For projects estimated to last longer than one year, revenue is recognized based upon expended man hours versus total project estimated man hours.

***Research and Development***

All research and development costs are expensed as incurred. For the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010, they amounted to approximately \$3,475,000, \$2,898,000, and \$1,236,000 respectively.



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

**NOTE 2. FISCAL YEAR CHANGE**

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

**NOTE 3. TRANSACTIONS WITH RELATED PARTIES**

The Company purchases and provides services and materials from/to CAS, OCL and their related affiliates. These transactions relate to product purchases and operating expenses, including engineering and technical assistance. A breakdown of these related-party receivables and payables at December 31, 2012 and 2011 are as follows:

|                            | <u>2012</u>        | <u>2011</u>        |
|----------------------------|--------------------|--------------------|
| Related party receivables: |                    |                    |
| CAS and its affiliates     | \$ 259,734         | \$ —               |
| OCL and its affiliates     | <u>—</u>           | <u>17,500</u>      |
|                            | <u>\$ 259,734</u>  | <u>\$ 17,500</u>   |
| Related party payables:    |                    |                    |
| CAS and its affiliates     | <u>\$8,544,500</u> | <u>\$8,824,992</u> |

Total revenues from related parties for the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010 were approximately \$125,000, \$95,000, and \$581,000, respectively. Total purchases from related parties for the years ended December 31, 2012 and 2011, and the 18 month period ended December 31, 2010 were approximately \$36,043,000, \$36,771,000, and \$19,856,000 respectively. For the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010, the total amount of key management personnel compensation totaled \$1,098,000, \$1,269,000, and \$1,871,000, respectively.

**NOTE 4. LINE OF CREDIT**

The Company has available a line of credit with SunTrust Bank totaling \$5,000,000. The total outstanding balance under this line of credit was \$107,784 and \$- at December 31, 2012 and 2011, respectively. The line of credit agreement provided for a maximum amount available of \$7,000,000 effective September 29, 2010 and was reduced to \$5,000,000 effective December 1, 2010 through the maturity date. The line of credit matures June 27, 2013. The line of credit bears interest at the one month London Inter Bank Offered Rate (LIBOR) plus 2.50% (2.71% rate at December 31, 2012). As of December 31, 2011, the line of credit had an interest rate of the one month LIBOR plus 2.50% with a minimum of 3.00% (3.00% at December 31, 2011). The line of credit is secured by assets of the Company.



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

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**NOTE 5. LONG-TERM DEBT**

Long-term debt as of December 31, 2012 and 2011 consists of a note payable to a bank under an agreement dated March 30, 2009, maturing March 30, 2013. Interest accrues at a rate of LIBOR plus 2.42% (2.63% and 2.69% at December 31, 2012 and 2011, respectively). The note is payable in monthly installments of principal of \$157,383 and interest and is secured by substantially all assets of the Company. The aggregate maturity of long-term debt for the year subsequent to December 31, 2012 is \$629,532.

**NOTE 6. EMPLOYEE BENEFIT PLANS**

The Company sponsors a defined contribution 401(k) plan for its U.S. employees. Participation in the 401(k) plan is voluntary and is open to all employees over 18 years of age with six months of service. Discretionary employee contributions are based upon a percentage of annual salary (as defined by the 401(k) plan). The Company matches 100% of every dollar of employee contributions for the first 1% of the employee's salary plus an additional 50% contribution of the employee's contributions above 1% up to a maximum of 6% of the employee's salary. The Company may also make profit-sharing contributions at its discretion. Company contributions vest over a two-year period. The Company's total expense under the plan was approximately \$476,000, \$439,000, and \$550,000 for the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010, respectively.

The Company participates in a defined contribution savings plan for its China subsidiary's employees sponsored by one of the Company's members, CAS. This plan was instituted in October 2012. Participation in the plan is voluntary and is open to all fixed local Chinese employees with 6 months of service. Discretionary employee contributions are based upon a percentage of annual salary (as defined by the plan). The Company guarantees a contribution of the minimum amount of not less than 3% of the monthly salary of its participating employees. Employees can not contribute more than 8% of their monthly salary. The Company may also make profit-sharing contributions at its discretion. Company contributions vest over an 8 year period. The Company's total expense under the plan was approximately \$5,400 for the year ended December 31, 2012.

(Continued)



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

**NOTE 6. EMPLOYEE BENEFIT PLANS (Concluded)**

The Company sponsors a defined benefit plan for its France subsidiary's employees. The approximate accrued obligation for this plan as of December 31, 2012 and 2011 is \$405,000 and \$380,000, respectively. Expenses for this plan totaled approximately \$478,000, \$385,000 and \$509,000 for the years ended December 31, 2012 and 2011 and for the 18 month period ended December 31, 2010, respectively. These expenses include service costs, interest expenses, changes to the defined benefit obligation and other expenses. Because the amounts are not material to the financial statements as a whole, Management has opted to not present the full disclosures for defined benefit plans.

**NOTE 7. INVENTORIES**

The major classes of inventories as of December 31, 2012 and 2011 are as follows:

|                | <u>2012</u>               | <u>2011</u>        |
|----------------|---------------------------|--------------------|
| Raw materials  | <b>\$4,543,283</b>        | \$4,883,331        |
| Finished goods | <b>1,895,524</b>          | 1,457,158          |
|                | <b><u>\$6,438,807</u></b> | <u>\$6,340,489</u> |

**NOTE 8. PROPERTY, PLANT AND EQUIPMENT**

|                                 | <u>Machinery and<br/>Equipment</u> | <u>Vehicle</u>         | <u>Leasehold<br/>Improvements</u> | <u>Construction<br/>in Progress</u> | <u>Total</u>               |
|---------------------------------|------------------------------------|------------------------|-----------------------------------|-------------------------------------|----------------------------|
| <b>Cost</b>                     |                                    |                        |                                   |                                     |                            |
| Balance, January 1, 2011        | \$14,756,253                       | \$23,359               | \$ 385,627                        | \$ 906,968                          | \$16,072,207               |
| Additions                       | 1,270,743                          | —                      | 151,232                           | 729,458                             | 2,151,433                  |
| Disposals                       | (4,923)                            | —                      | —                                 | (1,078,722)                         | (1,083,645)                |
| Balance, December 31, 2011      | 16,022,073                         | 23,359                 | 536,859                           | 557,704                             | 17,139,995                 |
| Additions                       | 1,595,087                          | 15,800                 | 63,647                            | 1,903,733                           | 3,578,267                  |
| Disposals                       | —                                  | —                      | —                                 | (1,420,705)                         | (1,420,705)                |
| Balance, December 31, 2012      | <b><u>\$17,617,160</u></b>         | <b><u>\$39,159</u></b> | <b><u>\$ 600,506</u></b>          | <b><u>\$ 1,040,732</u></b>          | <b><u>\$19,297,557</u></b> |
| <b>Accumulated depreciation</b> |                                    |                        |                                   |                                     |                            |
| Balance, January 1, 2011        | \$10,890,613                       | \$23,359               | \$ 215,392                        | \$ —                                | \$11,129,364               |
| Depreciation                    | 1,152,590                          | —                      | 33,032                            | —                                   | 1,185,622                  |
| Disposals                       | (4,923)                            | —                      | —                                 | —                                   | (4,923)                    |
| Balance, December 31, 2011      | 12,038,280                         | 23,359                 | 248,424                           | —                                   | 12,310,063                 |
| Depreciation                    | 1,065,082                          | 527                    | 52,387                            | —                                   | 1,117,996                  |
| Disposals                       | —                                  | —                      | —                                 | —                                   | —                          |
| Balance, December 31, 2012      | <b><u>\$13,103,362</u></b>         | <b><u>\$23,886</u></b> | <b><u>\$ 300,811</u></b>          | <b><u>\$ —</u></b>                  | <b><u>\$13,428,059</u></b> |
| <b>Carrying amount</b>          |                                    |                        |                                   |                                     |                            |
| At January 1, 2011              | <u>\$ 3,865,640</u>                | <u>\$ —</u>            | <u>\$ 170,235</u>                 | <u>\$ 906,968</u>                   | <u>\$ 4,942,843</u>        |
| At December 31, 2011            | <u>\$ 3,983,793</u>                | <u>\$ —</u>            | <u>\$ 288,435</u>                 | <u>\$ 557,704</u>                   | <u>\$ 4,829,932</u>        |
| At December 31, 2012            | <b><u>\$ 4,513,798</u></b>         | <b><u>\$15,273</u></b> | <b><u>\$ 299,695</u></b>          | <b><u>\$ 1,040,732</u></b>          | <b><u>\$ 5,869,498</u></b> |



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

**NOTE 9. INTANGIBLE ASSETS – LICENSE AGREEMENTS**

All intangible assets were acquired and consist of the following as of December 31, 2012 and 2011:

|                                      | December 31, 2012           |   |                             |
|--------------------------------------|-----------------------------|---|-----------------------------|
|                                      | Gross<br>carrying<br>amount | Weighted<br>average<br>amortization<br>period | Accumulated<br>amortization |
| <b>Amortizing intangible assets:</b> |                             |   |                             |
| License agreement – OFT              | \$11,318,190                | 17.3 Years                                    | \$ 9,293,190                |
| License agreement – CAS Affiliates   | 1,998,257                   | 8.3 Years                                     | 1,998,257                   |
| License agreement – Other            | 136,349                     | 5 Years                                       | 129,531                     |
|                                      | <u>\$13,452,796</u>         |   | <u>\$11,420,978</u>         |
|                                      |                             |   |                             |
|                                      | December 31, 2011           |   |                             |
|                                      | Gross<br>carrying<br>amount | Weighted<br>average<br>amortization<br>period | Accumulated<br>amortization |
| <b>Amortizing intangible assets:</b> |                             |   |                             |
| License agreement – OFT              | \$11,318,190                | 17.3 Years                                    | \$ 8,184,615                |
| License agreement – CAS Affiliates   | 1,998,257                   | 8.3 Years                                     | 1,998,257                   |
| License agreement – Other            | 134,782                     | 5 Years                                       | 101,086                     |
|                                      | <u>\$13,451,229</u>         |   | <u>\$10,283,958</u>         |

Intangible assets are amortized using the straight-line method over their estimated useful lives. Aggregate amortization expense for intangible assets for the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010 was approximately \$1,137,000, \$620,000, and \$991,000, respectively. Of the total amount amortized during 2012, approximately \$659,000 was related to the motorcycle license which was deemed impaired. Estimated amortization expense for the next five fiscal years is \$457,000 in 2013; \$450,000 in 2014; \$450,000 in 2015, \$450,000 in 2016, and \$225,000 in 2017.

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



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

**NOTE 10. LEASES**

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

The Company has signed several operating leases, primarily for facilities, office equipment and other equipment. Rent expense for the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010, was approximately \$940,000, \$888,000 and \$1,390,000, respectively.

As of December 31, 2012, future minimum lease payments, including residual value guarantees and excluding renewal option periods, are as follows:

|                         |                    |
|-------------------------|--------------------|
| Year ended December 31: |                    |
| 2013                    | \$ 949,788         |
| 2014                    | 759,391            |
| 2015                    | 561,714            |
| 2016                    | 567,331            |
| 2017                    | 573,004            |
| Thereafter              | <u>336,194</u>     |
|                         | <u>\$3,747,422</u> |

**NOTE 11. PROVISION FOR IMPAIRMENT**

The activity in the provision for impairment on trade accounts receivable for the years ended December 31, 2012 and 2011 and the 18 month period ended December 31, 2010 follows:

|   | <u>2012</u>             | <u>2011</u>      | <u>2010</u>      |
|---|-------------------------|------------------|------------------|
| Provision for impairment at beginning of period             | <b>\$223,522</b>        | \$158,884        | \$223,064        |
| Provision for impairment, net of recoveries and charge-offs | <b>15,002</b>           | 65,538           | (63,246)         |
| Effects of foreign currency translation adjustments         | <b>1,414</b>            | (900)            | (934)            |
| Provision for impairment at end of period                   | <b><u>\$239,938</u></b> | <u>\$223,522</u> | <u>\$158,884</u> |



**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

**NOTE 12. WARRANTY LIABILITY**

The activity in the warranty liability, which is included in accrued expenses and other liabilities, for the years ended December 31, 2012 and 2011 and 18 month period ended December 31, 2010 follows:

|   | <u>2012</u>       | <u>2011</u>       | <u>2010</u>      |
|---|-------------------|-------------------|------------------|
| Liability at beginning of period                    | \$ 963,684        | \$ 985,589        | \$396,934        |
| Additions (reductions) to warranty expense accrual  | 79,633            | 412,125           | 637,211          |
| Warranty costs charged against liability            | (647,576)         | (326,200)         | —                |
| Effects of foreign currency translation adjustments | <u>(2,762)</u>    | <u>(107,830)</u>  | <u>(48,556)</u>  |
| Liability at end of period                          | <u>\$ 392,979</u> | <u>\$ 963,684</u> | <u>\$985,589</u> |

**NOTE 13. CONCENTRATION OF CREDIT RISK**

Two customers comprised approximately 52% of net sales for the year ended December 31, 2012 and 58% of trade accounts receivable as of December 31, 2012.

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

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

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

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

Suntrust Bank issued a standby letter of credit on behalf of the Company for \$1,175,000 to DCD-201 Enterprise, LLC to serve as a performance guarantee of a lease agreement entered into by DCD-201 Enterprise, LLC and the Company. The expiration date of the letter of credit is June 30, 2013.

(Continued)





**SYNERJECT, LLC AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

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**NOTE 14. COMMITMENTS AND CONTINGENCIES (Concluded)**

A supplier company presented a claim requesting reimbursement of product development costs incurred to date since the serial launch of the new product has been delayed by Synerject to its customers for various reasons. The aggrieved party filed for 500,000 euro as damages in compensation. The Company contested the claim, and on January 9, 2012 a judgment was made in which all of the supplier's demands were dismissed. However, the supplier has filed an appeal, totally changed its arguments and demands and increased its requested damages to 1,000,000 euro for breach of contract, and the date for the appealed case to be heard will occur in June 2013. Although management believes the supplier's claims are unmerited, the Company has reserved 160,000 euro as a contingency related to this matter at December 31, 2012 and 2011. Currently, because of the uncertainty, the client maintains the reserve.

**NOTE 15. RECLASSIFICATIONS**

Certain amounts in the 2010 and 2011 consolidated financial statements have been reclassified to conform with the 2012 presentation. These reclassifications had no effect on the previously reported net income or comprehensive income.

**NOTE 16. TRANSITION TO THE IFRS FOR SMEs**

These are the Company's first consolidated financial statements prepared in accordance with the IFRS for SMEs. Previously they were prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Company has prepared its opening statement of financial position at the date of transition to the IFRS for SMEs, which is July 1, 2009.

The Company's accounting policies presented in Note 1 have been applied in preparing the consolidated financial statements for the year ended December 31, 2012, the comparative information and the opening statement of financial position as of the date of transition. The Company has applied all the mandatory exceptions from full retrospective application.

There were no effects on total equity, profit, and cash flows for the transition to IFRS for SMEs.

**NOTE 17. SUBSEQUENT EVENTS**

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



**MEMBERSHIP INTEREST TRANSFER AGREEMENT**

**THIS MEMBERSHIP INTEREST TRANSFER AGREEMENT** (the "Agreement") is dated the 1<sup>st</sup> day of March, 2013, between **ORBITAL FLUID TECHNOLOGIES, INC.**, a Delaware corporation with offices at 4 Whipple Street, Balcatta, WA 6021, Australia ("Seller"), and **CONTINENTAL AUTOMOTIVE SYSTEMS, INC.**, a Delaware corporation with offices at One Continental Drive, Auburn Hills MI 48326 (f/k/a Continental Automotive Systems US, Inc. f/k/a Siemens VDO Automotive Corporation) ("Buyer").

**RECITALS:**

A. Buyer and Seller are the holders of all the issued and outstanding membership interests in Synerject LLC, a Delaware limited liability company (the "JVC"), which interests are held pursuant to that certain amended and restated Joint Venture and Limited Liability Company Agreement, dated March 31, 2003, as amended pursuant to that certain amendment, dated June 26, 2006, entered into among Buyer, Seller and Orbital Corporation Limited ("Orbital"), as further amended pursuant to that certain second amendment, dated March 18, 2009, entered into among Buyer, Seller and Orbital (as amended, the "LLC Agreement").

B. Under the LLC Agreement, Buyer currently possesses 58% of the Percentage Interests in the JVC and Seller currently possess 42% of the Percentage Interests in the JVC.

C. Seller desires to sell, and Buyer desires to purchase, twelve percent (12.0%) of Seller's Percentage Interests in the JVC for the consideration and upon the terms and subject to the conditions hereinafter set forth, such that, after the consummation of the transactions contemplated herein, Buyer will hold a 70% Percentage Interest in the JVC and Seller will hold a 30% Percentage Interest in the JVC.

D. Capitalized terms not otherwise defined herein will have the meanings given them in the LLC Agreement.

NOW, THEREFORE, in consideration of the premises, the provisions and the respective agreements hereinafter set forth, the parties hereto hereby agree as follows:

**1. Purchase and Sale of Membership Interests.**

1.1 Agreement to Purchase and Sell. Upon the terms and subject to the conditions set forth in this Agreement, on the Closing Date (as such term is defined in Section 1.4 below), Seller will sell, assign, transfer and deliver to Buyer, and Buyer will purchase and acquire from Seller, Twelve Percent (12.0%) of the Percentage Interests in the JVC currently owned, beneficially and of record, by Seller (the "JVC Interests"), such that, following the Closing Date, Buyer will hold Seventy Percent (70.0%) and Seller will hold Thirty Percent (30%) of the issued and outstanding Percentage Interests in the JVC.

1.2 Waiver. Each of Buyer and Seller acknowledge that the JVC Interests are subject to certain transfer limitations and restrictions as are set forth in, among other places, Article 14 of the LLC Agreement and each of Buyer and Seller, to the extent applicable, hereby consents to the transfer of the JVC Interests as contemplated herein and waives any and all such limitations and restrictions with respect to the transfer of the JVC Interests as contemplated herein, whether existing under any charter or organizational document of the JVC or under the LLC Agreement.

1.3 Purchase Price. The aggregate consideration for the JVC Interests is Six Million Dollars (\$6,000,000) (the "Purchase Price").

1.4 Closing. Consummation of the purchase and sale of the JVC Interests provided for herein and the transfers and deliveries contemplated hereby (the "Closing") will take place contemporaneously with the execution and delivery of this Agreement at the offices of Buyer or at such other place or at such other date and time as Seller and Buyer may mutually agree in writing. Such date and time of Closing is herein referred to as the "Closing Date."

1.5 Deliveries at the Closing. The following will occur at or before, and will be a condition to, the Closing:

1.5.1 Seller will execute and deliver to Buyer an assignment of limited liability company membership interest form duly executed and otherwise in proper form for transfer of the JVC Interests to Buyer.

1.5.2 Buyer and Seller will, and Seller will cause Orbital to, have executed and delivered a third amendment to the LLC Agreement on terms reasonably satisfactory to Buyer and Seller, including (i) such terms as are necessary to reflect the effect of the consummation of this Agreement and the new 70/30 Percentage Interests ownership structure and (ii) the agreed upon terms relating to the providing of management control to Buyer.

2. Representations and Warranties of Seller. Seller represents and warrants to Buyer as follows:

2.1 Existence; Good Standing; Corporate Authority. Seller is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware. Seller has all requisite corporate power and authority to execute, deliver and perform this Agreement and all other agreements and documents to be executed and delivered by it in connection herewith.

2.2 Authorization, Validity and Effect of Agreements. The execution and delivery of this Agreement by Seller and the consummation by it of the transactions contemplated hereby have been duly authorized by all requisite action. This Agreement constitutes, and all agreements and documents contemplated hereby when executed and delivered pursuant hereto will constitute, the valid and legally binding obligations of Seller enforceable in accordance with their terms, except to

the extent limited by (i) applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and (ii) general principles of equity. The execution and delivery of this Agreement do not, and the consummation of the transactions contemplated hereby will not, (i) conflict with, or result in any violation of, the Certificate of Incorporation or Bylaws of Seller or (ii) violate or result in a breach under any material agreement, judgment, order, decree or other legal requirement applicable to Seller, to the JVC Interests or to any material portion of its assets, including, based on the waiver set forth in Section 1.2 above, the LLC Agreement. No consent or authorization of or filing with any court or other governmental authority is required of Seller in connection with Seller's execution, delivery or performance of this Agreement.

2.3 Title to the JVC Interests. The JVC Interests are owned by Seller free and clear of all liens, encumbrances or adverse claims of any nature ("Liens") other than those limitations and restrictions as are set forth in the LLC Agreement all of which hereby are waived by Seller and Buyer pursuant to the terms of Section 1.2 above. Upon transfer of the JVC Interests by Seller, Buyer will, as a result, receive good and marketable title to such JVC Interests, free and clear of all Liens other than the continuing obligations under the LLC Agreement to which such JVC Interests remain subject.

3. **Representations and Warranties of Buyer.** Buyer represents and warrants to Seller as follows:

3.1 Existence; Good Standing; Corporate Authority. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware. Buyer has all requisite power and authority to execute, deliver and perform this Agreement and all other agreements and documents to be executed and delivered by it in connection herewith.

3.2 Authorization, Validity and Effect of Agreements. The execution and delivery of this Agreement by Buyer and the consummation by it of the transactions contemplated hereby have been duly authorized by all requisite action. This Agreement constitutes, and all agreements and documents contemplated hereby when executed and delivered pursuant hereto will constitute, the valid and legally binding obligations of Buyer enforceable in accordance with their terms, except to the extent limited by (i) applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws of general application now or hereafter in effect relating to the enforcement of creditors' rights generally and (ii) general principles of equity. The execution and delivery of this Agreement do not, and the consummation of the transactions contemplated hereby will not, (i) conflict with, or result in any violation of, the Certificate of Incorporation or Bylaws of Buyer or (ii) violate or result in a breach under any material agreement, judgment, order, decree or other legal requirement applicable to Buyer, including, based on the waiver set forth in Section 1.2 above, the LLC Agreement. No consent or authorization of or filing with any court or other governmental authority is required of Buyer in connection with Buyer's execution, delivery or performance of this Agreement.

3.3 Investment Intent. Buyer is purchasing the JVC Interests for investment only and not with a view to any public distribution thereof.

#### **4. Other Covenants and Agreements.**

4.1 Expenses. Each of Buyer and Seller will be responsible for and will pay all costs, liabilities and other obligations incurred by it in connection with the performance of and compliance with all transactions, agreements and conditions contained in this Agreement to be performed or complied with by it, including legal and accounting fees and expenses.

4.2 Publicity. Buyer and Seller agree to issue a joint press release after the Closing, which press release will be mutually agreed upon by both Buyer and Seller in advance. All other public announcements relating to this Agreement or the transactions contemplated hereby will be made only as may be agreed upon by Seller and Buyer or as required by applicable law, regulation, court order, judicial process or the rules of any stock exchange. If public disclosure or notice is required as aforesaid, the disclosing party will use its best efforts to give the other party prior written notice of the disclosure to be made.

#### **5. Survival of Representations and Warranties; Indemnification.**

5.1 Survival of Representations and Warranties. All representations and warranties contained in this Agreement will survive the Closing.

5.2 Seller's Indemnification Obligations. Seller hereby agrees to indemnify Buyer against and in respect of any and all losses, claims, actions, damages and liabilities, and any and all out-of-pocket costs and expenses, including reasonable attorneys' fees and disbursements and costs of investigation (collectively, "Losses"), incurred by Buyer in connection therewith which constitute, arise by reason of or in connection with, or are based upon or attributable to any inaccuracy in or breach of the representations or warranties made by Seller in Section 2 of this Agreement.

5.3 Buyer's Indemnification Obligation. Buyer hereby agrees to indemnify Seller against and in respect of any and all Losses incurred by Seller in connection therewith which constitute, arise by reason of or in connection with, or are based upon or attributable to any inaccuracy in or breach of the representations or warranties made by Buyer in Section 3 of this Agreement.

## 6. Miscellaneous.

6.1 Notices. All notices and other communications required by this Agreement will be in writing and will be delivered to Buyer or Seller, as applicable, at the above-referenced address or to such other address as may have been designated in a prior notice. Notices sent by registered or certified mail, postage prepaid, return receipt requested, will be deemed to have been given two business days after being mailed; notices sent by a nationally recognized commercial overnight carrier will be effective the next business day after receipted delivery to such courier specifying overnight delivery; otherwise, notices will be deemed to have been given when received at the address specified above (or other address specified in accordance with the foregoing).

6.2 Execution of Additional Documents. The parties hereto will at any time, and from time to time after the Closing Date, upon request of the other party, execute, acknowledge and deliver all such further assignments, transfers and assurances as may be required to carry out the intent of this Agreement, and to transfer and vest title to the JVC Interests being transferred hereunder, and to protect the right, title and interest in and enjoyment of all of the JVC Interests sold, assigned, transferred and delivered pursuant to this Agreement, provided, however, that this Agreement will be effective regardless of whether any such additional documents are executed.

6.3 Binding Effect; Benefits. This Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any of Buyer's rights hereunder will be assignable by Buyer without the prior written consent of Seller. Neither this Agreement nor any of Seller's rights hereunder will be assignable by Seller without the prior written consent of Buyer. Except as specifically provided herein, nothing in this Agreement is intended to confer on any person other than the parties hereto or their respective heirs, executors, administrators, successors, and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

6.4 Entire Agreement. This Agreement, together with the other documents contemplated hereby, constitute the final written expression of all of the agreements between the parties, and is a complete and exclusive statement of those terms. It supersedes all understandings and negotiations concerning the matters specified herein. Any representations, promises, warranties or statements made by either party that differ in any way from the terms of this Agreement and the other documents contemplated hereby, will be given no force or effect. The parties specifically represent, each to the other, that there are no additional or supplemental agreements between them related in any way to the matters herein contained unless specifically included or referred to herein. No addition to or modification of any provision of this Agreement will be binding upon any party unless made in writing and signed by Buyer and Seller.

6.5 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware exclusive of the conflict of law principles thereof.

6.6 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original but all of which will constitute one and the same instrument.

6.7 Headings. Headings of the Articles and Sections of this Agreement are for the convenience of the parties only, and will be given no substantive or interpretive effect whatsoever.

6.8 Waivers. Either Buyer or Seller may, by written notice to the other, (i) extend the time for performance of any of the obligations or other actions of the other under this Agreement; (ii) waive any inaccuracies in the representations or warranties of the other contained in this Agreement or in any document delivered pursuant to this Agreement; (iii) waive compliance with any of the conditions or covenants of the other contained in this Agreement; or (iv) waive performance of any of the obligations of the other under this Agreement; provided that no such waiver will constitute a waiver of any other provision hereof.

[signature page to follow]

**IN WITNESS WHEREOF**, the parties have executed this Agreement and caused the same to be duly delivered on their behalf on the day and year hereinabove first set forth.

**CONTINENTAL AUTOMOTIVE SYSTEMS,  
INC.**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

and

By: \_\_\_\_\_  
Its: \_\_\_\_\_

(“Buyer”)

**ORBITAL FLUID TECHNOLOGIES, INC.**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

and

By: \_\_\_\_\_  
Its: \_\_\_\_\_

(“Seller”)



**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Terry Dewayne Stinson, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Orbital Corporation Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 29, 2013

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

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Ian Graham Veitch, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Orbital Corporation Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 29, 2013

/s/ Ian Graham Veitch  
Name: Ian Graham Veitch  
Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002  
(Subsections (a) and (b) of Section 1350,  
Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Orbital Corporation Limited, a public company incorporated in Australia (the "Company"), hereby certifies that:

The Annual Report on Form 20-F for the year ended June 30, 2013 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2013

/s/ Terry Dewayne Stinson

Name: Terry Dewayne Stinson

Title: Managing Director and Chief Executive  
Officer

**CERTIFICATION PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002  
(Subsections (a) and (b) of Section 1350,  
Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Orbital Corporation Limited, a public company incorporated in Australia (the "Company"), hereby certifies that:

The Annual Report on Form 20-F for the year ended June 30, 2013 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2013

/s/ Ian Graham Veitch  
Name: Ian Graham Veitch  
Title: Chief Financial Officer