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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, 2014

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 49,756,994

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
- Royalty income depends on the level of sales achieved by manufacturers
- 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>
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
2014	US\$0.9427	US\$0.9138	US\$0.8715	US\$0.9705

(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 2014	US\$0.9282	US\$0.9315	US\$0.9424	US\$0.9219
May 2014	US\$0.9298	US\$0.9305	US\$0.9382	US\$0.9215
June 2014	US\$0.9427	US\$0.9365	US\$0.9430	US\$0.9250
July 2014	US\$0.9301	US\$0.9389	US\$0.9488	US\$0.9301
August 2014	US\$0.9344	US\$0.9309	US\$0.9352	US\$0.9263
September 2014	US\$0.8737	US\$0.9042	US\$0.9376	US\$0.8737

On September 30, 2014 the Dollar Fix Rate was US\$0.8737 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 license, 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 license 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 license and supply agreements may be materially reduced. Orbital may, where appropriate, enter into forward foreign currency hedging contracts to minimize currency exposure particularly in relation to royalties received in US dollars and their conversion into Australian dollars to satisfy Australian dollar expenditures and realize profits in Australian dollars.

Orbital's financial statements for the years ended June 30, 2014, 2013 and 2012 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, 2014, 2013, 2012, 2011, and 2010, which have been audited by Ernst & Young, an independent registered public accounting firm. The consolidated financial statements as of June 30, 2014 and 2013 and for the years ended June 30, 2014, 2013 and 2012, and the Report of independent registered public accounting firm thereon, are included elsewhere in this report, see F1 – F50. The consolidated financial statements as of June 30, 2012, 2011 and 2010 and for the years ended June 30, 2011 and 2010 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)

	2014 (1) US\$	2014 A\$	2013 A\$	2012 A\$	2011 A\$	2010 A\$
Consolidated Income Statement Data						
During the periods						
Operating revenue						
Revenue from trading operations	16,021	18,337	26,699	22,361	16,638	17,265
Other income	3,846	4,402	3,889	1,325	6,110	8,759
	<u>19,867</u>	<u>22,739</u>	<u>30,588</u>	<u>23,686</u>	<u>22,748</u>	<u>26,024</u>
Costs and expenses						
Materials and consumables	(6,363)	(7,283)	(10,428)	(8,116)	(4,484)	(4,607)
Employee benefits expenses	(8,424)	(9,642)	(11,210)	(11,670)	(10,494)	(10,792)
Selling, corporate and administration	(6,410)	(7,337)	(9,389)	(9,945)	(8,742)	(7,616)
Share of profit from equity accounted investment	2,845	3,256	3,220	3,480	3,233	1,874
Finance costs	(468)	(536)	(687)	(692)	(688)	(755)
Profit/(loss) before income tax	1,047	1,197	2,094	(3,257)	1,573	4,128
Income tax credit/(expense) attributable to operating profit/(loss)	419	479	(1,730)	204	190	388
Net profit/(loss) after income tax	<u>1,466</u>	<u>1,676</u>	<u>364</u>	<u>(3,053)</u>	<u>1,763</u>	<u>4,516</u>
Dividends paid or payable	—	—	—	—	—	—
Earnings/(loss) per ordinary share (3)(4)						
- Basic (cents)	2.96	3.39	0.74	(6.28)	3.65	9.39
- Diluted (cents)	2.96	3.39	0.74	(6.28)	3.65	9.29
Dividends per ordinary share (cents)	—	—	—	—	—	—
Weighted average number of shares	49,502,395	49,502,395	49,079,683	48,612,706	48,325,837	48,086,676

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

	2014 (1) US\$	2014 A\$	2013 A\$	2012 A\$	2011 A\$	2010 A\$
Consolidated Financial Position Data at period end						
Total assets	32,909	37,666	36,131	40,204	40,774	38,599
Total long-term debt (2)	6,808	7,792	7,757	7,650	7,489	7,604
Net assets	18,387	21,045	19,497	17,431	19,482	20,800
Total shareholders' equity	18,387	21,045	19,497	17,431	19,482	20,800

- (1) For the convenience of the reader the 2014 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, 2014 which was US\$0.8737 = 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 2014, 2013, 2012, 2011 and 2010; A\$19.0 million for 2009 and 2008). In January 2010, Orbital reached agreement with the State of Western Australia through the Department of Commerce for the restructure of the Non-Interest Bearing Loan.

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

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

(for additional information see note 12 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, 2014 there were 49,756,994 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 authorized 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, defense and utility engine sectors. These services are provided by the Company through its "Orbital Consulting Services" business. A significant portion of the revenue of this business is generated from overseas customers. Orbital Consulting Service's competitiveness is largely dependent on the relative strength of the Australian dollar against the US dollar. An increase in the value of the Australian dollar against the US dollar is likely to result in a reduction in demand for the consulting services, and accordingly, may result in the Company suffering a reduction in revenue.

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

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

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

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

Three customers (Ford Australia, Textron Unmanned Systems (formerly known as AAI Corporation) and Insitu Inc.) accounted for 40% of the total revenue of the Company for the financial year ended June 30, 2014 (and Ford Australia and Textron Unmanned Systems accounted for 63% of the total revenue for the year ended June 30, 2013). 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 Textron Unmanned Systems (formerly known as AAI Corporation), (Textron) was transitioned to a non-Orbital USA based company during fiscal 2014. Revenues from SUAS were significantly lower in the financial year ended June 30, 2014, as Orbital moved from being a supplier of complete engines to a supplier of engine management systems, fuel system components and spare parts. 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, Insitu Inc, a subsidiary of The Boeing Company (Insitu-Boeing) 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 2015.

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 2014 and if successful will lead to 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 vaporizer 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 vaporizer kits. As a result, whilst sales of the LPG vaporizer kits to the aftermarket continue to be made for vehicles manufactured prior to June 30, 2010, the amount of revenue from LPG vaporizer 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 vaporizer kit market.

- **Royalty income depends on the level of sales achieved by manufacturers**

The Company's license agreements with engine manufacturers who utilize 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, 2014, royalty payments from these license arrangements accounted for approximately 6% 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, 2014, three of the Company's fifteen licensed engine manufacturers are in commercial production and selling products using FlexDi™ technology.

- **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 commercialization 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 unauthorized 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 specializing 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 judgment 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 judgment 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 commercialization 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 Shares	Consolidated Entity Interest	
		2014 %	2013 %
Controlled Entities, incorporated and carrying on business in:			
Australia			
- Orbital Australia Pty Ltd	Ord	100	100
- Orbital Australia Manufacturing Pty Ltd	Ord	100	100
- OEC Pty Ltd	Ord	100	100
- S T Management Pty Ltd	Ord	100	100
- OFT Australia Pty Ltd	Ord	100	100
- Investment Development Funding Pty Ltd	Ord	100	100
- Power Investment Funding Pty Ltd	Ord	100	100
- Kala Technologies Pty Ltd	Ord	100	100
- Orbital Share Plan Pty Ltd	Ord	100	100
- Orbital Autogas Systems Pty Ltd	Ord	100	100
- Sprint Gas (Aust) Pty Ltd	Ord	100	100
United States of America			
- Orbital Holdings (USA) Inc	Ord	100	100
- Orbital Engine Company (USA) Inc	Ord	100	100
- Orbital Fluid Technologies Inc.	Ord	100	100
United Kingdom			
- Orbital Engine Company (UK) Ltd	Ord	100	100

Orbital is an innovation company with 30 years' experience in advanced technology, product development and commercialization. Orbital has a diversified portfolio of products and services offered through multiple business channels. These diversified channels are product and/or service focused and comprised of divisions and joint ventures.

Orbital earns income from multiple channels:

- Systems Sales;
 - SUAS engines and fuel/control systems;
 - Orbital Autogas Systems – LPG systems;
 - Sprint Gas – aftermarket distributor of LPG and CNG systems;
- Synerject Joint Venture;
- Consulting Services; and
- Royalties and Licenses.

A key foundation technology and revenue generator is Orbital's FlexDI™ engine management system technology which has been commercialized, since 1996 in the marine market and subsequently in the motorcycle, recreational and, most recently, Unmanned Aerial Vehicle (UAV) markets. FlexDI™ generates revenue for Orbital in all four income channels. Building on the success of FlexDI™, other high technology systems and services are offered through our various business segments.

Orbital's headquarters and Research & Development center in Perth, Western Australia, provides world class capabilities in design, development, testing and low volume manufacturing of specialty engines, engine management systems, and other high value and high performance products.

Headquartered in Perth, Western Australia, Orbital stock is traded on the Australian Stock Exchange (OEC) and was traded on the NYSE MKT (OBT) until December 6, 2013 when it delisted.

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 commercialization 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 favor 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, 2014 no shares were held in the form of ADRs traded on the NYSE MKT, as the Company delisted from the NYSE MKT effective December 6, 2013. 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 specializing in the importation and wholesaling of LPG Fuel systems to the aftermarket.

Business Overview

Orbital's strategy is as follows:

- Continue further diversification through the development of new markets, new components and new systems.
- Utilizing FlexDI™ as a catalyst, the company projects the UAV propulsion business to grow significantly over the coming years.
- Targeted growth in liquid natural gas (LNG)/compressed natural gas (CNG) for the Australian and Asian heavy transport sector.
- Continue to restructure the alternate fuels LPG businesses, Orbital Autogas Systems and Sprint Gas, to sustain profitability in a declining market.
- Continue our commitment to grow Synerject as a profitable systems provider in the non-automotive markets and increase the value of this asset.
- Diversify Orbital's consulting services to offer services to local resource sector customers while continuing to serve traditional international fuels system customer base.
- Orbital is no longer targeting growth through license and royalty revenues; however will continue to provide support for existing licensees.
- External growth through new joint ventures and acquisitions, to add shareholder value.

A key foundation technology and revenue generator is Orbital's FlexDI™ engine management system technology which has been commercialized, since 1996 in the marine market and subsequently in the motorcycle, recreational and, most recently, Unmanned Aerial Vehicle (UAV) markets. Building on the success of FlexDI™, other high technology systems and services are offered through our various business segments. 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 carburetor 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, minimizing 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
- license fee income and royalties.

Further details on segment revenue are contained in note 5 of the Consolidated Financial Statements on page F-21.

During the last three fiscal years Orbital spent approximately A\$3.958 million on research and development programs.

The Orbital group's license 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 license and consulting service agreements. These agreements grant the licensee limited rights to manufacture, use and sell products utilizing FlexDi™ Technology.

As at September 30, 2014, Orbital has 15 agreements to end users of technology or suppliers, which grant license rights related to FlexDi™ Technology. Orbital's customer base covers applications in the automotive, marine, recreational and motorcycle markets.

At September 30, 2014 Orbital had three customers (2013: three customers) using FlexDi™ Technology in commercial production.

At September 30, 2014 the following agreements granting rights to Orbital's FlexDi™ Technology were in place:

Agreements for Rights to FlexDi™ Technology

<u>Date</u>	<u>Company</u>	<u>Market</u>
September 1987	Brunswick Corporation (Manufacturer of Mercury and Mariner engines)	Marine
June 1988	Ford Motor Company (Incorporating Jaguar Motor Cars)	Automotive
June 1989	General Motors Corporation	Automotive
January 1991	Fiat Auto Company	Automotive
February 1997	Tohatsu Corporation	Marine and Fire Pump Engines
June 1997	Kymco	Motorcycles
June 1997	Synerject, LLC (Joint Venture with Continental Corporation)	Fuel Injection Systems
August 2001	Delphi Automotive Systems	Automotive
May 2002	Peugeot Motorcycles	Motorcycles
January 2003	UCAL Fuel Systems Ltd	Motorcycles
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 license agreements differ in their specific terms, generally each license agreement defines the scope of access rights to the FlexDi™ Technology, including geographic regions, applications covered by the license agreement (for example, engine types and horsepower range), any areas of exclusivity which may have been granted, the duration of the license and royalty periods, and confidentiality provisions. The license 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 utilize 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 license 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 license 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 license agreement with Orbital, the licensee would forfeit the license and any technical disclosure fees paid through to the date of termination.

The license agreements may provide for the payment to Orbital of fees upon the execution of the license agreement. These initial license 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 license agreements are not terminated. In some cases the license 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 license 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\$71.00 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\$1.12 million were received by Orbital in the 2014 fiscal year compared to approximately A\$1.01 million in fiscal 2013. There can be no assurance that Orbital will be successful in entering into additional license 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 recognizes 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 arrangement in India for engineering, testing and product development to service the country's growing automotive engineering sector.

Vialle

In June 2008, in parallel with the acquisition of Boral Alternative Fuel Systems (now Orbital Autogas Systems), Orbital entered into Licensing Agreements with Vialle for the distribution of LPG fuel systems in Australia and New Zealand. The License Agreements cover the sale of vaporizer 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 to develop further technologies.

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 specializing 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 license 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

The System Sales segment is a developer and supplier of engines, propulsion systems, engine management systems and fuel system components for Original Equipment Manufacturers and the motor vehicle aftermarket. The segment operates predominantly in alternative fuel markets and provides systems that range from heavy fuels for Unmanned Aerial Vehicles (UAV) to Liquid Propane Gas (LPG) for motor vehicles.

The key focus of the UAV business during the year was the contract for the design, development and validation of a next generation production engine for Insitu Inc, a subsidiary of The Boeing Company (NYSE: BA) (Insitu-Boeing), and one of the largest and most experienced UAV operators in the world. The development program will be conducted through FY2014 and FY2015 and if successful will lead to low volume production of UAV engines in 2015 with production ramp-up in subsequent years. The 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.

A key product sold this year by Orbital was the patented FlexDI™ Engine Management System (EMS) for Small Unmanned Aircraft Systems (SUAS) supplied for use by Textron Unmanned Systems (formerly known as AAI Corporation), a division of Textron Inc (NYSE: TXT) (Textron), in their Aerosonde® 4.7 UAV. Responsibility for the manufacture of engines for use by Textron was transitioned to its sister company Lycoming Engines in line with Textron's original intent for engine supply, however Orbital is still responsible for the supply of the core technology that enables operation on heavy fuels, the patented FlexDI™ EMS. 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. As disclosed on June 23, 2014, Orbital settled the contract dispute with Textron that had led to the impairment of receivables in the half year financial results. As a result of the dispute there was a suspension of sales to Textron in the second half of the year.

As anticipated, the LPG fuel system businesses experienced little revenue growth as both Ford production and the LPG aftermarket continued to be subdued. Despite the declining market, the LPG fuel system businesses managed to increase their market share.

Orbital Autogas Systems (OAS) developed, and is the supplier of Liquid LPG systems to Ford Motor Company of Australia for the Ford EcoLPi Falcon range of passenger cars and utilities. The Ford EcoLPi Falcon offers performance of a big family car with fuel running cost better than many mid/small sized cars. OAS sells this system into the aftermarket under the brand name "Liquid".

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

Revenues for the year were A\$14,136,000, a 40% decrease on the previous year. The result reflected the change in SUAS engine production from Orbital to Textron's sister company and also the impact of the dispute with Textron that led to a production gap for SUAS EMS of over 6 months. The LPG related businesses were able to generate a slight increase in total sales as a result of their increasing market share in a declining market. The contribution to the group was diminished from last year as a result of the lower sales but was still a positive result of A\$602,000.

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 SUAS are expected to be higher in the 2015 financial year as we resume sales of EMS components to Textron and progress the Insitu-Boeing development contract to flight testing and low volume engine production.

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 have managed to increase market share; albeit in a contracting market. Orbital is currently the largest player in the Australian LPG market. With the Australian market continuing to contract we expect there to be continued consolidation within the industry.

Synerject

Synerject, Orbital's 30:70 Partnership with Continental AG, is a key supplier of engine management systems and fuel systems 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 centers 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 US and European markets, highlighting the success and importance of Synerject's expanded/diversified product strategy.

Synerject generated US\$6,346,000 positive cash flow and paid dividends to shareholders (Orbital share A\$1,634,000). At June 30, 2014 Synerject held cash of US\$8,611,000 (June 2013: US\$7,138,000).

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 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. OCS also provides contract design and analysis for the local resources industry.

Throughout the year, Orbital's engineering group has 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, 2014 the OCS order book (inclusive of the Insitu-Boeing program) stood at approximately A\$3,033,000 (June 30, 2013 A\$1,100,000).

OCS revenue for the year was A\$2,898,000 up 41% 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. Tight cost control provided a significant improvement in the segment result for the year.

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 center 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.

Royalties and Licenses

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

Total FlexDI™ product volumes reduced 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 lower 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 licensed a number of Original Equipment Manufacturers (OEM) and component manufacturers to utilize Orbital's technology. At present there are 15 authorized 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 license 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 utilize our engineering expertise.

Orbital will continue to receive royalties from its existing licensed two-stroke outboard engine manufacturers for a number of years 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.

The Company had been awarded a contract of A\$4,500,000 for the design, development and validation of a next generation production engine for Insitu Inc, a subsidiary of The Boeing Company (Insitu-Boeing). The development program has been a significant focus for Orbital over the 2014 year. If successful, the development program will lead to production of small unmanned aircraft system (SUAS) engines in 2015. The next generation propulsion system will be one of the most advanced engines flying on a SUAS application. The engine will utilize Orbital's Argon FlexECU, our smallest, lightest and highest specification Engine Control Unit (ECU).

The continued commitment to the core R&D has resulted in three new patents granted in the last 12 months, along with four new patent family applications being filed further 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, 2014, Orbital had 55 individual patent families with a total of 115 patents and patent applications around the world. As of September 30, 2014 there were 25 granted patents and 6 patent applications pending in the United States (as well as a further 5 pending 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 unauthorized 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).
- 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 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 utilizing 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 specialized 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 that had been underutilized and for which a provision for surplus lease space has been provided, has been leased through a sub-lease agreement during the year.

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 June 27, 2014 the Company announced that it was going to undertake an on-market share buy-back of up to 10% of its issued capital in accordance with the Corporations Act and Rules of the Australian Stock Exchange. The buy-back commenced on July 15, 2014 and was completed on July 20, 2014. During this period the Company bought back 4,975,699 shares at a total consideration paid of A\$771,000. On July 24, 2014 the 4,975,699 shares were cancelled.

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 2014 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 judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. We continually evaluate our estimates and judgments including those related to product warranties, trade debtors and deferred taxation. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. This forms the basis for making judgments 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 judgments and estimates that have been adopted in preparing our IFRS financial statements:

(a) Significant accounting judgments

Capitalized development costs

Development costs are only capitalized 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 12 for further information.

(b) Significant accounting estimates and assumptions

Taxation

Judgment 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. Judgments are also required about the application of income tax legislation. These judgments 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.

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 32. The fair value of the performance rights is determined by an external valuer using a monte-carlo simulation model, with assumptions detailed in note 32. 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 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 are, disclosed and further explained in Note 17 and Note 18.

As a result of these assessments, the Company has impaired the goodwill previously recognized on the acquisitions of Orbital Autogas Systems and Sprint Gas in 2013. Refer to note 18 for more information.

Impairment of goodwill, intangibles with indefinite useful lives and plant and equipment

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 18 for further information.

Plant and equipment are tested whenever events or changes in circumstances indicate that the carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer to Note 17 for further information.

Product warranty

In determining the level of provision required for product warranties the Group has made judgments 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 24.

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 judgments in respect of the expected earnings before interest, depreciation and amortization 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 in the previous year. In determining the level of provision required for restoration obligations the Group has made judgments in respect of the expected expenditures required to fulfill the obligation.

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 realization 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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(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 recognizes 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 utilized.

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 recognize 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, license 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, 2014, our deferred tax asset included A\$5.001 million (A\$4.656 million at June 30, 2013), 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, 2014.

Carry forward tax losses

Australia

Tax carry forward losses of the Company and its Australian resident controlled entities decreased during fiscal 2014 by A\$1.687 million to A\$66.756 million at June 30, 2014 from A\$68.443 million at June 30, 2013.

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, 2014 because it is not probable that future profits will be available against which the consolidated entity can utilize the losses and timing differences.

For the consolidated entity to fully realize its potential Australian future income tax benefits it will need to generate future Australian taxable income of approximately A\$66.756 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, 2014, tax carry forward losses of approximately A\$19.995 million (US\$18.835 million) (2013: A\$27.513 million (US\$25.518 million)) are available to certain controlled entities in the United States. A deferred tax asset of A\$5.001 million (US\$4.714 million) (2013: A\$4.656 million (US\$4.318 million)) has been recognized as an asset as it is probable that future profits will be available against which the consolidated entity can utilize 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, 2014, the US\$18.835 million of tax carry forward losses available expire between the years 2015 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\$18.835 million. Approximately US\$4.129 million of taxable income will be required in fiscal 2020 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 totaling A\$5.001 million in respect of carry forward losses will be realized 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, 2013 to June 30, 2014 is the result of the movement of the assessment period and also updates to future forecast results.

Results of Operations Fiscal 2014 Compared with Fiscal 2013

Orbital's net profit after tax was A\$1.676 million for the year ended June 30, 2014 compared to A\$0.364 million for the year ended June 30, 2013.

Revenue from trading activities in fiscal 2014 decreased as compared to fiscal 2013 by 31.3% to A\$18.337 million:

- Sale of goods decreased 39.7% (A\$9.288 million) to A\$14.136 million reflecting the change in SUAS engine production from Orbital to Textron's sister company as expected and also the impact of the dispute with Textron that led to a production gap for SUAS EMS of over 6 months. The LPG related businesses were able to generate a slight increase in total sales as a result of their increasing market share in a declining market. Contribution to the group reduced from a profit of A\$2.163 million last year to a A\$0.602 million profit this year.

- Consulting services income increased 40.9% (A\$0.841 million) to A\$2.898 million. During this reporting period the OCS group redeployed key resources to the SUAS activities and on continuing research and development projects. Tight cost control provided a significant improvement in the segment result this year; the contribution to the group improved from a loss of A\$2.206 million to a loss of A\$0.176 million.
- Royalty and License income increased by 11.6% to A\$1.124 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 the increase in revenue for the year.
- Export sales decreased by A\$9.088 million to A\$5.264 million in fiscal 2014. Export sales represented 29.0% of total revenue (2013: 54.2%). The majority of export sales were invoiced in Australian Dollar.
- Other income was A\$4.402 million compared to A\$3.889 million in 2013. A Government grant income of A\$0.891 million has been received during the year. In accordance with research and development tax legislation the Group is entitled to a refundable research and development tax offset of A\$2.224 million which has been accounted for as additional government grant income in fiscal 2014.

Total costs and expenses (excluding share of net profit of equity accounted investee, Synerject LLC and materials and consumables) decreased 17.7% to A\$17.515 million in fiscal 2014 from A\$21.286 million in fiscal 2013. The decrease was mainly due to impairment of goodwill in fiscal 2013, tighter cost control, and also further explained as follows:

- Total employee expenses decreased by 14.0% (A\$1.568 million) to A\$9.642 million primarily due to a reduction in headcount.
- Depreciation and amortization decreased by 5.3% to A\$0.908 million primarily due to a reduction in additions to plant and equipment in 2014.
- Engineering consumables and contractor expenses increased by 43.2% to A\$0.985 million reflecting the additional costs incurred correlating to increased Engineering revenue.
- Occupancy expenses increased by only 1.4% to A\$1.839 million due to contractually agreed rental increases.
- Travel and accommodation expenses decreased by 31.7% to A\$0.278 million as a result of decreased overseas travel.
- Communication and computing expenses decreased by 34.3% to A\$0.408 million due to tighter cost control practices.
- Audit, compliance and listing costs increased by 83.7% to A\$0.948 million as a result of increased legal expenses, mainly in relation to resolving the dispute with Textron.
- Finance costs of A\$0.536 million decreased 22.0% to A\$0.536 million due to repayment of a loan facility during fiscal 2013.
- The absence of an impairment charge in fiscal 2014 had a significant impact on reducing other expenses. In fiscal 2013 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.
- Other expenses (excluding the goodwill impairment charge) decreased by 28.4% to A\$1.017 million. Fiscal 2014 included no impairment of receivables, decreased administration costs of A\$0.36 million (11.1%) and decreased warranty allowance and restoration obligations of A\$0.369 million (95.3%). Marketing costs increased by 36.6% to A\$0.358 million.

The cost of materials and consumables in fiscal 2014 decreased as compared to fiscal 2013 by 30.2% (A\$3.145 million) to A\$7.283 million. The decrease in materials and consumables was due to the decreased production and supply of SUAS engines, SUAS engine management systems and sales of SUAS spare parts in fiscal 2014.

Orbital's share of Synerject's net profit increased by 1.1% to A\$3.256 million in fiscal 2014 from A\$3.220 million in fiscal 2013. Synerject's revenue increased by 3.3% to US\$141.746 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\$0.702 million incurred by Synerject have been capitalized in Orbital's equity accounted results (fiscal 2013: A\$0.423 million) in accordance with IFRS.

The income tax benefit for fiscal 2014 was A\$0.479 million, being primarily benefits arising from previously unrecognized tax losses (A\$2.098 million) and originating and reversing temporary differences (A\$0.429 million) offsetting the current year tax expense (A\$2.048 million).

Inflation has had a minimal effect on Orbital's results of operations in fiscal 2014 compared to fiscal 2013.

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 License 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 utilized 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 amortization 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 capitalized 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.

Liquidity and Capital Resources

As at June 30, 2014, Orbital's cash balance, including short term deposits, was A\$6.621 million compared to A\$7.607 million at June 30, 2013 and A\$5.170 million at June 30, 2012. At September 30, 2014 the cash balance was A\$5.428 million. In Orbital's opinion, the working capital is sufficient for its present requirements.

For fiscal 2014 Orbital recorded a net cash outflow from operations of A\$1.915 million compared to cash outflows of A\$1.717 million in fiscal 2013 and A\$4.245 million in fiscal 2012. The cash outflow in fiscal 2014 resulted from cash flow used in operating activities of A\$1.373 million and working capital outflow of A\$0.542 million. This compares with net cash used by operating activities in fiscal 2013 of A\$2.231 million (fiscal 2012 of A\$4.689 million) plus working capital sources of A\$0.514 million (fiscal 2012: working capital requirements of A\$0.444 million). Synerject's equity accounted result is non-cash and therefore has no impact on operating cash flow in either fiscal 2014 or fiscal 2013 (however Synerject paid dividends to Orbital in Fiscal 2014, Fiscal 2013 and Fiscal 2012).

Research and development expenditures were A\$1.910 million in fiscal 2014, A\$1.094 million in fiscal 2013 and A\$0.954 million in fiscal 2012. Research and development activity during fiscal years 2014, 2013 and 2012 was in developing new technology for advanced combustion systems, combustion of alternative fuels (liquid and gaseous) in internal combustion engines, and further developing the air-assist DI system for application on new products.

Orbital generated net cash of A\$0.861 million from investing activities in fiscal 2014 compared to A\$7.684 million in fiscal 2013 compared to A\$2.960 million cash inflow in fiscal 2012. Synerject paid Orbital dividends of A\$1.634 million in fiscal 2014 (A\$1.485 million in fiscal 2013 and A\$1.544 million in fiscal 2012). Proceeds on the sale of 12% share in Synerject generated A\$5.777 million in fiscal 2013. The capital expenditure in fiscal 2014 consisted mainly of building improvements and the acquisition of computer equipment (fiscal 2013 building improvements and the acquisition of computer equipment). In fiscal 2014, Orbital acquired A\$0.460 million short term deposits. In fiscal 2013, Orbital redeemed a short term deposit of A\$0.666 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 totaling A\$0.733 million (2013: A\$0.735 million). The Company has also provided the Company's banker with security over a short term deposit of A\$0.705 million (2013: A\$705 million) held by the Company's banker as cash collateral for the financing facilities.

Orbital has an interest free loan of A\$14.346 million provided by the Government of Western Australia. The term of the loan is 2010 to 2025, with annual repayments. A repayment of A\$0.415 million was made during fiscal 2014 (2013: A\$0.346 million).

Orbital had no capital expenditure contracted but not provided for as at June 30, 2014. 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\$0.415 million for fiscal year 2015 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 2015 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 12 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 2014 was US\$7.806 million, fiscal 2013 was US\$10.559 million and fiscal 2012 was US\$4.989 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 and now new borrowings were entered into in fiscal 2014. Synerject's cash at June 30, 2014 was US\$8.611 million (2013: US\$7.138 million) and total debt outstanding (including the line of credit) at June 30, 2014 was US\$nil (2013: US\$nil). Member guarantees are not required to support Synerject's financing arrangements. Orbital's interest in Synerject is now 30%.

Trend Information

It is anticipated that the system supply business will continue to provide revenue in the year ending June 30, 2015. 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, 2014 was approximately A\$3.033 million compared to A\$1.100 million at June 30, 2013.

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 2014, fiscal 2013 or fiscal 2012.

Inflation

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

Market Exposures

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

Interest rate sensitivity

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

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

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

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
Financial assets		
Cash and cash equivalents	5,416	6,902
Short term deposits	1,205	705
	<u>6,621</u>	<u>7,607</u>
Financial liabilities		
Contingent consideration	<u>638</u>	<u>886</u>

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

At June 30, 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit/(loss)		Other comprehensive income	
	Higher/(Lower)		Higher/(Lower)	
	2014	2013	2014	2013
	A\$'000	A\$'000	A\$'000	A\$'000
Consolidated				
+1% (100 basis points)	78	96	—	—
-1% (100 basis points)	(79)	(94)	—	—

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

Financial Instruments	A\$'000		Weighted Average Interest Rate	
	2014	2013	2014	2013
Cash – Floating (and fixed less than 6 months)	5,416	6,902	2.68	3.18
Contingent consideration	<u>638</u>	<u>886</u>	<u>6.31</u>	<u>6.77</u>

At June 30, 2014 and June 30, 2013 Orbital did not have any interest rate sensitive derivative instruments.

Foreign currency exchange sensitivity

The functional currency of the Company is Australian Dollars.

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

<u>Financial Instruments</u>	<u>Fair Value</u>		<u>Year End</u>	
	<u>A\$'000</u>		<u>Exchange Rate A\$</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash held in United States Dollars	8	13	0.9420	0.9275
Cash held in European currency units	2	4	0.6906	0.7095
Receivables in United States Dollars	92	403	0.9420	0.9275
Foreign Exchange Forward Contract United States Dollars*	136	—	0.6906	0.7095
Trade and other payables in United States Dollars	(101)	(588)	0.9420	0.9275
Trade and other payables in European currency units	(10)	(46)	0.6906	0.7095

* At June 30, 2014 the contractual undiscounted payments related to foreign exchange forward contracts totaled A\$2,330,000 (2013: A\$nil) maturing between 3 to 12 months. The Group has pledged A\$500,000 of its short-term deposits in order to fulfill the collateral requirements for the foreign exchange forward contracts in place. Orbital did not have any foreign currency sensitive derivative instruments at June 30, 2013.

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

<u>Investment in equity accounted investee</u>	<u>Carrying Value</u>		<u>Year End</u>	
	<u>A\$'000</u>		<u>Exchange Rate A\$</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Synerject LLC	13,980	12,468	0.9420	0.9275

Details of Orbital's foreign currency translation exposure as at June 30, 2014, where movements on re-translation in future periods will be recognized in net profit / (loss) are as follows:

	<u>Foreign</u> <u>Currency</u> <u>Amount</u>	<u>Translated</u> <u>Exchange Rate</u>	<u>A\$ Equivalent</u>
Cash	US\$0.008m	0.9420	A\$0.008m
Cash	Euro0.001m	0.6906	A\$0.002m
Receivables	US\$0.087m	0.9420	A\$0.092m
Foreign Exchange Forward Contract	US\$0.128m	0.9420	A\$0.136m
Payable	(US\$0.095m)	0.9420	(A\$0.101m)
Payable	(Euro0.007m)	0.6906	(A\$0.010m)

Maturity Profile of Commercial Commitments for the next 5 years

<u>Obligations (A\$'000s)</u>	<u>At June 30, 2014</u>					
	<u>Expected Maturity or Expiry Date</u>					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Finance Leases	24	19	—	—	—	43
Operating Leases (1)	1,012	1,006	938	899	926	4,781
Long –Term Debt (2)	498	597	717	859	1,032	3,703
Heavy Duty Engine Testing Facility Operations commitment (3)	—	—	—	—	—	—
Contingent consideration (4)	638	—	—	—	—	638
Total	2,172	1,622	1,655	1,758	1,958	9,165

(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 2014: 6.31% (2013: 6.77%). 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 12 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.

On February 28, 2014 the Company announced the resignation of Mr William Peter Day as a Director.

On June 17, 2014 the Company announced the appointment of Mr John Paul Welborn as a Director.

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
Vijoleta Braach-Maksvytis	Non-Executive Director (1) (2)	March 31, 2008
John Paul Welborn	Non-Executive Director (1) (2)	June 17, 2014
Terry Dewayne Stinson	Chief Executive Officer and Managing Director	June 21, 2008

(1) Member of Audit Committee

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

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

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, and is Chairman of Sprint Gas (Aust) Pty Ltd.

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

Independent Non-Executive Director

Joined the Board in March 2008. Dr Braach-Maksvytis is an innovation strategist with more than 20 years' experience in organizational change, formation of cross-sectoral and global partnerships, the commercialization 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).

MR JOHN PAUL WELBORN, B.Com, CA, MAICD, SA Fin

Independent Non-Executive Director

Joined the Board in June 2014. Mr Welborn is currently the Managing Director and Chief Executive Officer of Equatorial Resources Limited (ASX: EQX), an ASX listed iron ore exploration and development company with two 100% owned large scale iron ore projects in the Republic of Congo.

Mr Welborn chairs the Company's Audit Committee and is also a member of the Company's Human Resources, Remuneration and Nomination Committee.

Mr Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and holds memberships of the Institute of Chartered Accountants in Australia, the Financial Services Institute of Australasia and the Australian Institute of Company Directors.

Mr Welborn is a former International Rugby Union Player with extensive experience in the resources sector as a senior executive and in corporate management, finance and investment banking. He was the Head of Specialized Lending in Western Australia for Investec Bank (Australia) Ltd and has more than 20 years of commercial experience in national and international professional services and management consulting firms. Mr Welborn has also served on the Boards of a number of charitable organizations, and is a former Commissioner of Tourism Western Australia.

Mr Welborn is also a director of Equatorial Resources Limited (appointed August 2010) and, Prairie Mining Limited (appointed February 2009).

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

Name and Date of Commencement

Position and Experience

Ian Graham Veitch
June 14, 2006

Chief Financial Officer and Company Secretary.
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
March 14, 1994

Chief Technical Officer.
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:

	2014	2013	2012
	A\$	A\$	A\$
Short-term employee benefits	1,074,183	1,011,679	1,028,635
Post-employment benefits	96,933	110,193	114,847
Long-term employee benefits	24,412	32,448	29,257
Equity compensation benefits	62,061	107,015	251,062
Termination Payments	—	—	—
	<u>1,257,589</u>	<u>1,261,335</u>	<u>1,423,801</u>

For fiscal 2014 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\$1.258 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, 2014 the aggregate amount of compensation paid or accrued by Orbital for the retirement plans of directors and officers totaled A\$0.097 million.

REMUNERATION REPORT

Principles of compensation

This Remuneration Report for the year ended June 30, 2014 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

Mervyn T Jones	Chairman (Non-executive)
Vijoleta Braach-Maksvytis	(Non-executive)
John P Welborn	(Non-executive) (appointed June 17, 2014)
Terry D Stinson	Managing Director and Chief Executive Officer (Executive)
W Peter Day	Chairman (Non-executive) (ceased being a KMP February 28, 2014)

(ii) Executives

Geoff P Cathcart	Chief Technical Officer
Ian G Veitch	Chief Financial Officer

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 recognizing the contribution of each employee to the growth and success of the Group.

Executive members of the KMP may receive a short-term incentive (STI) approved by the Board as reward for exceptional performance in a specific matter of importance. STI amounts of A\$74,000 became payable during the 2014 financial year (2013: nil).

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 2014 financial year, the Company used earnings per share as the performance measure for the share awards. During the 2014 financial year, the performance hurdles for the 2011 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 2014 financial year.

Remuneration report at FY13 AGM

The FY13 remuneration report received positive shareholder support at the FY13 AGM with a vote of 92% in favor.

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 recognizing 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 2014

The key changes made to remuneration structure in 2014 related to the replacement of the Medium Term Incentive (MTI) Plan with a new Short Term Incentive (STI) Plan. The key features of the STI plan are summarized in the table below.

Table 1 – STI Performance hurdles (and weighting %)

KPI	Proportion of STI award KPI applies to	Minimum KPI A\$'000	Stretch KPI A\$'000
EBIT	40%	1,622	2,433
Free Cash Flow	30%	404	1,404
Non-organic growth of EBIT	20%	1,000	2,000
Board Discretion	10%	TBD	TBD

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.

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 any discretionary bonus payments.

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?	No remuneration recommendation was provided by a remuneration consultant for the financial year.
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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 caliber, 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 A\$400,000 per year.

The Board will not seek any increase for the non-executive director pool at the 2014 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

Non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

The Chairman of the Board receives a fee of A\$102,500 (effective September 1, 2013) (2013:A\$88,000). Each non-executive director receives a base fee of A\$72,000 (effective September 1, 2013) (2013: A\$69,200) for being a director of the Group.

The remuneration of non-executive directors for the year ended June 30, 2014 and June 30, 2013 is detailed in point 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.
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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.
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Are non-executive Directors' fees going to increase in FY2015?	The Board has decided not to increase the directors' fees.
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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 FY2014 comprised 48% fixed remuneration, 28% target STI opportunity and 24% 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 FY2014 was 54% fixed remuneration, 24% target STI opportunity and 22% LTI opportunity.

In the 2014 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration
- Variable remuneration (STI 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"> • Represented by total fixed remuneration (TFR). • Comprises base salary, Superannuation contributions and other benefits. 	<ul style="list-style-type: none"> • Set with reference to role, market and experience. • Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. 	<ul style="list-style-type: none"> • No direct link to company performance.
STI component (discretionary)	<ul style="list-style-type: none"> • Paid in cash 	<ul style="list-style-type: none"> • Rewards executives for their contribution to achievement of Group outcomes. 	<ul style="list-style-type: none"> • Discretionary award by the Board to reward executives for exceptional performance in a specific area of importance.
STI component (KPI related)	<ul style="list-style-type: none"> • Paid in cash. 	<ul style="list-style-type: none"> • Rewards executives for their contribution to achievement of Group outcomes. 	<ul style="list-style-type: none"> • EBIT. • Free Cash Flow. • Non-organic growth of EBIT • Board Discretion.
LTI component	<ul style="list-style-type: none"> • Awards are made in the form of shares or performance rights. 	<ul style="list-style-type: none"> • Rewards executives for their contribution to the creation of shareholder value over the longer term. 	<ul style="list-style-type: none"> • Vesting of awards is dependent on Orbital Corporation Limited's TSR performance relative to a peer group and its Earnings Per Share.

Fixed compensation

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

Executive contracts of employment do not include any guaranteed base pay increases. TFR is reviewed annually by the 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) (discretionary)

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 STI (KPI related) 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?	Discretionary STI cash bonuses totaling A\$74,000 were awarded during the 2014 financial year and no bonuses were paid during the 2013 financial year.
Is a portion of STI deferred?	No discretionary STI cash bonuses relating to the 2014 or 2013 financial years will become payable in future financial years.

Variable remuneration — short-term incentive (STI) (KPI related)

The STI plan was established to incentivize executives to achieve stretch key performance indicators (KPI's). The STI plan is a time based plan.

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

What is the STI?	Executive directors and senior executives may receive STI bonuses based on the achievement of key performance indicators ("KPI's") related to the performance of the Group over the short term (one financial year).
When is the STI grant paid?	The annual STI payments for executives are subject to the approval of the Human Resources, Remuneration and Nomination Committee, 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. 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.
How are the performance conditions of the STI determined?	The three KPI's chosen by the Human Resource, Remuneration and Nomination Committee in July 2013 relate to 1) EBIT, 2) Free Cash Flow, and 3) Non-organic growth of EBIT. The Committee also included a provision for an award of up to 10% of the potential STI on a discretionary basis.
How does the Company's STI 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 STI for KMP in 2014?

The STI performance hurdles (and weighting %) for 2014 were:

KPI	Proportion of STI award KPI applies to	Minimum KPI A\$'000	Stretch KPI A\$'000
EBIT	40%	1,622	2,433
Free Cash Flow	30%	404	1,404
Non-organic growth of EBIT	20%	1,000	2,000
Board Discretion	10%	TBD	TBD

How are actual results measured against the performance hurdles?

For each performance hurdle there are two targets 'Base' and 'Stretch'. 'Base' is the minimum target to trigger a STI payment for that hurdle. The amounts paid for each hurdle varies between 2.3%-12% of TFR for 'Base' and 4.5%-24% of TFR for 'Stretch'. Where achievement is below 'Base' no payment is made.

What are the ranges of possible values of award under the STI plan?

Name	Position	Amount (Min - Max)
Terry Stinson	Chief Executive Officer	0 - A\$227,136
Geoff Cathcart	Chief Technical Officer	0 - A\$117,806
Ian Veitch	Chief Financial Officer	0 - A\$102,232

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

What was the value of STI paid in the financial year?

The Human Resources, Remuneration and Nomination Committee has considered the KPI related bonus for the 2014 financial year. The STI (KPI related) cash bonus available for the 2014 financial year is A\$nil. This amount has been determined on the basis that 1) the EBIT for FY14 was below A\$1,622,000, 2) the free cash flow for FY14 was below A\$404,000, and 3) the non-organic growth of EBIT was below A\$1,000,000.

Is a portion of STI deferred?

No. At this stage, the Board does not consider it appropriate to defer a portion of the STI (KPI related). This is because the performance criteria are objective (EBIT, free cash flow, and non-organic growth in EBIT) and obtained from the audited results of the Group.

Variable remuneration — long-term incentive (LTI)

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

Employee Share Plan No.1

Senior executives (together with all other eligible employees) are each offered shares in the Company, at no cost to the employees, to the value of A\$1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. Directors do not participate in 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 1.28 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 2014?	<ul style="list-style-type: none"> • Grant date: August 31, 2013 (Managing Director grant date: October 23, 2013 being the date of the AGM at which his participation in the plan was approved by shareholders). • Life: 3 years. • Expiry date: August 31, 2016. • Exercise Price: nil. • Fair value per right: 19.5 cents (Managing Director: 17 cents). • Market price of shares on grant date: 19.5 cents (Managing Director: 17 cents). • Measure of performance is earnings per share for the year ended June 30, 2016. See Table 3 for the vesting schedule. • Vested shares are held in trust by the trustee for a period of ten years, or until the cessation of employment.
What are the performance conditions for the vesting of ELTSP shares?	The performance conditions, which are based 100% on Earnings Per Share (EPS) (performance years 2014 and 2013), apply to determine the number of shares (if any) that vest to the Executives. See tables 3, 4 and 5, below for the vesting schedules for EPS tested and TSR tested LTI awards granted in prior years.
How is the market price of the ELTSP determined?	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.
In what circumstances would the LTI entitlements be forfeited?	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.
What happens to LTI entitlements upon a change of control in the Group?	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.
Do shares granted under the LTI dilute existing shareholders' equity?	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.
Are the shares issued under the LTI bought on market?	No. the company issues new shares for the ELTSP, it does not buy the shares on the market.
Does the executive obtain the benefit of dividends paid on shares issued under the LTI?	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.
What other rights does the holder of vested LTI shares have?	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.
Does the Company have executive share ownership guidelines?	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.

Can executive KMP hedge to ensure that they obtain a benefit from unvested LTI's?	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.
How many LTI awards vested in the financial year?	None. TSR Performance targets under the LTI offered in FY2011 were not met in FY2014 and the EPS for the financial year was less than 15 cents per share and as a result nil (2013: nil) shares were issued to KMPs.
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 for the performance year 2014:

Table 3 – Vesting schedule for the EPS tested LTI awarded for the performance year 2014

Company Performance (Earnings per share)	% of offered shares issued to each executive
Compounded EPS growth of less than 20% per annum (up to 73% growth over 3 years)	0%
Compounded EPS growth of between 20% and 34.9% per annum (at least 73% growth over 3 years)	25% to 49% (on a straight line basis)
Compounded EPS growth of between 35% and 49.9% per annum (at least 246% growth over 3 years)	50% to 99% (on a straight line basis)
Compounded EPS growth of 50% or greater per annum (at least 338% growth over 3 years)	100%

The following table sets out the relevant percentages of shares offered which will vest based on various percentile rankings of the Company for the performance year 2013:

Table 4 – Vesting schedule for the EPS tested LTI awarded for the performance year 2013

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

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 capitalization 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 5 – Vesting schedule for the TSR tested LTI awarded for the performance year 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 FY2012, FY2013 and FY2014 offer unless the Company's TSR is at or above the 50th percentile or the EPS for the years ending June 30, 2014, June 30, 2015 and June 30, 2016 is at or above 15, 5 and 1.28 cents per share, respectively.

TSR Performance targets under the LTI offered in FY2011 were not met in FY2014 and as a result nil (2013: nil) shares were issued to KMPs.

At the Company's Annual General Meeting in October 2013, 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 utilize 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 6 – Vesting schedule for the performance rights plan

Tranche	Number of performance rights	Share price target
1	200,000	A\$ 2.50
2	200,000	A\$ 5.00
3	200,000	A\$ 7.50
4	200,000	A\$10.00
5	125,000	A\$20.00
6	125,000	A\$30.00
7	100,000	A\$50.00

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

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

No performance rights were granted during the year ended June 30, 2014.

LTI awards for 2014 financial year

Shares were granted under the Employee Share Plan No.1 to a number of executives on February 5, 2014. No Shares were granted under the Executive Long Term Share Plan or the Performance Rights Plan during the 2014 financial year.

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

6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The STI 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

EBIT, Free Cash Flow and Non-organic growth of EBIT are considered in setting the STI as they are considered important short term performance targets.

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

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

	2010 A\$'000	2011 A\$'000	2012 A\$'000	2013 A\$'000	2014 A\$'000	Minimum KPI A\$'000	Stretch KPI A\$'000
EBIT	4,641	2,043	(2,808)	2,570	1,554	1,622	2,433
Free Cash Flow	(3,350)	1,685	(768)	5,967	(1,054)	404	1,404
Non-organic growth in EBIT	—	—	—	—	—	1,000	2,000

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, 2014. 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 8 – Orbital five year performance linked to long-term incentives

	2010	2011	2012	2013	2014	2014 Minimum	2015 Minimum
TSR ranking (percentile)	56th	*	*	18th	*	50th	50th
Earnings per share (cents)	9.39	3.65	(6.28)	0.74	3.39	15.00	9.00
Closing share price (A\$)	0.25**	0.25	0.22	0.15	0.16	—	—

* The Company did not measure its TSR ranking in 2011, 2012, or 2014 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 2007 were partially vested in financial year 2010. The performance target for the LTIs offered in 2008, 2009, 2010 and 2011 were not met during the financial years 2011, 2012, 2013 and 2014 and as such no shares vested.

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

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

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

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

- The CEO receives fixed remuneration of A\$378,000 per annum
- The CEO's target MTI opportunity per annum is 20% of annual Total Employment Costs (TEC) and his maximum STI 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 9 – 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 10 – 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

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 11 – Compensation of KMP for the years ended June 30, 2014 and 2013

	Short Term			Post- Employment Superannuation Contributions A\$	Long-term Benefits* A\$(d)	Share Based Payments			Total A\$	Proportion of remuneration performance related %
	Salary and Director's Fees A\$	Cash Bonuses A\$	Total A\$			Employee Share Plans A\$(a)(b)	Performance Rights Plan A\$(c)	Total A\$		
Non-executive Directors	Year	A\$	A\$	A\$	A\$(d)	A\$(a)(b)	A\$(c)	A\$	%	
Mervyn T Jones <i>Chairman and Director (Non-executive)</i>	2014	88,494	—	88,494	—	—	—	96,689	—	
	2013	63,486	—	63,486	—	—	—	69,200	—	
Vijoleta Braach-Maksyvis <i>Director (Non-executive)</i>	2014	65,474	—	65,474	—	—	—	71,537	—	
	2013	63,486	—	63,486	—	—	—	69,200	—	
John P Welborn (e) <i>Director (Non-executive)</i>	2014	2,522	—	2,522	—	—	—	2,762	—	
	2013	—	—	—	—	—	—	—	—	
W Peter Day (f) <i>Chairman and Director (Non-executive)</i>	2014	46,234	—	46,234	—	—	—	50,511	—	
	2013	90,459	—	90,459	8,141	—	—	98,600	—	
<i>Total Consolidated, all non-executive directors</i>	2014	202,724	—	202,724	18,775	—	—	221,499	—	
	2013	217,431	—	217,431	19,569	—	—	237,000	—	
Executive Director										
Terry D Stinson <i>Director and Chief Executive Officer</i>	2014	346,508	34,000	380,508	32,088	12,161	15,221	34,511	474,489	17.6%
	2013	333,945	—	333,945	40,073	8,387	82,867	49,283	514,555	25.7%
Other Key Management Personnel										
Geoff P Cathcart <i>Chief Technical Officer</i>	2014	242,643	20,000	262,643	26,803	7,581	9,388	—	306,415	9.6%
	2013	213,525	—	213,525	25,623	14,558	33,774	—	287,480	11.7%
Ian G Veitch (g) <i>Chief Financial Officer</i>	2014	208,308	20,000	228,308	19,269	4,670	2,941	—	255,188	9.0%
	2013	77,964	—	77,964	6,870	12,245	6,266	—	103,345	6.1%
Keith A Halliwell (h) <i>Chief Financial Officer</i>	2014	—	—	—	—	—	—	—	—	—
	2013	168,814	—	168,814	18,058	(2,742)	(65,175)	—	118,955	(53.6)%
Total Consolidated, Executive Director and Key Management Personnel	2014	797,459	74,000	871,459	78,160	24,412	27,550	34,511	1,036,092	13.1%
	2013	794,248	—	794,248	90,624	32,448	57,732	49,283	1,024,335	10.4%

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 12 – Summary of terms and conditions of unvested 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>
Aug 31, 2010	3 years	Aug 31, 2013	33 cents	nil	34 cents	60.00%	4.27%
Aug 31, 2011*	3 years	Aug 31, 2014	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 13 – Summary of terms and conditions of unvested 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>
Aug 31, 2010	3 years	Aug 31, 2013	34 cents	nil	34 cents
Aug 31, 2011*	3 years	Aug 31, 2014	35 cents	nil	35 cents
Aug 31, 2012*	3 years	Aug 31, 2015	20 cents	nil	20 cents
Aug 31, 2013*	3 years	Aug 31, 2016	19.5 cents	nil	19.5 cents

* The grant dates of the EPS related rights for the Managing Director were October 26, 2011, November 7, 2012 and October 23, 2013 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 14 – Summary of terms and conditions of unvested performance rights

<u>Grant Date</u>	<u>Life</u>	<u>Fair Value per right</u>	<u>Target price</u>	<u>Market price of shares on grant date</u>	<u>Expected volatility</u>	<u>Risk free interest rate</u>
Aug 31, 2008	10 years	47 cents	A\$2.50	79 cents	55.00%	5.75%
Aug 31, 2008	10 years	35 cents	A\$5.00	79 cents	55.00%	5.75%
Aug 31, 2008	10 years	28 cents	A\$7.50	79 cents	55.00%	5.75%
Aug 31, 2008	10 years	23 cents	A\$10.00	79 cents	55.00%	5.75%
Aug 31, 2008	10 years	13 cents	A\$20.00	79 cents	55.00%	5.75%
Aug 31, 2008	10 years	9 cents	A\$30.00	79 cents	55.00%	5.75%
Aug 31, 2008	10 years	5 cents	A\$50.00	79 cents	55.00%	5.75%

- (d) Prior year comparatives have been restated to include long service leave
- (e) Mr Welborn became a KMP on June 17, 2014
- (f) Mr Day ceased to be a KMP on February 28, 2014
- (g) Mr Veitch became a KMP on February 11, 2013
- (h) 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 15 – 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) A\$	Number of Rights Offered	Value of Rights Offered (b) A\$	Number of Rights Vested	Number of Expired or Forfeited (c)
Executive Director								
T D Stinson	2014	—	—	—	1,165,000	198,050	—	(665,000)
	2013	—	—	—	1,100,000	220,000	—	(525,000)
Executives								
G P Cathcart	2014	5,844	A\$0.1711	1,000	537,000	104,715	—	(252,700)
	2013	7,468	A\$0.1339	1,000	450,000	90,000	—	(199,500)
I G Veitch	2014	5,844	A\$0.1711	1,000	466,000	90,870	—	(76,000)
	2013	7,468	A\$0.1339	1,000	330,000	66,000	—	(60,000)
K A Halliwell (d)	2014	—	—	—	—	—	—	—
	2013	7,468	A\$0.1339	1,000	600,000	120,000	—	(1,614,067)

- (a) The fair value of the employee share plan No. 1 based upon the market value (at offer date of October 31, 2013 and October 31, 2012 respectively) of shares offered. These awards are fully vested.
- (b) Represents the fair value of rights offered on August 31, 2013 and August 31, 2012 respectively using a Monte-Carlo simulation model for the TSR related rights (August 31, 2012 offer) and the market price on the grant date for EPS related right (August 31, 2012 and August 31, 2013 offers). The vesting of the shares offered on August 31, 2012 and August 31, 2013 is subject to the Group achieving the criteria listed in tables 3, 4 and 5. Performance conditions were met not in respect of rights offered in August 2010 and shares in relation to that offer expired at the expiration of the performance period during the 2014 financial year.
- (c) The value of the Executive Long Term Share Plan rights expired or forfeited during the period was A\$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.

Table 16 – Movement of KMP executives interests in LTI equity rights

	Held at Jul 1, 2013	Offered	Forfeited	Vested	Expired (a)	Held at Jun 30, 2014	Not Exercisable
Executive director							
Mr TD Stinson	2,535,000	1,165,000	—	—	(665,000)	3,035,000	3,035,000
Executives							
Dr GP Cathcart	1,012,700	537,000	—	—	(252,700)	1,297,000	1,297,000
Mr IG Veitch	498,500	466,000	—	—	(76,000)	888,500	888,500

- (a) The fair value of these performance rights was nil at the expiry date.

Table 17 – Movement of KMP interests in shares

	Held at	Purchases	Granted as compensation		Sales	Other (b)	Held at
	Jul 1, 2013		ESP #1	ELTSP			Jun 30, 2014
Non-executive directors							
Dr MT Jones	18,000	52,000	—	—	—	—	70,000
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Mr JP Welborn (a)	—	—	—	—	—	—	—
Mr WP Day	10,000	—	—	—	—	(10,000)	—
Executive director							
Mr TD Stinson	392,690	—	—	—	—	—	392,690
Executives							
Dr GP Cathcart	61,563	—	5,844	—	—	—	67,407
Mr IG Veitch	20,443	—	5,844	—	—	—	26,287

- (a) Mr JP Welborn was appointed a Non-executive director on June 17, 2014.
(b) Represents shareholdings at the time that Mr WP Day ceased to be a KMP.

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.

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 2014 financial year and to the date of this report, it has complied with all the ASXCGC Recommendations.

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

2. BOARD OF DIRECTORS

2.1 Role of the Board

ASXCGC Recommendations 1.1, 1.3

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

To fulfill 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.

Recognizing 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 2014 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 July 1, 2013 – September 1, 2013), Mr W P Day (Chairman September 1, 2013 – February 28, 2014), Mr J P Welborn (Chairman since June 23, 2014) 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, 2014 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), Dr M T Jones, Mr W P Day (July 1, 2013 – February 28, 2014) and Mr J P Welborn (since June 23, 2014).

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 recognize 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 summarized 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 recognizes that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, an organizational 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, licenses and registrations for environmental regulation under both Australian Commonwealth and State legislation. These permits, licenses 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, 2014

Proportion of women in total organization:	22%
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 2014		June 2013		June 2012	
	Aus	US	Aus	US	Aus	US
Executive	4	—	4	—	4	—
Orbital Autogas Systems	13	—	12	—	20	—
Sprint Gas	17	—	17	—	19	—
Administration	13	—	11	—	10	—
Engineers	26	—	24	—	31	—
Technicians	18	—	20	—	22	—
Others	2	—	2	—	2	—
Total	93	—	90	—	108	—

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

Share Ownership

Details of share ownership by Directors and senior managers at September 30, 2014 are as follows:

<u>Directors</u>	<u>Ordinary Shares</u>
T D Stinson	392,690
M T Jones	70,000
J P Welborn	—
<u>Senior Managers</u>	
G P Cathcart	67,407
I G Veitch	26,287

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 capitalization (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 capitalization (other than resource companies and property and investment trust companies) within the S&P / ASX 300 Index. The peer group is ranked in terms of Total Shareholder Return ("TSR"). TSR is the percentage increase in a company's share price plus reinvested dividends over a three year period commencing on September 1, 2011 and ending on August 31, 2014 ("**Performance Period**").

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

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

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

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:

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%

Employee Share Plan - 2013 Offer

Under the Company's No. 1 Plan referred to above, all eligible employees as at October 31, 2013 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 February 5, 2014, a total of 422,403 fully paid ordinary shares were issued to employees under the No. 1 Plan.

Executive Long Term Share Plan - 2013 Offer

At the Company's Annual General Meeting on October 22, 2013, 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 1,165,000 fully paid ordinary shares. Dr Cathcart has been offered up to 537,000 fully paid ordinary shares. Mr Veitch has been offered up to 466,000 fully paid ordinary shares.

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

The performance conditions for the LTI offered in 2014 are based 100% on earnings per share.

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

Vesting schedule for the EPS tested LTI awarded for the performance years 2014

Company Performance (Earnings per share)	% of offered shares issued to each executive
Compounded EPS growth of less than 20% per annum (up to 73% growth over 3 years)	0% to 25%
Compounded EPS growth of between 20% and 34.9% per annum (at least 73% growth over 3 years)	25% to 49% (on a straight line basis)
Compounded EPS growth of between 35% and 49.9% per annum (at least 246% growth over 3 years)	50% to 99% (on a straight line basis)
Compounded EPS growth of 50% or greater per annum (at least 338% growth over 3 years)	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, 2014, Orbital had issued and outstanding 44,781,295 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 2014:

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 (as notified on August 1, 2013)	4,760,107	10.63%
Mulloway Pty Ltd (as notified February 18, 2014)	2,580,688	5.76%

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 (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 (as notified on July 13, 2011)	4,755,400	9.80%
Deutsche Bank AG (as notified October 15, 2012)	3,361,357	6.90%

The Executive Officers and Directors of Orbital as a group own 556,384 ordinary shares which represent 1.26% of that class.

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

Shareholder Locations

There are 44,781,295 ordinary shares in the Company on issue at September 30, 2014, 95% of which are held by 4,332 shareholders located in Australia and 2% of which are held by 76 shareholders located in the United States.

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 were 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, 2014 no shares were held in the form of ADRs traded on the NYSE MKT, as the Company delisted from the NYSE MKT effective December 6, 2013.

Related Party Transactions

There were no related party transactions with Directors during fiscal 2014 (nil in both fiscal 2013 and 2012).

The aggregate amounts receivable from (net of provisions for doubtful debts)/ payable to wholly owned controlled entities by the Company at September 30, 2014 and June 30 in each of the preceding three years are as follows:

	<u>September 30, 2014</u> (A\$000's)	<u>2014</u> (A\$000's)	<u>2013</u> (A\$000's)	<u>2012</u> (A\$000's)
Receivables - Non-current	44,405	44,405	44,820	30,351
Borrowings - Non-current	20,305	18,865	19,160	14,571

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

	<u>2014</u> (A\$000's)	<u>2013</u> (A\$000's)	<u>2012</u> (A\$000's)
Receivables - Non-current	44,820	45,149	30,639
Borrowings - Non-current	20,279	19,160	14,802

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

During fiscal 2014, nil interest expense (fiscal 2013: nil; fiscal 2012: nil) was recognized by the Company in relation to these loans. The interest rate charged during the year was nil (2013 and 2012: 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, 2014 and June 30 in each of the preceding three years are:

	<u>September 30, 2014</u> (A\$000's)	<u>2014</u> (A\$000's)	<u>2013</u> (A\$000's)	<u>2012</u> (A\$000's)
Receivables - Current	—	1	3	—
Payables - Current	—	—	—	63

During fiscal 2014, the Group purchased goods and services to the value of A\$110,000 (2013: A\$148,000) 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\$1,634,122 (2013: A\$1,484,854) from Synerject LLC.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements and Other Financial Information

Refer pages F-1 through F-50 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 2014 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 were 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 depository under a deposit agreement dated April 16, 2010. Each ADS represented 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".

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, 2014 no shares were held in the form of ADRs traded on the NYSE MKT, as the Company delisted from the NYSE MKT effective December 6, 2013.

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 authorized 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
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
2013-14	A\$ 0.22	1,473,600	A\$ 0.14	0	US\$ 4.32	147,500	US\$2.05	0

** Through December 6, 2013.

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
2013-14	Q1	A\$0.22*	459,600	A\$0.15	0	US\$4.32*	147,500	US\$2.05*	0
	Q2	A\$0.20	1,473,600	A\$0.14*	0	US\$2.78	43,100	US\$2.12##	0
	Q3	A\$0.19	273,400	A\$0.15	0	—	—	—	—
	Q4	A\$0.19	308,600	A\$0.14*	0	—	—	—	—
Apr 2014		A\$0.19	163,200	A\$0.16	0	—	—	—	—
May 2014		A\$0.18	289,200	A\$0.17	0	—	—	—	—
Jun 2014		A\$0.17	308,600	A\$0.14	0	—	—	—	—
Jul 2014		A\$0.17	2,556,900	A\$0.14	0	—	—	—	—
Aug 2014		A\$0.20	411,200	A\$0.16	0	—	—	—	—
Sept 2014		A\$0.26	682,000	A\$0.19	0	—	—	—	—

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

ADS closing prices provided through to December 6, 2013 representing the last day of trading on the NYSE MKT.

On June 27, 2014, the Company announced that it was going to undertake an on-market share buy-back of up to 10% of its issued capital in accordance with the Corporations Act and Rules of the Australian Stock Exchange. The buy-back commenced on July 15, 2014 and was completed on July 20, 2014. During this period the Company bought back 4,975,699 shares at a total consideration paid of A\$771,000. On July 24, 2014 the 4,975,699 shares were cancelled.

On September 30, 2014, the closing sale price of the ordinary shares on the ASX was A\$0.26 per ordinary share. As of September 30, 2014 no shares were held in the form of ADRs traded on the NYSE MKT, as the Company delisted from the NYSE MKT effective December 6, 2013.

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 authorized 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 organized 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 shareholding 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. In general dividends paid to non-corporate US Holders 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 upon such distribution.

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

Taxation of Capital Gains

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

Passive Foreign Investment Company Rules

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

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

Documents on Display

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

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Exposures

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

A summary of market risk factors is generally discussed below. For additional quantitative and qualitative information about these market risks, refer to note 12 “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 10% of the Group’s sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 26% of costs are denominated in currencies other than the functional currency of the operating entity making the expenditure.

With respect to assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling 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, other than the research and development grant receivable from the Australian Government. Financial instruments are only invested with a major financial institution to minimize 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, 2014.

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 29 for scheduled repayments over the next five years.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

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

Fees and charges payable by a holder of ADSs.

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

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

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, 2014, The Bank of New York paid US\$135 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. Orbital was required to pay US\$47,979 as a result of the termination of the ADR programme during fiscal 2014.

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, 2014, 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 International Financial Reporting Standards 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 International Financial Reporting Standards, 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, 2014. In making this assessment, Orbital's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO (1992 Framework), in Internal Control-Integrated Framework. Based upon its assessment, Orbital's management concluded that, as of June 30, 2014, 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 2014 consolidated financial statements included in this annual report on Form 20-F, is not required to issue an Attestation Report for Fiscal 2014.

(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 J P Welborn 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 Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and holds memberships of the Institute of Chartered Accountants in Australia, the Financial Services Institute of Australasia and the Australian Institute of Company Directors.

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

<u>Services Rendered</u>	<u>2014</u>		<u>2013</u>	
	<u>Fees (A\$)</u>	<u>%</u>	<u>Fees (A\$)</u>	<u>%</u>
Audit Fees – Australian Reporting	238,900	64.6%	225,600	66.7%
Audit Fees – USA Reporting	115,900	31.4%	112,500	33.3%
Audit – Related Fees	—	—	—	—
All Other Fees (1)	14,850	4.0%	—	—

(1) All other fees relate to services performed to review the design of the Executive incentive program.

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 2nd edition (the ASX Principles), and Part 8. Corporate Governance Requirements of the NYSE MKT Rules (the NYSE MKT Rules).

Orbital confirms that throughout fiscal 2014, 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-50 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</u>	F-2
<u>Consolidated Income Statements for the years ended June 30, 2014, 2013 and 2012</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the years ended June 30, 2014, 2013 and 2012</u>	F-4
<u>Consolidated Statements of Changes in Equity for the years ended June 30, 2014, 2013 and 2012</u>	F-4
<u>Consolidated Statements of Financial Position as at June 30, 2014 and 2013</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2014, 2013 and 2012</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, 2013 and 2012	2
Consolidated Statements of Income for the 12 month periods ended December 31, 2013 and December 31, 2012, and December 31, 2011	3
Consolidated Statements of Members' Equity and Comprehensive Income for the 12 month periods ended December 31, 2013 and December 31 2012, and December 31, 2011	4
Consolidated Statements of Cash Flows for the 12 month periods ended December 31, 2013 and December 31, 2012, and December 31, 2011	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.)
- 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 _x).
“EFI”	Electronic Fuel Injection is when the fuel delivery per engine cycle is calculated by the Engine Management System from various inputs (e.g. engine speed, load, airflow) to enable precise fuel metering/delivery to the intake manifold of the engine for improved combustion, fuel economy and emission control.
“Four-stroke”	A “four-stroke cycle” or sometimes called the “Otto cycle”. A type of internal combustion engine operating cycle requiring two full engine revolutions (two up and two down piston movements) per combustion event in an engine.
“Fuel Rail Assembly”	The fuel rail assembly is an assembly, typically a cast modular, or extruded assembly that houses the fuel injector, interfaces the fuel injector to the air injector and provides fuel and air services to the injectors. Frequently the air and fuel regulators will be incorporated into the fuel rail assembly.
“Horsepower”	A unit of measure of power in the U.S. and Imperial system. The metric equivalent of horsepower is Kilowatt. One Kilowatt is equivalent to 1.34hp.
“FlexDi™”	A general term to describe the fuel injection and combustion process developed and marketed by Orbital.
“FlexDi Technology”	A collective term to describe the proprietary and non-proprietary technology involved in the Orbital Combustion Process and the technology that contributes to enhance the performance of engines that employ the FlexDi™ Technology. The proprietary technology or intellectual property includes patents, patent applications, copyrights and confidential know-how and trade secrets.
“LPG”	Liquid Petroleum Gas
“LLi” or “Liquid”	An Orbital developed Liquid Injection System for LPG fuel systems.
“Orbital™ Engine”	A vane-type rotary internal combustion engine originally invented by Orbital’s founder, Ralph Sarich. Orbital is no longer exploiting this technology.
“Production validation”	The process of engineering development carried out prior to the decision to produce a product in commercial quantities. Production validation tests attempt to simulate actual commercial use.
“Stoichiometric”	The chemically correct or theoretical proportions of reactants (fuel and air) in order for complete combustion to occur. Complete combustion is a process which burns all the carbon (C) to (CO ₂), all hydrogen (H) to (H ₂ O) and all sulphur (S) to (SO ₂). If there are unburned components in the exhaust gas such as C, H ₂ , CO the combustion process is uncompleted.
“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 22, 2014

/s/ Ian Graham Veitch

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.

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<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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young
Perth, Australia

October 22, 2014

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

	Note	Consolidated		
		2014 A\$'000	2013 A\$'000	2012 A\$'000
Sale of goods		14,136	23,424	14,020
Engineering services income		2,898	2,057	7,131
Royalty and licence income		1,124	1,007	967
Other revenue	6	179	211	243
Total Revenue		18,337	26,699	22,361
Other income	7	4,402	3,889	1,325
Materials and consumables	8(d)	(7,283)	(10,428)	(8,116)
Employee benefits expense	8(a)	(9,642)	(11,210)	(11,670)
Depreciation and amortisation		(908)	(959)	(991)
Engineering consumables and contractors		(985)	(688)	(2,271)
Occupancy expenses		(1,839)	(1,814)	(1,734)
Travel and accommodation		(278)	(407)	(432)
Communications and computing		(408)	(621)	(783)
Patent costs		(260)	(308)	(322)
Insurance costs		(694)	(690)	(663)
Audit, compliance and listing costs		(948)	(516)	(569)
Finance costs	8(b)	(536)	(687)	(692)
Other expenses	8(c)	(1,017)	(3,386)	(2,179)
Share of profit from associate	15	3,256	3,220	3,480
Profit/(loss) before income tax		1,197	2,094	(3,257)
Income tax benefit/(expense)	9(a)	479	(1,730)	204
Profit/(loss) for the year attributable to owners of the parent		1,676	364	(3,053)
Earnings/(loss) per share				
Basic earnings/(loss) per share (in cents)	10	3.39	0.74	(6.28)
Diluted earnings/(loss) per share (in cents)	10	3.39	0.74	(6.28)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages F-7 to F-50.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
30 JUNE 2014, 2013 AND 2012**

	Consolidated		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Net profit/(loss) for the year	<u>1,676</u>	<u>364</u>	<u>(3,053)</u>
Items that may be reclassified subsequently to profit or loss			
Share of foreign currency reserve of equity accounted investment	80	35	(199)
Foreign currency translation reserve released on sale of share in equity accounted investment	—	(18)	—
Foreign currency translation	<u>(340)</u>	<u>1,505</u>	<u>830</u>
Other comprehensive (loss)/ income for the period, net of tax	<u>(260)</u>	<u>1,522</u>	<u>631</u>
Total comprehensive income/(loss) for the year	<u>1,416</u>	<u>1,886</u>	<u>(2,422)</u>
Total comprehensive income/(loss) for the period attributable to owners of the parent	<u>1,416</u>	<u>1,886</u>	<u>(2,422)</u>

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-50.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014, 2013
AND 2012**

	Share Capital A\$'000	Retained Profits A\$'000	Employee Equity Benefits Reserve A\$'000	Foreign Currency Translation Reserve A\$'000	Total A\$'000
At 1 July 2011	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)
Share based payments	91	—	280	—	371
Balance at 30 June 2012	<u>19,436</u>	<u>2</u>	<u>1,547</u>	<u>(3,554)</u>	<u>17,431</u>
At 1 July 2012	19,436	2	1,547	(3,554)	17,431
Profit for period	—	364	—	—	364
Other comprehensive income	—	—	—	1,522	1,522
Total comprehensive income for the period	—	364	—	1,522	1,886
Share based payments	82	—	98	—	180
Balance at 30 June 2013	<u>19,518</u>	<u>366</u>	<u>1,645</u>	<u>(2,032)</u>	<u>19,497</u>
At 1 July 2013	19,518	366	1,645	(2,032)	19,497
Profit for period	—	1,676	—	—	1,676
Other comprehensive loss	—	—	—	(260)	(260)
Total comprehensive income/(loss) for the period	—	1,676	—	(260)	1,416
Share based payments	72	—	60	—	132
Balance at 30 June 2014	<u>19,590</u>	<u>2,042</u>	<u>1,705</u>	<u>(2,292)</u>	<u>21,045</u>

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-50.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 AND 2013

	Note	Consolidated	
		2014 A\$'000	2013 A\$'000
ASSETS			
Current assets			
Cash and cash equivalents	11	5,416	6,902
Other financial assets	12	1,341	705
Trade and other receivables	13	5,755	4,713
Inventories	14	3,328	3,158
Total current assets		15,840	15,478
Non-current assets			
Investment in associate	15	13,980	12,468
Deferred taxation asset	16	5,001	4,656
Plant and equipment	17	2,845	3,383
Intangibles and goodwill	18	—	146
Total non-current assets		21,826	20,653
TOTAL ASSETS		37,666	36,131
LIABILITIES			
Current liabilities			
Trade payables and other liabilities	19	3,696	2,801
Borrowings	12	521	432
Contingent consideration	12	638	886
Employee benefits	21	1,938	1,837
Deferred revenue	22	316	316
Government grants	23	225	225
Other provisions	24	192	795
Total current liabilities		7,526	7,292
Non-current liabilities			
Borrowings	12	19	42
Long term borrowings	12	7,792	7,757
Employee benefits	21	32	55
Government grants	23	974	1,199
Other provisions	24	278	289
Total non-current liabilities		9,095	9,342
TOTAL LIABILITIES		16,621	16,634
NET ASSETS		21,045	19,497
EQUITY			
Share capital	25	19,590	19,518
Reserves	26	(587)	(387)
Retained profits	26	2,042	366
TOTAL EQUITY		21,045	19,497

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-50.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

	<u>Note</u>	<u>Consolidated</u>		
		<u>2014</u> <u>A\$'000</u>	<u>2013</u> <u>A\$'000</u>	<u>2012</u> <u>A\$'000</u>
Cash Flows from Operating Activities				
Cash receipts from customers		20,825	29,524	25,209
Cash paid to suppliers and employees		(22,826)	(30,920)	(29,233)
Cash used by operations		(2,001)	(1,396)	(4,024)
Interest received		179	211	243
Interest paid		(50)	(206)	(250)
Income taxes paid		(42)	(326)	(214)
Net cash used in operating activities	31	(1,914)	(1,717)	(4,245)
Cash Flows from Investing Activities				
Dividends received from associate		1,634	1,485	1,544
Proceeds from sale of share in investment in associate		—	5,777	—
Net Proceeds from sale of plant and equipment		64	9	49
Acquisition of plant and equipment		(377)	(253)	(696)
Investment in short term deposit		(460)	—	—
Redemption of short term deposit		—	666	2,063
Net cash from investing activities		861	7,684	2,960
Cash Flows from Financing Activities				
Proceeds from borrowings		—	—	1,930
Repayment of borrowings		(433)	(2,864)	(288)
Net cash (used in)/provided by financing activities		(433)	(2,864)	1,642
Net (decrease)/increase in cash and cash equivalents		(1,486)	3,103	357
Cash and cash equivalents at 1 July		6,902	3,799	3,442
Cash and cash equivalents at 30 June	11	5,416	6,902	3,799

Non-Cash Investing and Financing Activities

There were no non-cash investing or financing activities for the years ended 30 June 2012, 2013 and 2014.

Refer to note 5 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 on pages F-7 to F-50.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

1. REPORTING ENTITY

Orbital Corporation Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is 4 Whipple Street, Balcatta, Western Australia. The consolidated financial report of the Company for the year ended 30 June 2014 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 5).

The consolidated financial report was authorised for issue by the directors on October 22, 2014.

2. BASIS OF PREPARATION

(a) Statement of Compliance with IFRS

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

(b) Basis of Preparation

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

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

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

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 2013, the Group has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 July 2013 as described in the table below. The Group has not elected to early adopt any new standards or amendments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) New Accounting Standards and Interpretations (continued)

Reference	Title	Summary
IFRS 10 (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 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.</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> <p>Consequential amendments were also made to this and other standards via IFRS 10 and IFRS 11.</p> <p>There is no impact to The Group.</p>
IFRS 12 (AASB 12)	Disclosure of Interests in Other Entities	<p>IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.</p> <p>Additional disclosures were made in Note 15.</p>
IFRS 13 (AASB 13)	Fair Value Measurement	<p>IFRS 13 establishes a single source of guidance for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Additional disclosures were made in Note 12.</p>
IAS 19 (AASB 119)	Employee Benefits	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.</p> <p>There is no material impact to The Group.</p>

(b) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are all those entities over which the Group has control.

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.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Consolidated Entity controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Consolidation (continued)

(i) Subsidiaries (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra- Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

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.

(ii) Associate

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

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

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

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

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

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

(iii) Transactions Eliminated on Consolidation

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

(c) Foreign Currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign Currency (continued)

(iii) Net investment in foreign operations

Exchange differences arising from the translation of balances representing the net investment in foreign operations are taken to the foreign currency translation reserve.

(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 11

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

Other financial assets - refer note 12

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 13

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 19

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 12

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 12

Included in non-current liabilities is an amount owing to the Government of Western Australia resulting from a loan of \$14,346,000 restructured in January 2010. The loan is interest-free with annual repayments commencing in May 2010 and concluding in May 2025.

The non-interest bearing loan from the Government of Western Australia was recognised initially at fair value and subsequently stated at amortised cost using the effective interest method. The difference between the fair value and face value of the loan on initial recognition is accounted for as a government grant as disclosed in note 12(b).

Contingent consideration - refer note 12

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

(ii) Derivative financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Inventories - refer note 14

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 17

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

(g) Intangibles and goodwill - refer note 18

(i) Research and Development

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

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

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

(ii) Patents, Licences and Technologies

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

(iii) Goodwill

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangibles and goodwill (continued) - refer note 18

(iii) Goodwill (continued)

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.

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 25

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 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee Benefits

(i) Short-term benefits - refer note 21

The provisions for employee entitlements expected 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 employee benefits 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 21

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 33

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 32

Employees have been offered the right to take up shares in the Company under three plans (i) the Employee Share Plan No.1 provides \$1,000 of shares per annum and is subject to qualification by length of service, (ii) the Executive Long Term Share Plan ("ELTSP") is subject to qualification by length of service and achievement of corporate performance targets related to returns to shareholders, and (iii) the Performance Rights Plan is subject to qualification by length of service and achievement of share price targets.

The fair value of rights granted to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value of the shares granted under the Employee Share Plan No.1 is based on the market price of the shares on the date of issue. The fair value of the ELTSP is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the performance-based shares. The fair value of the shares granted based on a Total Shareholder Return ("TSR") basis is measured using a Monte-Carlo simulation model. The fair value of the shares granted based on an Earnings Per Share ("EPS") basis are based on the market price of the shares on the date of issue. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where forfeiture is only due to market conditions that are not met. The fair value of the Performance Rights is measured at grant date taking into account the share price targets and spread over the expected life of the rights.

(k) Provisions - refer note 24

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for warranty is recognised when the underlying products are sold. The provision is based on historical claim data.

(l) Revenue Recognition

Revenues are recognised and measured at the fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

(i) Revenue from Rendering of Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the extent of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

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

(ii) Sale of goods

Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue Recognition (continued)

(iii) Licence and royalties

Revenue earned under various licence, royalty and other agreements is recognised on an accrual basis upon the satisfactory completion of contracted technical specifications. Additional revenue may be earned after a fixed time interval or after delivery of a prototype engine and/or hardware meeting specified performance targets, provided the licence agreements are not terminated. Under the terms of the licence agreements, licensees are not specifically obliged to commence production and sale of engines using Orbital Technology and may terminate the agreements upon notice to Orbital. If a licensee were to terminate its licence agreement with Orbital, the licensee would forfeit the licence and any technical disclosure fees paid through to the date of termination. Revenue under royalty agreements is recognised when such amounts become due and payable.

(iv) Interest Revenue

Revenue is recognised as interest accrues using the effective interest method.

(v) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(m) Operating Leases

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

(n) Finance Expense

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Income Tax - refer note 9

(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 5

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Operating Segments - refer note 5 (continued)

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

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

(q) Goods and Services Tax

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

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

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

(r) Earnings Per Share - refer note 10

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 23

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 AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2014, but have not been applied in preparing this financial report:

Reference	Title	Summary	Application date of standard*	Application date for Group*
IFRS 9 (AASB 9)	Financial Instruments	<p>On 24 July 2014 The IASB issued the final version of IFRS 9 (AASB 9) which replaces IAS 39 (AASB 139) and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>IFRS 9 (AASB 9) is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of IFRS 9 (AASB 9) introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>IFRS 9 (AASB 9) includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of IAS 39 (AASB 139).</p> <p>The main changes are described below.</p> <p>a. Financial assets that are debt instruments will be 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.</p>	1 January 2018	1 July 2018

- b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- d. Where the fair value option is used for financial liabilities the change 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

IFRS 9 (AASB 9) also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

Consequential amendments were also made to other standards as a result of IFRS 9 (AASB 9), introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

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>
Amendments to IAS 32 (AASB 2012-3)	Amendments to International Financial Reporting Standards - Offsetting Financial Assets and Financial Liabilities	Amendments to IAS 32 (AASB 2012-3) adds application guidance to IAS 32 (AASB 132) Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of IAS 32 (AASB 132), including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 July 2014
IFRIC 21 (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
Amendments to IAS 36 (AASB 2013-3)	Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	Amendments to IAS 36 (AASB 2013-3) amend the disclosure requirements in IAS 36 (AASB 136) <i>Impairment of Assets</i> . 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.	1 January 2014	1 July 2014
Annual Improvements to IFRS's 2010–2012 Cycle	Annual Improvements to IFRSs 2010–2012 Cycle	This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle. Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items: <ul style="list-style-type: none"> IFRS 2 (AASB 2) - Clarifies the definition of ‘vesting conditions’ and ‘market condition’ and introduces the definition of ‘performance condition’ and ‘service condition’. IFRS 3 (AASB 3) - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137. IFRS 8 (AASB 8) - Requires entities to disclose factors used to identify the entity’s reportable 	1 July 2014	1 July 2014

segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.

- IAS 16 & IAS 38 (AASB 116 & AASB 138) - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.

IAS 24 (AASB 124) - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 (AASB 124) for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

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>
Annual Improvements to IFRSs 2011-2013 Cycle	Annual Improvements to IFRSs 2011-2013 Cycle	<p>Annual Improvements to IFRSs 2011-2013 Cycle addresses the following items:</p> <ul style="list-style-type: none"> IFRS 13 (AASB13) - Clarifies that the portfolio exception in paragraph 52 of IFRS 13 (AASB 13) applies to all contracts within the scope of IAS 39 (AASB 139) or IFRS 9 (AASB 9), regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 (AASB 132). <p>IAS 40 (AASB40) - Clarifies that judgement is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 (AASB 3) that includes an investment property. That judgement is based on guidance in IFRS 3 (AASB 3).</p>	1 July 2014	1 July 2014
Amendments to IAS 16 and IAS 38** (AASB 116 and AASB 138)	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	<p>IAS 16 (AASB 116) and IAS 38 (AASB 138) both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 July 2016
IFRS 15**	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts,</p> <p>IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from</p>	1 January 2017	1 July 2017

Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services).

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- (a) Step 1: Identify the contract(s) with a customer
- (b) Step 2: Identify the performance obligations in the contract
- (c) Step 3: Determine the transaction price
- (d) Step 4: Allocate the transaction price to the performance obligations in the contract
- (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Early application of this standard is permitted.

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

** These IFRS amendments have not yet been adopted by the AASB.

The adoption of the standards and interpretations effective from 1 July 2014 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 from 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 2014, 2013 AND 2012

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(a) Significant accounting judgements

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 32. The fair value of the performance rights is determined by an external valuer using a monte-carlo simulation model, with assumptions detailed in note 32. 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 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 are, disclosed and further explained in Note 17 and Note 18.

As a result of these assessments, the Company has impaired the goodwill previously recognised on the acquisitions of Orbital Autogas Systems and Sprint Gas in 2013. Refer to note 18 for more information.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Significant accounting estimates and assumptions (continued)

Impairment of goodwill, intangibles with indefinite useful lives and plant and equipment

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 18 for further information.

Plant and equipment are tested whenever events or changes in circumstances indicate that the carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer to Note 17 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 24.

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 in the previous year. In determining the level of provision required for restoration obligations the Group has made judgements in respect of the expected expenditures required to fulfill the obligation.

5. 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, auto rickshaws and scooters.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

5. OPERATING SEGMENTS (CONTINUED)

Accounting policies

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Corporate management and finance and administration overhead expenses.
- Share of profit from equity accounted investment.
- Finance costs - including adjustments on provisions due to discounting.
- Cash and cash equivalents.
- Borrowings.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Inter-segment pricing is determined on an arm's length basis.

Geographical information

The system sales segment is managed on an Australian basis for the LPG business and on an American basis for the SUAS supply. The consulting services and royalties and licences segments are managed on a worldwide basis.

In presenting geographical information revenue is based on the geographical location of customers and non-current assets are based on the geographical location of the assets.

Revenue is derived predominantly from the sale of SUAS engines, LPG fuel systems, the provision of consulting services and the sale of intellectual property rights to Orbital's OCP technology. The consolidated entity operates predominantly in the aviation, automotive, marine, motorcycle and unmanned aircraft system engine markets.

Major customers

The Group has a number of customers to which it provides both products and services. The SUAS supply is to two major customers that respectively accounted for 10% and 6% (2013: one major customer 45%) of external revenue. The system sales segment supplies an Australian automobile manufacturer with LPG fuel systems that accounted for 24% of external revenue (2013: 18%). No other customer accounts for more than 10% of revenue.

(a) Operating Segments

	System Sales			Consulting Services			Royalties and Licences(i)			Consolidated		
	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000
Segment revenue - external customers	14,136	23,424	14,020	2,898	2,057	7,131	1,124	1,007	967	18,158	26,488	22,118
Unallocated other revenue										179	211	243
Total revenue										18,337	26,699	22,361
Segment result	602	2,163	380	(176)	(2,206)	(2,259)	636	517	463	1,062	474	(1,416)
Research & development costs										(1,910)	(1,094)	(954)
Unallocated expenses - (net) (ii)										(585)	(1,524)	(3,675)
Gain on sale of plant and equipment										(90)	3	—
Finance costs										(536)	(687)	(692)
Share of profit from associate										3,256	3,220	3,480
Gain on sale of share in associate										—	1,702	—
Net profit/(loss) before related income tax										1,197	2,094	(3,257)
Income tax benefit/(expense)										479	(1,730)	204
Profit/(loss) after tax attributable to members										1,676	364	(3,053)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

5. OPERATING SEGMENTS (CONTINUED)

(a) Operating Segments (continued)

	System Sales			Consulting Services			Royalties and Licences(i)			Consolidated		
	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000
Non-cash (revenue) and expenses												
Depreciation and amortisation	474	498	458	434	461	533	—	—	—	908	959	991
Equity settled employee compensation	25	29	26	50	60	111	—	1	1	75	90	138
Other non-cash (income)/expenses	(887)	1,064	(262)	(225)	(225)	245	—	—	—	(1,112)	839	(17)
Segment non-cash (income)/expenses	(388)	1,591	222	259	296	889	—	1	1	(129)	1,888	1,112
Equity settled employee compensation										57	90	233
Amortisation of non-interest bearing loans										533	521	507
Share of profit from associate										(3,256)	(3,220)	(3,480)
Movement in provision for surplus lease space										(135)	(47)	177
Foreign exchange translation gain										(72)	(122)	(120)
Movement in fair value of financial instruments										(136)	—	—
Total non-cash (revenue) and expenses										(3,138)	(890)	(1,571)

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

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

	System Sales		Consulting Services		Royalties and Licences		Consolidated	
	2014 A\$'000	2013 A\$'000	2014 A\$'000	2013 A\$'000	2014 A\$'000	2013 A\$'000	2014 A\$'000	2013 A\$'000
Segment assets	8,345	7,650	3,289	3,442	294	308	11,928	11,400
Unallocated assets								
Cash							5,416	6,902
Other financial assets							1,341	705
Investment in associate							13,980	12,468
Deferred tax assets							5,001	4,656
Consolidated Total Assets							37,666	36,131
Segment liabilities	3,199	3,120	5,029	4,270	103	1,072	8,331	8,462
<i>Unallocated liabilities</i>								
Long term borrowings							8,290	8,172
Consolidated Total Liabilities							16,621	16,634
Consolidated Net Assets							21,045	19,497
Segment acquisitions of non-current assets	150	40	227	213	—	—	377	253

(b) Geographic information

	Americas			Europe			Asia			Australia			Consolidated		
	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000
Revenue - external customers	3,935	14,008	5,231	170	68	492	1,159	276	619	12,894	12,136	15,776	18,158	26,488	22,118
Non-current assets	18,981	17,124	19,135	—	—	—	—	—	—	2,845	3,529	6,534	21,826	20,653	25,669

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

6. OTHER REVENUE

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Interest revenue	<u>179</u>	<u>211</u>	<u>243</u>

7. OTHER INCOME

Automotive grant income (a)	182	323	545
Net foreign exchange gains	290	122	120
Grant income	891	329	253
Fair value movement in contingent consideration (note 12)	248	1,410	392
Fair value movement in financial instruments (note 12)	136	—	—
Movement in impairment allowance account for receivables	130	—	—
Movement in provision for constructive obligations	148	—	—
Rental income from sub-lease	108	—	—
Research and development grant (b)	2,224	—	—
Other	45	—	—
Gain on sale of plant and equipment	—	3	15
Gain on sale of share in equity accounted investment	—	1,702	—
	<u>4,402</u>	<u>3,889</u>	<u>1,325</u>

- (a) The Group received Automotive Transformation Scheme (ATS) credits from the Federal Government for qualifying research and development activities and accounts for these as government grants.
- (b) In accordance with research and development tax legislation the Group is entitled to a refundable research and development tax offset accounted for as a government grant.

8. EXPENSES

(a) *Employee benefits expense*

Salaries and wages	8,088	9,169	9,718
Contributions to defined contributions superannuation funds	825	815	984
Share based payments	132	180	371
(Decrease) in liability for annual leave	(3)	(38)	(54)
Increase/(Decrease) in liability for long service leave	92	(53)	(108)
Termination costs	—	563	113
Other associated personnel expenses	508	574	646
	<u>9,642</u>	<u>11,210</u>	<u>11,670</u>

(b) *Finance costs*

Interest on borrowings	3	166	185
Non-cash interest expense WA Government Loan	533	521	507
	<u>536</u>	<u>687</u>	<u>692</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

8. EXPENSES (CONTINUED)

(c) Other expenses

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Administration	288	324	363
Marketing	358	262	282
Investor Relations	21	30	59
Freight & courier	68	90	195
Motor vehicle expenses	63	69	73
Allowance for warranty	18	387	191
Loss on disposal of plant and equipment	90	—	—
Other	111	84	587
Goodwill impairment	—	1,965	—
Impairment of receivables	—	175	429
	<u>1,017</u>	<u>3,386</u>	<u>2,179</u>

(d) Materials and consumables

Raw materials and consumables purchased	7,351	8,603	9,253
Write back inventory impairment	(336)	(214)	—
Change in inventories	268	2,039	(1,137)
	<u>7,283</u>	<u>10,428</u>	<u>8,116</u>

(e) Lease payments included in income statement

Minimum lease payments - operating lease	<u>1,109</u>	<u>1,066</u>	<u>1,044</u>
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(f) Research and development costs

Research and development costs charged directly to the income statement	<u>1,910</u>	<u>1,094</u>	<u>954</u>
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9. INCOME TAX

(a) Recognised in the income statement

Current income tax			
Current year expense	(2,048)	(680)	(252)
Benefits arising from previously unrecognised tax losses	2,098	590	(13)
Relating to originating and reversing temporary differences	429	(1,640)	469
Total income tax benefit/(expense) in income statement	<u>479</u>	<u>(1,730)</u>	<u>204</u>

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

Profit/(loss) before tax	<u>1,197</u>	<u>2,094</u>	<u>(3,257)</u>
Income tax using the statutory tax rates	(359)	(628)	977
- Difference in tax rate	(130)	(196)	—
- Non-deductible expenditure	(1,816)	(331)	(274)
- Non assessable income	667	—	118
- Current year deferred tax assets not recognised	(31)	(593)	—
- Previous year deferred tax assets derecognised	—	(328)	—
- Benefits arising from previously unrecognised tax losses	2,098	590	(330)
- Net withholding tax recouped/(paid)	12	(22)	8
- United States of America Federal and State taxes	38	(222)	(295)
Income tax benefit/(expense) on pre-tax net profit	<u>479</u>	<u>(1,730)</u>	<u>204</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 recognized in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2014 was based on profit attributable to ordinary shareholders of \$1,676,000 (2013: profit \$364,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2014 of 49,502,395 shares (2013: 49,079,683 shares), calculated as follows:

	CONSOLIDATED		
	2014 A\$	2013 A\$	2012 A\$
Profit/(loss) attributable to ordinary shareholders	<u>1,676,000</u>	<u>364,000</u>	<u>(3,053,000)</u>
Weighted average number of ordinary shares	Number	Number	Number
Weighted average number of ordinary shares at 30 June	<u>49,502,395</u>	49,079,683	48,612,706
Effect of potential dilutive ordinary shares	—	—	—
Weighted average number of potential dilutive ordinary shares at 30 June	<u>49,502,395</u>	<u>49,079,683</u>	<u>48,612,706</u>
Earnings per share	Cents	Cents	Cents
Basic earnings/(loss) per share	<u>3.39</u>	<u>0.74</u>	<u>(6.28)</u>
Diluted earnings/(loss) per share	<u>3.39</u>	<u>0.74</u>	<u>(6.28)</u>

Rights granted to employees (including Key Management Personnel) as described in note 32 are considered to be contingently issuable potential ordinary shares. These potential ordinary shares have not been included in the determination of basic earnings per share. The 5,220,500 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.

11. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Cash at bank	575	760
Cash at bank - US dollars	8	13
Cash at bank - European currency units	2	4
At call deposits - financial institutions*	<u>4,831</u>	<u>6,125</u>
	<u>5,416</u>	<u>6,902</u>

* The deposits are at call with an Australian Bank, earning an interest rate of 2.68%

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Other financial assets

Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
Foreign exchange forward contracts	<u>136</u>	—
Short term deposits		
Short term deposits	<u>1,205</u>	<u>705</u>
Total other financial assets	<u>1,341</u>	<u>705</u>

Financial assets at fair value through profit and loss

Financial assets through profit or loss reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are intended to reduce the level of foreign currency risk for expected sales.

Short term deposits – financial institutions

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 20 for further details.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Financial liabilities

Financial liabilities and borrowings

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Current		
Obligations under hire purchase contracts	23	17
Current portion of loans and advances - secured	498	415
Total current borrowings	521	432
Non-current		
Obligations under hire purchase contracts	19	42
Loans and advances - secured	7,792	7,757
Total non-current borrowings	7,811	7,799

Obligations under hire purchase contracts

Obligations under hire purchase contracts mature in 2015.

Interest calculations on 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% (2013: 7.35%).

Loans and advances - secured

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 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 \$7,558,000 on initial recognition.

Subsequent to initial recognition the loan is carried at amortised cost. Amortisation for the year ended 30 June 2014 was A\$533,000 (2013: A\$521,000).

This loan facility is secured by way of a second ranking floating debenture over the whole of the assets and undertakings of the Company.

Other financial liabilities

Financial instruments at fair value through profit or loss		
Contingent consideration for business acquisition	638	886
Total financial liabilities at fair value through profit or loss	638	886
Total current other financial liabilities	638	886

Contingent Consideration for business acquisition

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\$248,000 (2013: 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 at the present value using a market discount rate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(c) *Hedging activities and derivatives*

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions.

At 30 June 2014 the contractual undiscounted payments related to foreign exchange forward contracts totalled A\$2,330,000 (2013: \$nil) maturing between 3 to 12 months. The Group has pledged A\$500,000 of its short-term deposits in order to fulfill the collateral requirements for the foreign exchange forward contracts in place.

(d) *Fair values*

Comparison of fair values to carrying amounts by class of financial instrument, other than those where their carrying amounts approximate fair value:

	Carrying Amounts		Fair Value	
	2014 A\$'000	2013 A\$'000	2014 A\$'000	2013 A\$'000
Financial Assets				
Foreign exchange forward contracts	136	—	136	—
Total	136	—	136	—
Financial Liabilities				
Loans and advances - secured	8,290	8,172	8,498	8,127
Contingent Consideration	638	886	638	886
Total	8,928	9,058	9,136	9,013

The Group assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

Foreign exchange forward contracts are valued using a discounted cash flow valuation technique with market observable inputs such as foreign exchange forward rates and interest rates.

The fair value of the Group's secured loan is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2014: 6.31% (2013: 6.77%).

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 of 6.31% (2013: 6.77%).

(e) *Fair value measurement*

The following table provide the fair value measurement hierarchy of the Group's assets and liabilities:

As at 30 June 2014:	Total A\$'000	Fair value measurement using		
		Quoted prices in active markets (Level 1) A\$'000	Significant observable inputs (Level 2) A\$'000	Significant unobservable inputs (Level 3) A\$'000
Assets measured at fair value:				
Foreign exchange forward contracts – US dollar	136	—	136	—
Liabilities measured at fair value:				
Contingent consideration	638	—	—	638
Liabilities for which fair values are disclosed:				
Loans and advances - secured	8,498	—	8,498	—

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(e) Fair value measurement (continued)

As at 30 June 2013:

	Fair value measurement using			
	Total	Quoted prices	Significant	Significant
		A\$'000	in active	observable
		markets	inputs	inputs
		(Level 1)	(Level 2)	(Level 3)
	A\$'000	A\$'000	A\$'000	A\$'000
Assets measured at fair value:				
Foreign exchange forward contracts – US dollar	—	—	—	—
Liabilities measured at fair value:				
Contingent consideration	886	—	—	886
Liabilities for which fair values are disclosed:				
Loans and advances - secured	8,127	—	8,127	—

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

	2014	2013
	A\$'000	A\$'000
<u>Contingent consideration</u>		
At 1 July	886	2,296
Released to the income statement	(248)	(1,410)
At 30 June	<u>638</u>	<u>886</u>

Significant unobservable inputs to the valuation of the contingent consideration and the sensitivity of the input to fair value:

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. 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 \$248,000, 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\$59,000/decrease by A\$59,000 respectively.

(f) Financial risk management objectives and policies

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

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group from time-to-time enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of revenue. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

Risk Exposures and Responses

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(f) Financial risk management objectives and policies (continued)

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Financial Assets			
Cash and cash equivalents	5,416	6,902	3,799
Short term deposits	1,205	705	1,371
	<u>6,621</u>	<u>7,607</u>	<u>5,170</u>
Financial Liabilities			
Interest bearing liabilities	—	—	2,500
Contingent consideration	638	886	2,296
	<u>638</u>	<u>886</u>	<u>4,796</u>

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

At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit/(loss) Higher/(Lower)			Other comprehensive income Higher/(Lower)		
	2014 A\$'000	2013 A\$'000	2012 A\$'000	2014 A\$'000	2013 A\$'000	2012 A\$'000
Consolidated						
+1% (100 basis points)	78	96	4	—	—	—
- 1% (100 basis points)	(79)	(94)	(5)	—	—	—

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 10% (FY2013: 5%) of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 26% (FY2013: 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.

At 30 June 2014, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Financial Assets			
Cash and cash equivalents	8	13	42
Trade and other receivables	92	403	—
Foreign exchange forward contract	136	—	—
	<u>236</u>	<u>416</u>	<u>42</u>
Financial Liabilities			
Trade and other payables	101	588	216

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(f) Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

At 30 June 2014, the Group had the following exposure to European currency units that is not designated in cash flow hedges:

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Financial Assets			
Cash and cash equivalents	2	4	26
Trade and other receivables	—	—	36
	<u>2</u>	<u>4</u>	<u>62</u>
Financial Liabilities			
Trade and other payables	<u>10</u>	<u>46</u>	<u>12</u>

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

At 30 June 2014, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit/(loss) Higher/(Lower)			Other comprehensive income Higher/(Lower)		
	2014	2013	2012	2014	2013	2012
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
Consolidated						
AUD/USD/EURO +5%	105	12	6	—	—	—
AUD/USD/EURO -5%	(115)	(11)	(6)	—	—	—

The movements in profit in 2014 are more sensitive than in 2013 due to the foreign exchange forward contract.

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, other than the research and development grant receivable from the Australian Government. 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 13.

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\$638,000 payable 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 2014. 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 2014. The Group's approach to managing liquidity is to ensure, as far as is possible, that it will always have sufficient liquidity to meet its liabilities when due and payable without incurring unacceptable losses or risks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(f) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
6 months or less	3,708	2,794	5,482
6-12 months	1,148	1,309	355
1-5 years	3,225	2,714	4,986
Over 5 years	8,953	9,986	10,846
	<u>17,034</u>	<u>16,803</u>	<u>21,669</u>

13. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Current		
Trade receivables	2,601	4,246
Allowance for impairment loss (a)	(21)	(180)
	<u>2,580</u>	<u>4,066</u>
Accrued royalties	211	299
Other receivables	2,564	73
Prepayments	400	275
	<u>5,755</u>	<u>4,713</u>

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment allowance account of A\$21,000 (2013: A\$180,000) 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:

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
At 1 July	(180)	(5)
Write-back/(charge) for the year	130	(175)
Amounts written off	29	—
At 30 June	<u>(21)</u>	<u>(180)</u>

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

	Total	0-30 days	31-60 days	61-90	+91	+91
				days	days	days
				PDNI*	PDNI*	CI*
2014 Consolidated	2,601	1,276	176	153	975	21
2013 Consolidated	4,246	2,576	1,347	108	35	180

Receivables past due but not considered impaired are A\$1,128,000 (2013:A\$143,000). Management has been in contact with each relevant debtor and is satisfied that payment will be received in full.

Included with the not considered impaired category is a balance of A\$1,043,000 receivable from Textron.

A settlement has been reached with Textron over a dispute related to past contracts that had resulted in Textron withholding payment on outstanding invoices. A new payment plan has been agreed and Management is satisfied that payments will be received accordingly.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 12.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

14. INVENTORIES

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Materials and production supplies - at lower of cost and net realisable value	<u>3,328</u>	<u>3,158</u>

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2014 totalled A\$7,283,000 (2013: A\$10,428,000) for the Group (Refer to Note 8(d)).

15. INVESTMENT IN ASSOCIATE

(a) Interest in Synerject LLC

The Group holds a 30% (2013: 30%) 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. Synerject is a key supplier of engine management systems 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.

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:

Country of incorporation:	USA
Financial Year end:	31 December
30 June Ownership:	2014: 30%; 2013: 30%.

The following is summarised financial information for Synerject at 30 June 2014 based on its consolidated financial statements modified for fair value adjustments on acquisition and differences in the Group's accounting policies:

	2014 US\$'000	2013 US\$'000	2012 US\$'000
Revenue (100%)	<u>141,746</u>	137,287	127,548
Profit (100%)	<u>9,970</u>	8,725	8,495
Other comprehensive income	<u>253</u>	118	(511)
Total comprehensive income	<u>10,223</u>	<u>8,843</u>	<u>7,984</u>
Current assets	<u>56,597</u>	49,858	45,789
Non-current assets	<u>9,605</u>	9,710	10,630
Current liabilities	<u>29,709</u>	28,424	27,936
Non-current liabilities	<u>—</u>	—	2,654
Net assets	<u>36,493</u>	<u>31,144</u>	<u>25,829</u>
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Revenue (100%)	<u>154,323</u>	133,665	124,413
Profit (100%)	<u>10,855</u>	8,190	8,242
Other comprehensive income	<u>275</u>	115	(796)
Total comprehensive income	<u>11,130</u>	<u>8,305</u>	<u>7,446</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

15. INVESTMENT IN ASSOCIATE (CONTINUED)

(a) Interest in Synerject LLC (continued)

	2014 A\$'000	2013 A\$'000	2012 A\$'000
Current assets	60,082	53,755	44,931
Non-current assets	10,196	10,469	10,431
Current liabilities	31,538	30,645	27,412
Non-current liabilities	—	—	2,604
Net assets	<u>38,740</u>	<u>33,579</u>	<u>25,346</u>
Orbital's interest in the net assets of Synerject	11,622	10,074	10,645
Share of goodwill	2,358	2,394	3,051
Share of Synerject's net assets equity accounted	<u>13,980</u>	<u>12,468</u>	<u>13,696</u>

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

	2014 A\$'000	2013 A\$'000	2012 A\$'000
Beginning of year	12,468	13,696	11,406
Sale of interest	—	(4,086)	—
Share of profits after tax	3,256	3,220	3,480
Share of reserves	80	35	(199)
Dividends received	(1,634)	(1,485)	(1,544)
Unrealised foreign exchange movements	(190)	1,088	553
End of year	<u>13,980</u>	<u>12,468</u>	<u>13,696</u>

(c) Results of Synerject

	2014 A\$'000	2013 A\$'000	2012 A\$'000
Share of Synerject's net profit	<u>3,256</u>	<u>3,220</u>	<u>3,480</u>

(d) Commitments

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

	2014 A\$'000	2013 A\$'000	2012 A\$'000
Within one year	283	288	376
One year or later and no later than five years	667	699	1,090
Later than 5 years	—	78	257
	<u>950</u>	<u>1,065</u>	<u>1,723</u>

16. 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	
	2014 A\$'000	2013 A\$'000	2014 A\$'000	2013 A\$'000	2014 A\$'000	2013 A\$'000
Tax value of loss carry-forwards recognised	5,001	4,656	—	—	5,001	4,656
Other net temporary differences (a)	1,014	682	(1,014)	(682)	—	—
Net deferred tax assets	<u>6,015</u>	<u>5,338</u>	<u>(1,014)</u>	<u>(682)</u>	<u>5,001</u>	<u>4,656</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 2014, the available tax carry forward losses of US\$18,835,062 (2013: US\$25,517,641) expire between the years 2015 and 2024.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

16. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

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

	Consolidated				
	Balance 1 Jul 13 A\$'000	Acquired during the year A\$'000	Recognised in income A\$'000	Recognised in equity (b) A\$'000	Balance 30 June 14 A\$'000
Movement in temporary differences during the year					
Tax value of loss carry-forwards recognised	4,656	—	429	(84)	5,001
Other net temporary differences	—	—	—	—	—
Net tax assets	4,656	—	429	(84)	5,001

(a) *Other net temporary differences*

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
<i>Deferred tax assets</i>		
Annual leave	197	545
Long service leave	338	17
Staff bonus	22	5
Revenue in advance	393	115
Other	64	—
	1,014	682
<i>Deferred tax liabilities</i>		
Unrealised foreign exchange gain on inter-company loan	(1,003)	(534)
Other	(11)	(148)
	(1,014)	(682)
Net temporary differences	—	—

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

(c) *Unrecognised deferred tax assets*

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

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
<u>Australia (net at 30%)</u>		
Tax losses	20,027	20,533
Capital loss on investment	1,934	1,934
Other net temporary differences	317	2,029
	22,278	24,496
<u>United States of America (net 34%)</u>		
Tax losses	1,796	4,699
Other net temporary differences	132	775
	1,928	5,474

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

17. PLANT AND EQUIPMENT

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
<i>Plant and equipment</i>		
At cost	18,121	18,044
Less: accumulated depreciation	(15,276)	(14,661)
Total plant and equipment - net book value	<u>2,845</u>	<u>3,383</u>

Reconciliations

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

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
<i>Plant and equipment</i>		
Carrying amount at beginning of year	3,383	3,949
Additions	377	253
Disposals	(153)	(6)
Depreciation	(762)	(813)
Carrying amount at end of year	<u>2,845</u>	<u>3,383</u>
<i>Total</i>		
Carrying amount at beginning of year	<u>3,383</u>	<u>3,949</u>
Carrying amount at end of year	<u>2,845</u>	<u>3,383</u>

All plant and equipment of the Group is subject to floating charges from the Group's banker and from the Government of Western Australia (see note 12).

Finance Leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2014 was A\$33,000 (2013: A\$59,000). No additions to plant and equipment under finance leases were made during the year (2013: A\$nil). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Impairment tests

Plant and equipment are tested at the level of their respective cash generating units as follows:

- Orbital Autogas Systems cash generating unit
- Sprint Gas cash generating unit
- Engineering Service 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 2014 based on financial budgets approved by management. The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2013: 18.0%).

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 2014 based on financial budgets approved by management. The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2013: 18.0%) and cash flows beyond the three-year period are extrapolated to five years using a 3% 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.

Consulting Service 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 2014 based on financial budgets approved by management. The pre-tax, risk-adjusted discount rate applied to these cash flow projections is 18.0% (2013: 18.0%).

The calculations of value in use for the Orbital Autogas Systems, Sprint Gas and Consulting Services 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. Consulting services revenue is dependent on the demand for the Group's engineering services.

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 2014, 2013 AND 2012

18. INTANGIBLES AND GOODWILL

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Goodwill acquired in business combinations	—	—
Capitalised development expenditure	—	146
Total intangibles and goodwill - net book value	—	146
Net carrying value		
<i>Goodwill acquired in business combinations</i>		
At cost	—	1,965
Less: allowance for impairment	—	(1,965)
Carrying amount at end of year	—	—
<i>Capitalised development expenditure</i>		
At cost	826	826
Less: accumulated amortisation and impairment	(826)	(680)
	—	146

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

Reconciliations of the carrying amounts for goodwill:

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Carrying amount at beginning of year	—	1,965
Impairment charge	—	(1,965)
Carrying amount at end of year	—	—

Reconciliations of the carrying amounts for capitalised development expenditure:

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Carrying amount at beginning of year	146	292
Amortisation	(146)	(146)
Carrying amount at end of year	—	146

(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

The carrying amounts of goodwill allocated to Orbital Autogas Systems and to Sprint Gas totalling A\$1,965,000 were impaired in full in the prior reporting period. 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 a 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".

19. TRADE PAYABLES AND OTHER LIABILITIES

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
Current		
Trade creditors and accruals	3,696	2,785
Revenue received in advance	—	16
	<u>3,696</u>	<u>2,801</u>

(a) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 12.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

20. FINANCING ARRANGEMENTS

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

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Total facilities available		
Corporate credit card facility	228	230
Bank guarantee	505	505
Dividends received	733	735
Facilities utilized at balance date		
Corporate credit card facility	49	26
Bank guarantee	505	505
	554	531
Facilities not utilized at balance date		
Corporate credit card facility	179	204
Bank guarantee	—	—
	179	204

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\$733,000 (2013: A\$735,000).

The Company has also pledged short term deposits of A\$705,000 (2013: A\$705,000) held as collateral for the financing facilities.

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

21. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
(a) Current		
Annual leave	747	765
Long service leave	1,191	1,072
	1,938	1,837
(b) Non-Current		
Long service leave	32	55
(c) Aggregate liability for employee entitlements	1,970	1,892

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

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Assumed rate of increase in wage and salary rates	4.0%	4.0%
Discount rate at 30 June	3.0%	3.1%
Settlement term (years)	10	10
Number of employees		
Number of employees at year end	89	87

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

22. DEFERRED REVENUE

(a) Current

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
Deferred revenue for operation of heavy duty engine testing facility	<u>316</u>	<u>316</u>

(b) Movement in deferred revenue

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
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.

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.

23. GOVERNMENT GRANTS

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
Current liabilities		
Investment grant for construction of heavy duty engine testing facility	225	225
Non-current liabilities		
Investment grant for construction of heavy duty engine testing facility	974	1,199
Total government grants deferred	<u>1,199</u>	<u>1,424</u>

Movement in government grants

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
At 1 July	<u>1,424</u>	<u>1,649</u>
Released to the income statement	(225)	(225)
At 30 June	<u>1,199</u>	<u>1,424</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 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 22) 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.

24. OTHER PROVISIONS

(a) Current

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000

Warranties	134	111
Surplus lease space	58	182
Other	—	502
	<u>192</u>	<u>795</u>

(b) Non-Current

	CONSOLIDATED	
	2014	2013
	A\$'000	A\$'000
Surplus lease space	<u>278</u>	<u>289</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

24. OTHER PROVISIONS (CONTINUED)

(c) Reconciliations

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

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
<i>Warranties - current</i>		
Carrying amount at beginning of year	111	229
Arising during the year	227	1
Utilised	(204)	(119)
Carrying amount at end of year	134	111
<i>Surplus lease space - current</i>		
Carrying amount at beginning of year	182	182
Utilised	(259)	(182)
Reclassified from non-current	135	182
Carrying amount at end of year	58	182
<i>Other provisions - current</i>		
Carrying amount at beginning of year	502	50
Arising during the year	—	452
Utilised	(354)	—
Released to the income statement	(148)	—
Carrying amount at end of year	—	502
<i>Surplus lease space - non-current</i>		
Carrying amount at beginning of year	289	336
Arising during the year	124	135
Reclassified to current	(135)	(182)
Carrying amount at end of year	278	289

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 rental income Orbital would recover by sub-letting the space. During the year a sub-lease agreement was entered into and rental from the sub-lease agreement is recognised in the income statement in the line item "other income".

The other provisions account included a provision for restoration obligations relating to SUAS engines sold during the previous year. In determining the level of provision required for restoration obligations the Group has made judgements in respect of the expected expenditures required to fulfill the obligation. The restoration obligation was completed during the 2014 financial year and the provision balance not utilised was released to the income statement in the line item "other income".

25. SHARE CAPITAL

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Ordinary shares	19,590	19,518
	Number	\$'000
Movement in ordinary shares on issue		
At 1 July 2012	48,722,477	19,436
Shares issued pursuant to employee share plan	612,114	82
At 30 June 2013	49,334,591	19,518
At 1 July 2013	49,334,591	19,518
Shares issued pursuant to employee share plan	422,403	72
At 30 June 2014	49,756,994	19,590

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

25. SHARE CAPITAL (CONTINUED)

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.

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.

26. RETAINED PROFITS AND RESERVES

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

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Balance 1 July	366	2
Net profit	1,676	364
Balance 30 June	2,042	366

(b) *Other reserves*

<u>Consolidated</u>	Employee Equity Benefits Reserve A\$'000	Foreign Currency Translation Reserve A\$'000	Total A\$'000
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	1,645	(2,032)	(387)
Balance 1 July 2013	1,645	(2,032)	(387)
Equity-settled transaction-employee shares	60	—	60
Other comprehensive income	—	(260)	(260)
Balance at 30 June 2014	1,705	(2,292)	(587)

(c) *Nature and purpose of reserves*

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP's, as part of their remuneration. Refer to note 32 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 2014, 2013 AND 2012

27. CONSOLIDATED ENTITY

	Note	Class of Shares	Consolidated Entity Interest	
			2014 %	2013 %
Ultimate Parent Entity				
- Orbital Corporation Limited				
<i>Controlled Entities, incorporated and carrying on business in:</i>				
Australia				
- 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	(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
United States of America				
- Orbital Holdings (USA) Inc.	(a)	Ord	100	100
- Orbital Fluid Technologies Inc.		Ord	100	100
- Orbital Engine Company (USA) Inc.	(a)	Ord	100	100
United Kingdom				
- Orbital Engine Company (UK) Ltd	(a)	Ord	100	100

(a) Dormant for the years ended 30 June 2014 and 30 June 2013.

(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.

28. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED

	CONSOLIDATED	
	2014 A\$'000	2013 A\$'000
Current assets	3	3
Total assets	<u>37,666</u>	<u>36,131</u>
Current liabilities	—	—
Total liabilities	<u>27,155</u>	<u>27,332</u>
Issued capital	19,590	19,518
Accumulated losses	(10,768)	(12,364)
Employee equity benefits reserve	1,689	1,645
Total shareholders' equity	<u>10,511</u>	<u>8,799</u>
Profit/(loss) of the parent entity	1,596	(8,812)
Total comprehensive profit /(loss) of the parent entity	<u>1,596</u>	<u>(8,812)</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 20 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 2014, 2013 AND 2012

29. RELATED PARTY DISCLOSURES

(a) Identity of related parties

The Group has a relationship with its subsidiaries (see note 27), with its investment accounted for using the equity method (see note 15), and with its key management personnel (refer to disclosures for key management personnel, see note 30).

(b) Controlled Entities

Details of interest in controlled entities are set out in Note 27.

(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	
	2014 A\$'000	2013 A\$'000
Receivables		
Current	<u>1</u>	<u>3</u>
Payables		
Current	<u>—</u>	<u>—</u>

(ii) Transactions

During the year the Group purchased goods and services to the value of A\$110,000 (2013: A\$148,000) 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\$1,634,122 (2013: A\$1,484,854) from Synerject LLC.

30. 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 (appointed as Chairman 2 September 2013)
 Dr V Braach-Maksvytis
 Mr JP Welborn (appointed as director 17 June 2014)
 Mr WP Day (resigned as Chairman 1 September 2013, resigned as director 28 February 2014)

Executive directors

Mr TD Stinson (Managing Director & Chief Executive Officer)

Executives

Dr GP Cathcart (Chief Technical Officer)
 Mr IG Veitch (Chief Financial Officer)

Key management personnel compensation

The key management personnel compensation included in 'employee benefits expense' (see note 8) are as follows:

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Short-term employee benefits	1,074,183	1,011,679	1,028,635
Post-employment benefits	96,933	110,193	114,847
Long-term employee benefits	24,412	32,448	29,257
Equity compensation benefits	62,061	107,015	251,062

1,257,589

1,261,335

1,423,801

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 2014, 2013 AND 2012

30. 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.

Movement 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 1-Jul13</u>	<u>Purchases</u>	<u>Granted as compensation</u>		<u>Sales</u>	<u>Other(a)</u>	<u>Held at 30-Jun-14</u>
			<u>ESP #1</u>	<u>ELTSP</u>			
Non-executive directors							
Dr MT Jones	18,000	52,000	—	—	—	—	70,000
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Mr JP Welborn	—	—	—	—	—	—	—
Mr WP Day	10,000	—	—	—	—	(10,000)	—
Executive director							
Mr TD Stinson	392,690	—	—	—	—	—	392,690
Executives							
Dr GP Cathcart	61,563	—	5,844	—	—	—	67,407
Mr IG Veitch	20,443	—	5,844	—	—	—	26,287

	<u>Held at 1-Jul12</u>	<u>Purchases</u>	<u>Granted as compensation</u>		<u>Sales</u>	<u>Other(a)</u>	<u>Held at 30-Jun-13</u>
			<u>ESP #1</u>	<u>ELTSP</u>			
Non-executive directors							
Dr MT Jones	18,000	—	—	—	—	—	18,000
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Mr JP Welborn	—	—	—	—	—	—	—
Mr WP Day	10,000	—	—	—	—	—	10,000
Executive director							
Mr TD Stinson	392,690	—	—	—	—	—	392,690
Executives							
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)	—

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

	<u>Held at 1-Jul11</u>	<u>Purchases</u>	<u>Granted as compensation</u>		<u>Sales</u>	<u>Other</u>	<u>Held at 30-Jun-12</u>
			<u>ESP #1</u>	<u>ELTSP</u>			
Non-executive directors							
Dr MT Jones	18,000	—	—	—	—	—	18,000
Dr V Braach-Maksvytis	—	—	—	—	—	—	—
Mr JP Welborn	—	—	—	—	—	—	—
Mr WP Day	10,000	—	—	—	—	—	10,000
Executive director							
Mr TD Stinson	375,690	17,000	—	—	—	—	392,690
Executives							
Dr GP Cathcart	51,462	—	2,633	—	—	—	54,095
Mr IG Veitch	—	—	—	—	—	—	—
Mr KA Halliwell	177,605	—	2,633	—	—	—	180,238

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

30. KEY MANAGEMENT PERSONNEL (CONTINUED)

Movement in ELTSP rights

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

	<u>Held at 1-Jul13</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Other (a)</u>	<u>Held at 30-Jun-14</u>
Executive director							
Mr TD Stinson	2,535,000	1,165,000	—	—	(665,000)	—	3,035,000
Executives							
Dr GP Cathcart	1,012,700	537,000	—	—	(252,700)	—	1,297,000
Mr IG Veitch	498,500	466,000	—	—	(76,000)	—	888,500
	<u>Held at 1-Jul12</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Other (a)</u>	<u>Held at 30-Jun-13</u>
Executive director							
Mr TD Stinson	1,960,000	1,100,000	—	—	(525,000)	—	2,535,000
Executives							
Dr GP Cathcart	762,200	450,000	—	—	(199,500)	—	1,012,700
Mr IG Veitch	—	—	—	—	—	498,500	498,500
Mr KA Halliwell	1,014,067	600,000	(1,347,567)	—	(266,500)	—	—

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

	<u>Held at 1-Jul11</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Other (a)</u>	<u>Held at 30-Jun-12</u>
Executive director							
Mr TD Stinson	1,320,000	770,000	—	—	(130,000)	—	1,960,000
Executives							
Dr GP Cathcart	492,200	310,000	—	—	(40,000)	—	762,200
Mr KA Halliwell	674,067	410,000	—	—	(70,000)	—	1,014,067

Movement in performance rights

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

	<u>Held at 1-Jul13</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Other</u>	<u>Held at 30-Jun-14</u>
Executive director							
Mr TD Stinson	1,150,000	—	—	—	—	—	1,150,000
	<u>Held at 1-Jul12</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Other</u>	<u>Held at 30-Jun-13</u>
Executive director							
Mr TD Stinson	1,150,000	—	—	—	—	—	1,150,000
	<u>Held at 1-Jul11</u>	<u>Offered</u>	<u>Forfeited</u>	<u>Vested</u>	<u>Expired</u>	<u>Other</u>	<u>Held at 30-Jun-12</u>
Executive director							
Mr TD Stinson	1,150,000	—	—	—	—	—	1,150,000

No performance rights were vested at 30 June 2014 (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

31. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of cash flows from operating activities

	NOTE	CONSOLIDATED		
		2014 A\$'000	2013 A\$'000	2012 A\$'000
Profit after income tax		1,676	364	(3,053)
<i>Adjustments for:</i>				
Profit/(loss) on sale of plant and equipment	8	90	(3)	(15)
Depreciation	17	762	813	846
Amortisation	18	146	146	145
Amortisation of deferred revenue and government grants		(225)	(225)	(225)
Impairment, write-off of trade receivables		(160)	175	429
Movement in fair value of financial assets	12	(136)	—	—
Movement in fair value of financial liabilities	12	(248)	(1,410)	(392)
Impairment of goodwill	18	—	1,965	—
Amortisation of non-interest bearing loans	12(b)	533	521	507
Amounts set aside to warranty and other provisions		(615)	287	298
Share of net profit of equity accounted investment	15	(3,256)	(3,220)	(3,480)
Profit on sale of share in equity accounted investment	7	—	(1,702)	—
Employee compensation expense	32(a)	132	180	371
Net foreign exchange gains		(72)	(122)	(120)
Net cash used in operating activities before changes in assets and liabilities		(1,373)	(2,231)	(4,689)
<i>Changes in assets and liabilities during the year:</i>				
(Increase)/decrease in receivables		(842)	(713)	2,262
(Increase)/decrease in inventories		(170)	2,039	(1,137)
(Increase)/decrease in deferred tax assets		(417)	1,640	(456)
Increase/(decrease) in payables		809	(2,108)	25
Increase/(decrease) in employee provisions		79	(344)	(250)
		(542)	514	444
Net cash used in operating activities		(1,914)	(1,717)	(4,245)

32. SHARE BASED PAYMENTS

(a) *Recognised share-based payment expenses*

Expense arising from equity-settled share-based payment transactions	132	180	371
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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 422,403 (2013: 612,114) shares issued under Plan No. 1 to eligible employees at a market value on the day of issue of A\$72,000 (2013: A\$82,000).

(c) *Executive Long Term Share Plan (“ELTSP”)*

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

The performance conditions for the LTI offered in 2014 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 2014, 2013 AND 2012

32. SHARE BASED PAYMENTS (CONTINUED)

(c) Executive Long Term Share Plan (“ELTSP”) (continued)

Vesting schedule for the EPS tested LTI awarded for the performance year 2014

Company Performance (Earnings per share)	% of offered shares issued to each executive
Compounded EPS growth of less than 20% per annum (up to 73% growth over 3 years)	0% to 25%
Compounded EPS growth of between 20% and 34.9% per annum (at least 73% growth over 3 years)	25% to 49% (on a straight line basis)
Compounded EPS growth of between 35% and 49.9% per annum (at least 246% growth over 3 years)	50% to 99% (on a straight line basis)
Compounded EPS growth of 50% or greater per annum (at least 338% growth over 3 years)	100%

At the Company’s Annual General Meeting in October 2013, shareholders approved the above plan in relation to the ongoing remuneration of Executive Directors and senior executives.

During the year, a total of 2,168,000 rights under the plan were offered to 3 executives (2013: 2,480,000 rights offered to 4 executives).

The performance conditions for the LTI offered in 2013 were based on two performance hurdles, as set out below:

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

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

Summary of rights granted under the ELTSP

	2014 No.	2013 No.	2012 No.
Outstanding at the beginning of the year	4,046,200	4,227,300	2,849,800
Granted during the year	2,168,000	2,480,000	1,687,500
Forfeited during the year	—	(1,610,100)	—
Vested during the year and shares issued	—	—	—
Expired during the year	(993,700)	(1,051,000)	(310,000)
Outstanding at the end of the year	<u>5,220,500</u>	<u>4,046,200</u>	<u>4,227,300</u>

The outstanding balance as at 30 June 2014 is represented by:

- 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.
- 2,168,000 rights with an average fair value at grant date of A\$0.170 that will potentially vest in August 2016;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

32. SHARE BASED PAYMENTS (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%	4.27%
31-Aug-11*	3 years	31-Aug-14	25 cents	nil	35 cents	110%	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-11*	3 years	31-Aug-14	35 cents	nil	35 cents
31-Aug-12*	3 years	31-Aug-15	20 cents	nil	20 cents
31-Aug-13*	3 years	31-Aug-16	19.5 cents	nil	19.5 cents

* The grant date of the EPS related rights for the Managing Director were 26 October 2011, 7 November 2012 and 22 October 2013, 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 2008.

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

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

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

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

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

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

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

Tranche	Number of performance rights	Share price target \$	Fair value at grant date \$
1	200,000	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

32. SHARE BASED PAYMENTS (CONTINUED)

(d) Performance Rights Plan (continued)

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

No performance rights were granted during the years ended 30 June 2014 or 30 June 2013.

33. 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.

34. COMMITMENTS

(a) Operating leases

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:			
- Not later than one year	1,012	1,214	1,191
- Later than one year but not later than five years	3,769	3,855	3,983
- Later than five years	1,575	2,501	3,399
	<u>6,356</u>	<u>7,570</u>	<u>8,573</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. None of the leases include contingent rentals.

During the financial year ended 30 June 2014, A\$1,109,101 was recognised as an expense in the income statement in respect of operating leases (2013:A\$1,066,256).

(b) Finance leases and hire purchase commitments

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

	CONSOLIDATED		
	2014 A\$'000	2013 A\$'000	2012 A\$'000
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:			
- Not later than one year	24	20	23
- Later than one year but not later than five years	19	43	63
	<u>43</u>	<u>63</u>	<u>86</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:

	CONSOLIDATED		
	2014	2013	2012
	A\$'000	A\$'000	A\$'000
- Not later than one year	—	291	391
- Later than one year but not later than five years	—	—	291
	<u>—</u>	<u>291</u>	<u>682</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014, 2013 AND 2012

35. 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.

36. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 27 June 2014, the Company announced that it was going to undertake an on-market share buy-back of up to 10% of its issued capital in accordance with the Corporations Act and Rules of the Australian Stock Exchange. The buy-back commenced on 15 July 2014 and was completed on 20 July 2014. During this period the Company bought back 4,975,699 shares at a total consideration paid of A\$771,000. On 24 July 2014 the 4,975,699 shares were cancelled.

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.

37. REMUNERATION OF AUDITORS

	CONSOLIDATED		
	2014 A\$	2013 A\$	2012 A\$
Amounts received or due and receivable for audit services by:			
Auditors of the Company			
- Audit and review of financial reports – Australian reporting	238,900	225,600	223,780
- Audit and review of financial reports – USA reporting	115,900	112,500	112,000
Amounts received or due and receivable for other services by:			
- Auditors of the Company	14,850	—	16,910
Total auditors' remuneration	<u>369,650</u>	<u>338,100</u>	<u>352,690</u>

The Auditors of the Group in 2014, 2013 and 2012 were Ernst & Young.



Synerject, LLC and Subsidiaries

Consolidated Financial Report

December 31, 2013 and 2012



ASSURANCE, TAX & ADVISORY SERVICES

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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 statements of financial position of Synerject, LLC and Subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in members' equity, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synerject, LLC and Subsidiaries as of December 31, 2013, and 2012, and the results of their operations and their cash flows for the years then ended in conformity with the International Financial Reporting Standards for Small and Medium-sized Entities.

The accompanying consolidated statements of comprehensive income, changes in members' equity and cash flows for the year ended December 31, 2011, 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

Richmond, Virginia
April 30, 2014

CONSOLIDATED FINANCIAL STATEMENTS

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Financial Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$11,777,209	\$ 2,734,632
Trade accounts receivable, net of provision for impairment of \$177,854 in 2013 and \$239,938 in 2012	27,515,100	29,155,896
Inventories	5,911,840	6,438,807
Prepaid expenses and other assets	1,163,058	1,089,380
Total current assets	<u>46,367,207</u>	<u>39,418,715</u>
Property, plant and equipment, net	<u>5,529,688</u>	<u>5,869,498</u>
Other receivables	3,880,110	3,152,678
License agreements, net of accumulated amortization of \$11,881,783 in 2013 and \$11,420,978 in 2012	<u>1,575,000</u>	<u>2,031,818</u>
Total other assets	<u>5,455,110</u>	<u>5,184,496</u>
Total assets	<u>\$57,352,005</u>	<u>\$50,472,709</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$17,848,094	\$16,302,091
Accrued expenses and other liabilities	6,498,146	5,235,512
Current portion of long-term debt	—	629,532
Line of credit	—	107,784
Total current liabilities	<u>24,346,240</u>	<u>22,274,919</u>
Members' equity	31,851,897	27,277,480
Accumulated other comprehensive income	1,153,868	920,310
Total members' equity	<u>33,005,765</u>	<u>28,197,790</u>
Total liabilities and members' equity	<u>\$57,352,005</u>	<u>\$50,472,709</u>

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2013, 2012, and 2011

	2013	2012	2011
Revenue			
Net sales	\$137,198,987	\$128,180,368	\$125,879,643
Engineering services revenue	3,177,121	3,238,635	4,765,428
Total revenue	<u>140,376,108</u>	<u>131,419,003</u>	<u>130,645,071</u>
Costs and expenses			
Cost of goods sold	109,289,071	102,992,071	102,113,245
Engineering expenses	13,399,138	12,037,289	12,218,067
Selling, general and administrative expenses	8,566,549	8,489,327	7,609,555
Total costs and expenses	<u>131,254,758</u>	<u>123,518,687</u>	<u>121,940,867</u>
Operating income	<u>9,121,350</u>	<u>7,900,316</u>	<u>8,704,204</u>
Other income (expense)			
Interest, net	31,234	37,170	(70,252)
Other	(361,207)	(96,592)	69,295
	<u>(329,973)</u>	<u>(59,422)</u>	<u>(957)</u>
Net income	8,791,377	7,840,894	8,703,247
Other comprehensive income			
Foreign currency translation adjustment	233,558	350,709	(300,635)
Total comprehensive income	<u>\$ 9,024,935</u>	<u>\$ 8,191,603</u>	<u>\$ 8,402,612</u>

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES

Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2013, 2012, and 2011

	CAS	Members' equity OFT	Total	CAS	Accumulated other comprehensive income OFT	Total	Total members' equity
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
Net income	6,153,964	2,637,413	8,791,377	—	—	—	8,791,377
Foreign currency translation adjustment	—	—	—	163,491	70,067	233,558	233,558
Total comprehensive income	6,153,964	2,637,413	8,791,377	163,491	70,067	233,558	9,024,935
Distributions to members	(2,951,872)	(1,265,088)	(4,216,960)	—	—	—	(4,216,960)
Balances at December 31, 2013	\$18,082,724	\$ 13,769,173	\$31,851,897	\$ 598,109	\$ 555,759	\$1,153,868	\$33,005,765

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 8,791,377	\$ 7,840,894	\$ 8,703,247
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	1,215,719	1,174,402	1,275,768
Amortization of license agreements	403,987	1,199,783	583,892
Changes in assets and liabilities increasing (decreasing) cash flows from operations:			
Accounts receivable	1,214,151	(2,725,644)	(4,981,344)
Inventories	498,126	(88,919)	(618,512)
Prepaid expenses and other assets	(986,340)	(395,704)	(1,151,641)
Accounts payable	1,184,183	(716,356)	3,148,967
Accrued expenses and other liabilities	1,124,349	(725,458)	(243,360)
Net cash provided by operating activities	<u>13,445,552</u>	<u>5,562,998</u>	<u>6,717,017</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment	<u>(1,156,979)</u>	<u>(2,077,807)</u>	<u>(1,250,822)</u>
Net cash used in investing activities	<u>(1,156,979)</u>	<u>(2,077,807)</u>	<u>(1,250,822)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions to members	(4,216,960)	(3,227,898)	(2,925,063)
Net borrowings (repayments) on line of credit	(107,784)	107,784	(594,139)
Principal payments on long-term debt	(629,532)	(1,888,595)	(1,888,595)
Net cash used in financing activities	<u>(4,954,276)</u>	<u>(5,008,709)</u>	<u>(5,407,797)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1,708,280</u>	<u>(1,031,977)</u>	<u>1,245,936</u>
Net increase (decrease) in cash and cash equivalents	<u>9,042,577</u>	<u>(2,555,495)</u>	<u>1,304,334</u>

(Continued)

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2013, 2012, and 2011

(Concluded)	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents			
Beginning of period	<u>\$ 2,734,632</u>	<u>\$5,290,127</u>	<u>\$3,985,793</u>
End of period	<u>\$11,777,209</u>	<u>\$2,734,632</u>	<u>\$5,290,127</u>
Supplement disclosure of cash flow information:			
Cash paid for interest	<u>\$ 20,870</u>	<u>\$ 87,935</u>	<u>\$ 115,571</u>
Cash paid for foreign income taxes		<u>\$ 85,775</u>	<u>\$ —</u>

See accompanying notes.

SYNERJECT, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

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 January 2013, a third amendment to the Company's joint venture and limited liability company agreement was executed whereby CAS and OFT's percentage interests changed to 70% and 30%, 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, 2013 and 2012

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 Standards for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB). They are presented in U.S. dollars.

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, 2013 and 2012

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 or 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 two-wheeled vehicle 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 October 2012, the remaining net book value of the two-wheeled vehicle portion of the above noted license agreement was expensed as it was 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, 2013 and 2012

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, 2013 and 2012. With few exceptions, the Company is no longer subject to income tax examinations by U.S. federal, state or local authorities for years before 2010.

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. 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, 2013, 2012, and 2011, foreign income tax expense (benefit) of approximately \$116,000, \$59,000, and \$(8,000), 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, 2013, 2012, and 2011, 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, 2013 and 2012

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 member's 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 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, 2013, 2012, and 2011, they amounted to approximately \$2,730,000, \$3,475,000, and \$2,898,000, respectively.

SYNERJECT, LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2. 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, 2013 and 2012 are as follows:

	2013	2012
Related party receivables:		
CAS and its affiliates	\$ —	\$ 259,734
OCL and its affiliates	33,610	—
	\$ 33,610	\$ 259,734
Related party payables:		
CAS and its affiliates	\$9,870,222	\$8,544,500

Total revenues from related parties for the years ended December 31, 2013, 2012, and 2011 were approximately \$124,000, \$125,000, and \$95,000, respectively. Total purchases from related parties for the years ended December 31, 2013, 2012, and 2011 were approximately \$48,158,000, \$36,043,000, and \$36,771,000, respectively. For the years ended December 31, 2013, 2012, and 2011 the total amount of key management personnel compensation totaled \$1,103,000, \$1,098,000, and \$1,269,000, respectively.

NOTE 3. 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 \$0 and \$107,784 at December 31, 2013 and 2012, respectively. The line of credit matures July 1, 2014. The line of credit bears interest at the one month London Inter-bank Offered Rate (LIBOR) plus 2.5% (2.67% and 2.71% at December 31, 2013 and 2012, respectively). The line of credit is secured by assets of the Company.

NOTE 4. LONG-TERM DEBT

Long-term debt as of December 31, 2012 consisted of a note payable to a bank under an agreement dated March 30, 2009. Interest accrued at a monthly rate of LIBOR plus 2.42% (2.63% at December 31, 2012). The note was payable in monthly installments of principal of \$157,383 and was secured by substantially all assets of the Company. The note was paid in full as of April 1, 2013.

SYNERJECT, LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 5. 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 \$500,000, \$476,000, and \$439,000 for the years ended December 31, 2013, 2012, and 2011 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 \$25,000 and \$5,400 for the years ended December 31, 2013 and 2012, respectively.

The Company sponsors a defined benefit plan for its France subsidiary's employees. The approximate accrued obligation for this plan as of December 31, 2013 and 2012 is \$473,000 and \$405,000, respectively. Expenses for this plan totaled approximately \$475,000, \$478,000, and \$385,000 for the years ended December 31, 2013, 2012, and 2011, 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 6. INVENTORIES

The major classes of inventories as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Raw materials	\$4,176,484	\$4,543,283
Finished goods	1,735,356	1,895,524
	<u>\$5,911,840</u>	<u>\$6,438,807</u>

SYNERJECT, LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Machinery and Equipment	Vehicle	Leasehold Improvements	Construction in Progress	Total
Cost					
Balance, January 1, 2012	\$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	17,617,160	39,159	600,506	1,040,732	19,297,557
Additions	1,176,323	1,976	95,994	1,145,336	2,419,629
Disposals	(161,873)	—	(14,713)	(1,284,233)	(1,460,819)
Balance, December 31, 2013	<u>\$18,631,610</u>	<u>\$41,135</u>	<u>\$ 681,787</u>	<u>\$ 901,835</u>	<u>\$20,256,367</u>
Accumulated depreciation					
Balance, January 1, 2012	\$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	13,103,362	23,886	300,811	—	13,428,059
Depreciation	1,415,679	3,522	55,619	—	1,474,820
Disposals	(161,487)	—	(14,713)	—	(176,200)
Balance, December 31, 2013	<u>\$14,357,554</u>	<u>\$27,408</u>	<u>\$ 341,717</u>	<u>\$ —</u>	<u>\$14,726,679</u>
Carrying amount					
At January 1, 2012	\$ 3,983,793	\$ —	\$ 288,435	\$ 557,704	\$ 4,829,932
At December 31, 2012	<u>\$ 4,513,798</u>	<u>\$15,273</u>	<u>\$ 299,695</u>	<u>\$ 1,040,732</u>	<u>\$ 5,869,498</u>
At December 31, 2013	<u>\$ 4,274,056</u>	<u>\$13,727</u>	<u>\$ 340,070</u>	<u>\$ 901,835</u>	<u>\$ 5,529,688</u>

NOTE 8. INTANGIBLE ASSETS – LICENSE AGREEMENTS

All intangible assets were acquired and consist of the following as of December 31, 2013 and 2012:

	December 31, 2013		
	Gross carrying amount	Weighted average amortization period	Accumulated amortization
Amortizing intangible assets:			
License agreement – OFT	\$11,318,190	17.3 Years	\$ 9,743,190
License agreement – CAS Affiliates	1,998,257	8.3 Years	1,998,257
License agreement – Other	140,336	5 Years	140,336
	<u>\$13,456,783</u>		<u>\$11,881,783</u>
	December 31, 2012		
	Gross carrying amount	Weighted average amortization period	Accumulated amortization
Amortizing intangible assets:			
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>

(Continued)

SYNERJECT, LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 8. INTANGIBLE ASSETS – LICENSE AGREEMENTS (Concluded)

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, 2013, 2012, and 2011 was approximately \$461,000, \$1,137,000, and \$620,000, respectively. Estimated amortization expense for the next four fiscal years is \$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.

NOTE 9. 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, 2013, 2012, and 2011, was approximately \$920,000, \$940,000, and \$888,000, respectively.

As of December 31, 2013, future minimum lease payments, including residual value guarantees and excluding renewal option periods, are as follows:

Years ending December 31:	
Not later than 1 year	\$ 825,523
Later than 1 year and not later than 5 years	<u>2,129,994</u>
	<u>\$2,955,517</u>

SYNERJECT, LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 10. PROVISION FOR IMPAIRMENT

The activity in the provision for impairment on trade accounts receivable for the years ended December 31, 2013, 2012, and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Provision for impairment at beginning of period	\$239,938	\$223,522	\$158,884
Provision for impairment, net of recoveries and charge-offs	(86,179)	15,002	65,538
Effects of foreign currency translation adjustments	24,095	1,414	(900)
Provision for impairment at end of period	<u>\$177,854</u>	<u>\$239,938</u>	<u>\$223,522</u>

NOTE 11. WARRANTY LIABILITY

The activity in the warranty liability, which is included in accrued expenses and other liabilities, for the years ended December 31, 2013, 2012, and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Liability at beginning of period	\$ 392,979	\$ 963,684	\$ 985,589
Additions to warranty expense accrual	220,427	79,633	412,125
Warranty costs charged against liability	(105,503)	(647,576)	(326,200)
Effects of foreign currency translation adjustments	(67,075)	(2,762)	(107,830)
Liability at end of period	<u>\$ 440,828</u>	<u>\$ 392,979</u>	<u>\$ 963,684</u>

NOTE 12. CONCENTRATION OF CREDIT RISK

Three customers comprised approximately 65% of net sales for the year ended December 31, 2013 and 73% of trade accounts receivable as of December 31, 2013.

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.

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

SYNERJECT, LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 13. 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, 2014.

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 March 2014. The decision is to be announced May, 13, 2014. Although management believes the supplier's claims are unmerited, the Company has reserved 160,000 euro as a contingency related to this matter as of December 31, 2013.

NOTE 14. RECLASSIFICATIONS

Certain amounts in the 2011 and 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on the previously reported net income or comprehensive income.

NOTE 15. 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.

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 22, 2014

/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 22, 2014

/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, 2014 (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 22, 2014

/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, 2014 (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 22, 2014

/s/ Ian Graham Veitch
Name: Ian Graham Veitch
Title: Chief Financial Officer