

CONTACTS

Todd Alder

CEO & Managing Director

Tel: +61 8 9441 2311

Email: contact@orbitalcorp.com.au

Ian Donabie

Communications Manager

Tel: +61 8 9441 2165

Email: idonabie@orbitalcorp.com.au

About Orbital

Orbital provides integrated propulsion systems and flight critical components for tactical UAVs. Our design thinking and patented technology enable us to meet the long endurance and high reliability requirements of the UAV market. We have offices in Australia and the United States to serve our prestigious client-base.

Forward Looking Statements

This release includes forward-looking statements that involve risks and uncertainties. These forward-looking statements are based upon management's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company that could cause actual results to differ materially from such statements. Actual results and events may differ significantly from those projected in the forward-looking statements as a result of a number of factors including, but not limited to, those detailed from time to time in the Company's Annual Reports. Orbital makes no undertaking to subsequently update or revise the forward-looking statements made in this release to reflect events or circumstances after the date of this release.

ORBITAL CORPORATION LIMITED

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Continuing operations			
Sale of goods		17,535	10,569
Engineering services income		2,635	2,196
Royalty and licence income		623	802
Interest revenue		207	94
Total revenue		21,000	13,661
Other income	A.2	1,835	2,960
Materials and consumables expenses		(5,813)	(3,389)
Employee benefits expenses	A.3(a)	(9,070)	(10,373)
Depreciation and amortisation expenses		(534)	(523)
Engineering consumables and contractors expenses		(801)	(579)
Occupancy expenses		(1,377)	(1,294)
Travel and accommodation expenses		(360)	(335)
Communications and computing expenses		(527)	(429)
Patent expenses		(195)	(360)
Insurance expenses		(538)	(472)
Audit, compliance and listing expenses		(244)	(425)
Finance costs	A.3(b)	(528)	(540)
Other expenses	A.3(c)	(1,102)	(1,872)
Profit/(loss) before income tax from continuing operations		1,746	(3,970)
Income tax benefit	A.4	-	101
Profit/(loss) for the year from continuing operations		1,746	(3,869)
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations		483	(8,382)
Profit/(loss) for the year		2,229	(12,251)
Attributable to:			
Equity holders of the parent		2,229	(11,948)
Non-controlling interests		-	(303)
Profit/(loss) for the year		2,229	(12,251)
Other comprehensive income			
		-	-
Total comprehensive profit/(loss) for the year		2,229	(12,251)
Attributable to:			
Equity holders of the parent		2,229	(11,948)
Non-controlling interests		-	(303)
Total comprehensive profit/(loss) for the year		2,229	(12,251)
Earnings per share			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.5	2.88	(15.55)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.5	2.66	(15.55)
Earnings per share from continuing operations			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.5	2.26	(5.04)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.5	2.09	(5.04)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	C.3	9,926	17,131
Other financial assets	C.4	585	2,634
Trade and other receivables	C.2	13,667	6,243
Prepayments		548	222
Inventories	C.1	2,154	3,280
Total current assets		26,880	29,510
Non-current assets			
Deferred taxation asset	A.4	5,507	5,507
Plant and equipment	B.1	2,216	1,497
Total non-current assets		7,723	7,004
Total assets		34,603	36,514
LIABILITIES			
Current liabilities			
Trade payables and other liabilities	C.5	1,708	1,355
Deferred revenue	C.6	943	5,144
Long term borrowings	D.1	1,032	860
Government grants	E.2	225	225
Provisions	E.1	2,090	2,035
Total current liabilities		5,998	9,618
Non-current liabilities			
Long term borrowings	D.1	6,738	7,242
Government grants	E.2	74	299
Provisions	E.1	128	172
Total non-current liabilities		6,940	7,713
Total liabilities		12,938	17,331
Net assets		21,665	19,183
Equity			
Share capital	D.2	31,144	31,106
Reserves	D.3	1,207	992
Accumulated losses		(10,686)	(12,915)
Total equity		21,665	19,183

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Share capital	(Accumulated losses)	Employee equity benefits reserve	Contingent consideration	Consolidation reserve	Convertible note reserve	Total	Non- controlling interests	Total equity
Notes	D.2		D.3	D.3	D.3	D.3			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2017	31,106	(12,915)	1,759	3,440	(4,455)	248	19,183	-	19,183
Loss for period	-	2,229	-	-	-	-	2,229	-	2,229
Total comprehensive loss for the period	-	2,229	-	-	-	-	2,229	-	2,229
Share based payments	38	-	215	-	-	-	253	-	253
At 30 June 2018	31,144	(10,686)	1,974	3,440	(4,455)	248	21,665	-	21,665
At 1 July 2016	30,051	(967)	1,788	-	(670)	248	30,450	818	31,268
Loss for period	-	(11,948)	-	-	-	-	(11,948)	(303)	(12,251)
Total comprehensive loss for the period	30,051	(11,948)	1,788	-	(670)	248	18,502	515	19,017
Acquisition of non-controlling interests	860	-	-	3,440	(3,785)	-	515	(515)	-
Share based payments	195	-	(29)	-	-	-	166	-	166
At 30 June 2017	31,106	(12,915)	1,759	3,440	(4,455)	248	19,183	-	19,183

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Cash receipts from customers		13,380	13,155
Cash paid to suppliers and employers		(22,333)	(18,003)
Interest received		207	115
Interest paid		(32)	(30)
Income tax paid		-	(90)
Net cash used in operating activities	C.3	(8,778)	(4,853)
Cash flows from investing activities			
Proceeds from/(purchase of) financial instruments		2,029	(2,465)
Net proceeds from sale of property, plant & equipment		29	29
Proceeds from sale of subsidiary	F.1	720	-
Purchase of property, plant & equipment		(1,303)	(170)
Redemption of short term deposit		152	697
Net cash provided by/(used in) investing activities		1,627	(1,909)
Cash flows from financing activities			
Repayment of borrowings	D.1	(860)	(717)
Net cash used in financing activities		(860)	(717)
Net decrease in cash and cash equivalents		(8,011)	(7,479)
Cash and cash equivalents at 1 July		17,131	24,872
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		806	(262)
Cash and cash equivalents at 30 June	C.3	9,926	17,131

The accompanying notes form part of the financial statements.

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Basis of preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report is based on accounts which are in the process of being audited.

The accounting policies applied are consistent with those applied in the 2017 annual financial statements with the exception of the following:

(i) Reclassification of comparative information.

Classifications of certain items in the prior year have changed to conform with current year presentation.

A.1 Operating segments

Basis for segmentation

For management purposes, the Group is organised into business divisions based on its products and services and has two reportable segments, as follows:

• Program Delivery ("PD")

The Program Delivery segment is focussed on the manufacture, assembly and delivery of engines and propulsion systems for unmanned aerial vehicles (UAV), and the continuous improvement of propulsion system and component part costs; product quality; and timing of product delivery.

• Advanced Product Development ("APD")

The Advanced Product Development segment specialises in the development of new UAV propulsion systems and flight critical components, including UAV engineering studies, engine mapping, maintenance certification and engineering technical support across the Group.

No operating segments were aggregated to form the abovementioned reportable operating segments.

The Executive Leadership Team is the Chief Operating Decision Maker ("CODM") and monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Other income, finance costs and income taxes are managed on a Group basis and not allocated to operating segments.

There are no inter-segment revenues or transactions.

Change in segmentation

The business of REMSAFE Pty Ltd represented the entirety of the Group's Safety and Productivity operating segment until 18 December 2017. With REMSAFE Pty Ltd being classified as a discontinued operation, the Safety and Productivity operating segment is no longer presented in the segment disclosure. Refer to Note F.1 for further details.

During the period the Group changed the composition of its reportable segments to better align with the Group's strategic focus on the tactical UAV market. The prior year segments which included Unmanned Aerial Vehicles, Engineering Services and Consumer have been restated to align with the new operating segments.

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A.1 Operating segments (Cont)

Segment information

Year ended 30 June 2018

	PD		APD		Unallocated		Consolidated	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Segment revenue - external customers	17,535	10,568	2,652	1,679	606	1,320	20,793	13,567
Interest revenue	-	-	-	-	207	94	207	94
Total revenue	17,535	10,568	2,652	1,679	814	1,414	21,000	13,661
Research and development grant	-	-	10	1,505	18	743	28	2,248
Materials, engineering consumables & contractors	(5,783)	(3,470)	(631)	(378)	(200)	(120)	(6,614)	(3,968)
Employee benefits expenses	(3,217)	(3,680)	(2,086)	(2,386)	(3,767)	(4,307)	(9,070)	(10,373)
Depreciation and amortisation expenses	(60)	(59)	(5)	(5)	(469)	(459)	(534)	(523)
Occupancy expenses	(340)	(319)	(198)	(186)	(838)	(788)	(1,377)	(1,294)
Warranties (Note E.1)	(449)	(420)	-	-	-	-	(449)	(420)
Administration & other expenses	(508)	(568)	(371)	(415)	(1,638)	(1,869)	(2,517)	(2,853)
Segment result	7,178	2,052	(629)	(187)	(6,081)	(5,386)	467	(3,521)
Other income					1,807	91	1,807	91
Finance costs					(528)	(540)	(528)	(540)
Net profit/(loss) before income tax							1,746	(3,970)
Income tax benefit					-	101	-	101
Profit/(loss) after tax from continuing operations							1,746	(3,869)
Profit/(loss) from discontinued operations							483	(8,382)
Profit/(loss) after tax							2,229	(12,251)

Geographical information

	Australia		United States		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Revenue – external customers	1,669	1,388	19,124	12,179	20,793	13,567
Non-current operating assets	1,210	1,497	1,006	-	2,216	1,497

Revenue information above is based on the location of the customers.

Revenue from one key customer, being attributable to both reportable segments, amounted to \$17,148,000 (2017: \$9,278,000).

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A.2 Other income

	2018	2017
	\$'000	\$'000
Grant income	225	225
Rental income	428	437
Research and development grant	28	2,248
Net foreign exchange gain	1,007	-
Gain on sale of quoted equity shares	132	-
Other	15	50
	1,835	2,960

A.3 Expenses

(a) Employee benefits expense

	2018	2017
	\$'000	\$'000
Salaries and wages	7,302	8,772
Defined contribution plans	632	709
Share based payments	250	153
Annual and long service leave (Note E.1)	115	90
Other personnel costs	771	649
	9,070	10,373

Other personnel costs include payroll tax and workers compensation of \$440,000 (2017:\$464,000) and recruitment costs of \$253,000 (2017:\$100,000).

(b) Finance costs

	2018	2017
	\$'000	\$'000
Interest expense (Note D.1)	528	540
	528	540

(c) Other expenses

	2018	2017
	\$'000	\$'000
Administration	388	189
Marketing and investor relations	86	113
Warranties (Note E.1)	449	420
Fair value movement in quoted equity shares	-	568
Net foreign exchange losses	-	53
Corporate advisory expenses	89	444
Other	90	85
	1,102	1,872

A.4 Taxes

The major components of the income tax benefit for the years ended 30 June 2018 and 2017 are:

	2018	2017
	\$'000	\$'000
Deferred tax benefit		
Adjustments in respect of deferred tax of previous year	-	(105)
Benefits arising from previously unrecognised tax losses	-	131
Total income tax benefit	-	26

The reconciliation of the income tax benefits and accounting profit multiplied by the Australian domestic tax rate for the years ended 30 June 30 2018 and 2017 are:

	2018	2017
	\$'000	\$'000
Accounting profit/(loss) before tax from continuing operations	1,746	(3,970)
Accounting profit/(loss) before tax from discontinued operations	483	(8,307)
Accounting profit/(loss) before income tax	2,229	(12,277)

At Australia's statutory income tax rate of 27.5% (2017: 30%)	(613)	3,683
Non assessable income	1,818	855
Recognition of previously unrecognised tax losses	-	131
Non-deductible expenses	(530)	(3,445)
Deferred tax assets not recognised	(675)	(1,168)
Income tax paid in the United States of America	-	(30)
Income tax benefit	-	26
Income tax benefit reported in the statement of profit or loss	-	101
Income tax attributable to discontinued operation	-	(75)

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A.4 Taxes (Cont)

Tax consolidation

Orbital Corporation Limited and its 100 per cent 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 tax consolidated 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 were recognised in the financial statements in respect of this agreement on the basis that the probability of default was assessed as remote.

Deferred tax assets relate to the following:

	2018 \$'000	2017 \$'000
Inventory	62	69
Deferred revenue	259	1,495
Plant and equipment	66	66
Provisions and accruals	614	684
Other	(26)	348
Tax losses	21,136	19,991
Deferred tax assets not recognised	(16,604)	(17,146)
Net deferred tax asset	5,507	5,507

Under the tax laws of the United States of America, unused tax losses that cannot be fully utilised for tax purposes during the current period may be carried forward into future periods, subject to statutory limitations. At 30 June 2018, the Group carried US\$10,392,000 (2017: US\$11,286,000) in unused tax losses which expire between 2019 and 2023. The Group has not recognised a deferred tax asset in relation to unused tax losses in the United States of America.

A.5 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of Orbital Corporation Limited ("the Parent") by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	2018 \$'000	2017 \$'000
Profit/(loss) attributable to ordinary equity holders of the Parent:		
Continuing operations	1,746	(3,869)
Discontinued operations	483	(8,079)
Profit/(loss) attributable to equity holders of the Parent for basic earnings	2,229	(11,948)

Performance rights granted to key management personnel and contingent consideration arising from the acquisition of the remaining 38.50 per cent interest in REMSAFE Pty Ltd were deemed contingently issuable potential ordinary shares. Refer to Note D.3 for further details. For the year ended 30 June 2017, all contingently issuable ordinary shares were anti-dilutive and excluded from the calculation of diluted earnings per share.

	2018 Number	2017 Number
Weighted average number of ordinary shares for basic EPS	77,337,066	76,811,878
Performance rights (Note F.3)	2,354,373	-
Contingent consideration (Note D.3)	4,000,000	-
Weighted average number of ordinary shares adjusted for the effect of dilution	83,691,439	76,811,878

Earnings per share

	Cents	Cents
Basic earnings/(loss) per share	2.88	(15.55)
Diluted earnings/(loss) per share	2.66	(15.55)

Earnings per share from continuing operations

	Cents	Cents
Basic earnings/(loss) per share	2.26	(5.04)
Diluted earnings/(loss) per share	2.09	(5.04)

To calculate the EPS for discontinued operations, the weighted average number of ordinary shares for both basic and diluted EPS is as per the table in this note. Refer to Note F.1 for further details.

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B.1 Plant and equipment

	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
Cost			
At 1 July 2016	17,814	377	18,191
Additions	143	27	170
Disposals	(72)	-	(72)
At 30 June 2017	17,885	404	18,289
Additions	274	1,029	1,303
Disposals	(74)	-	(74)
At 30 June 2018	18,085	1,433	19,518
Depreciation and impairment			
At 1 July 2016	(16,139)	(126)	(16,265)
Depreciation charge for the year	(530)	(49)	(579)
Disposals	52	-	52
At 30 June 2017	(16,617)	(175)	(16,792)
Depreciation charge for the year	(503)	(52)	(555)
Disposals	45	-	45
At 30 June 2018	(17,075)	(227)	(17,302)
Net book value			
At 30 June 2018	1,010	1,206	2,216
At 30 June 2017	1,268	229	1,497

C.1 Inventories

	2018 \$'000	2017 \$'000
Raw materials	1,841	2,158
Provision for obsolescence	(226)	(250)
Work in progress	489	828
Finished goods	50	544
	2,154	3,280

For the year ended 30 June 2018, no expense (2017: \$14,000) was recognised to write-down inventories to their net realisable value.

C.2 Trade and other receivables

	2018 \$'000	2017 \$'000
Trade receivables	12,097	3,989
Accrued royalties	64	180
Other receivables	1,506	2,074
	13,667	6,243

Other receivables includes \$1,450,000 receivable from Avidsys Pty Ltd in consideration for the disposal of REMSAFE Pty Ltd on 18 December 2017. Refer to Note F.1 for further details.

At 30 June, the ageing of trade receivables (\$'000's) is as follows:

	0-30 days \$'000	31-60 days \$'000	+61 days \$'000	Total \$'000
2018	12,097	-	-	12,097
2017	3,854	54	81	3,989

The Group's payment terms on trade receivables range from 30 - 35 days and none of the Group's trade receivables at 30 June 2018 were considered impaired (2017: nil).

C.3 Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash at bank	9,926	16,131
Short-term deposits	-	1,000
	9,926	17,131

The reconciliation of net profit after tax to net cash flows from operations for the years ended 30 June 2018 and 2017 are as follows:

	2018 \$'000	2017 \$'000
Profit/(loss) after income tax from continuing operations	1,746	(3,869)
Profit/(loss) after income tax from discontinued operations	483	(8,382)
Profit/(loss) after income tax	2,229	(12,251)
Loss on sale of plant and equipment	-	(9)
Depreciation	555	579
Impairment of goodwill (Note F.2)	-	5,218
Government grants (Note E.2)	(225)	(225)
Interest expense (Note D.1)	528	540
Surplus lease space (Note E.1)	(52)	(49)
Warranties (Note E.1)	350	420
Employee Benefits (Note E.1)	(286)	(603)
(Gain)/loss on sale of quoted equity shares	(132)	568
Share based payment expense	253	166
Net foreign exchange (gain)/loss	(1,007)	72
Net cash used in operating activities before changes in assets and liabilities	2,213	(5,574)

Changes in assets and liabilities during the year:

Increase in receivables and prepayments	(8,464)	(998)
Decrease in inventories	1,127	967
Increase in deferred tax assets	-	(25)
(Decrease)/increase in payables	(3,654)	777
	(10,991)	721
Net cash used in operating activities	(8,778)	(4,853)

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C.4 Other financial assets

	2018 \$'000	2017 \$'000
Short term deposits	585	737
Investment in quoted equity shares	-	1,897
	585	2,634

For the year ended 30 June 2018, the Group sold its non-controlling interest in quoted equity shares. The change in fair value from 30 June 2017 to the date of disposal was \$132,000 (2017: loss of \$568,000), which was recognised to other income (2017: other expenses) in the statement of profit or loss and other comprehensive income.

C.5 Trade payables and other liabilities

	2018 \$'000	2017 \$'000
Trade and other payables	1,080	767
Lease liabilities	246	319
Tax payable	45	199
Other payables	337	70
	1,708	1,355

At 30 June, the ageing of trade and other payables is as follows:

	0-30 days \$'000	31-60 days \$'000	+61 days \$'000	Total \$'000
2018	993	-	87	1,080
2017	685	-	82	767

Trade and other payables are non-interest bearing and ordinarily settled on 30 day credit terms.

C.6 Deferred revenue

A reconciliation of deferred revenue for the years ended 30 June 2018 and 2017 is as follows:

	2018 \$'000	2017 \$'000
At 1 July	5,144	3,623
Deferred during the year	522	3,683
Released to the statement of profit or loss	(4,722)	(2,162)
At 30 June	943	5,144

Deferred revenue includes revenue allocated to unperformed engineering services contracts with customers, unearned income on sale of goods to customers and long-term advances received from customers.

D.1 Long term borrowings

	2018 \$'000	2017 \$'000
Current	1,032	860
Non-current	6,738	7,242
	7,770	8,102

Changes in long-term borrowings arising from financing activities are as follows:

	At 1 July \$'000	Cash flows \$'000	Interest expense \$'000	At 30 June \$'000
2018	8,102	(860)	528	7,770
2017	8,279	(717)	540	8,102

On 25 January 2010, the Department of Jobs, Tourism, Science and Innovation provided the Group with an interest-free loan of \$14,346,000 under the terms of a Deed (Acknowledgment of Debt) ("the Deed"). The terms and conditions attached to the Deed are as follows:

- The term of the loan was 25 January 2010 to 30 May 2025
- Repayments commenced on 25 May 2010 at \$200,000 per annum
- Accelerated repayments across the life of the loan increase to a maximum repayment of \$2,100,000 due on 30 May 2025

An interest expense of \$528,000 (2017: \$540,000) was included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

D.2 Share capital

	2018 \$'000	2017 \$'000
Ordinary shares issued and fully paid	31,144	31,106

Movement in ordinary shares	Number	\$000's
At 1 July 2016	75,334,097	30,051
Acquisition of remaining 38.5% interest in REMSAFE	1,000,000	860
Shares issued pursuant to employee share plan	61,785	57
Shares issued pursuant to performance rights plan	900,000	138
At 30 June 2017	77,295,882	31,106
At 1 July 2017	77,295,882	31,106
Shares issued pursuant to employee share plan	73,328	38
At 30 June 2018	77,369,210	31,144

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.

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D.3 Reserves

	Employee benefits reserve	Contingent consideration	Consolidation reserve	Convertible notes reserve	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
At 1 July 2016	1,788	-	(670)	248	1,366
Acquisition of non-controlling interest	-	3,440	(3,785)	-	(345)
Rights issued pursuant to performance rights plan	(29)	-	-	-	(29)
At 30 June 2017	1,759	3,440	(4,455)	248	992
At 1 July 2017	1,759	3,440	(4,455)	248	992
Rights issued pursuant to performance rights plan	215	-	-	-	215
At 30 June 2018	1,974	3,440	(4,455)	248	1,207

Employee benefits reserve

The employee benefits reserve records the share-based payments provided to key management personnel as part of their long-term incentive remuneration.

Contingent consideration

On 13 October 2016, the Group acquired the remaining 38.5 per cent minority interest in REMSAFE Pty Ltd from the Lane Trust in consideration for the issue of ordinary shares in the Group at a deemed price of \$0.86 per ordinary share.

The terms of the sale provided for an incentive to achieve performance targets linked to future accumulated annual sales with consideration payable as follows:

- 2,000,000 ordinary shares in the Group if REMSAFE achieves \$25,000,000 accumulated annual sales for any 12 month period; and,
- 2,000,000 ordinary shares in the Group if REMSAFE achieves \$40,000,000 accumulated annual sales for any 12 month period.

Contingent consideration was measured with reference to the Group's share price on 13 October 2016 and considered the probability that the accumulated annual sales targets would be met, which was assessed as 100 per cent.

Contingent consideration is included in Level 2 of the fair value hierarchy.

Consolidation reserve

The consolidation reserve records the difference between the amount paid to acquire a non-controlling interest and the change in the proportionate interest in net assets held by the non-controlling interest.

Convertible note reserve

The convertible note reserve records the equity component of \$10,000,000 in convertible notes issued in the 2016 financial year. The convertible notes were extinguished in prior periods.

D.4 Financing facilities

The Group has financial arrangements with financial institutions as follows:

	2018	2017
	\$'000	\$'000
Facilities available	585	665
Facilities utilised at 30 June	570	525
Facilities not utilised at 30 June	15	140

Orbital Corporation Ltd

Appendix 4E

E.1 Provisions

	Surplus lease space \$000's	Warranties \$000's	Employee benefits \$000's	Total \$000's
At 1 July 2017	193	420	1,593	2,206
Arising during the year	34	449	115	598
Utilised	(86)	(99)	(401)	(586)
At 30 June 2018	141	770	1,307	2,218
Current	57	770	1,263	2,090
Non-current	84	-	44	128
	141	770	1,307	2,218
At 1 July 2016	242	-	2,196	2,438
Arising during the year	37	420	90	547
Utilised	(86)	-	(693)	(779)
At 30 June 2017	193	420	1,593	2,206
Current	57	420	1,558	2,035
Non-current	136	-	36	172
	193	420	1,593	2,206

E.2 Government grants

	2018 \$'000	2017 \$'000
At 1 July	524	749
Released to the statement of profit and loss	(225)	(225)
At 30 June	299	524
Current	225	225
Non-current	74	299

F.1 Discontinued operations

On 18 December 2017, the Group publicly announced the divestment of its 100 per cent interest in REMSAFE Pty Ltd to Avidsys Pty Ltd ("Avidsys") in support of the Group's strategy to strengthen its position in the UAV market.

Cash consideration of \$2,200,000 received or receivable from Avidsys across three tranches was as follows:

- Of the first tranche payment, \$720,000 has been received with \$30,000 remaining payable as at 30 June 2018.
- The second tranche payment of \$750,000 is receivable on 18 December 2018.
- The third tranche payment of \$700,000 is receivable on 18 June 2019.

The business of REMSAFE Pty Ltd represented the entirety of the Group's Safety and Productivity operating segment until 18 December 2017. With REMSAFE Pty Ltd being classified as a discontinued operation, the Safety and Productivity operating segment is no longer presented in the segment disclosure. Refer to Note A.1 for further details.

The result of REMSAFE Pty Ltd for the year is presented below:

	2018 \$'000	2017 \$'000
Revenue	517	708
Expenses	(1,140)	(9,015)
Operating income	(623)	(8,307)
Gain on disposal of discontinued operation	1,106	-
Profit/(loss) before tax from discontinued operation	483	(8,307)
Income tax expense	-	(75)
Profit/(loss) for the year from discontinued operation	483	(8,382)
Earnings per share (in cents)		
Basic loss for the year from discontinued operations	0.62	(10.91)
Diluted loss for the year from discontinued operations	0.58	(10.31)

Orbital Corporation Ltd

Appendix 4E

F.1 Discontinued operations (Cont)

The major classes of assets and liabilities of REMSAFE Pty Ltd disposed of on 18 December 2017 were as follows:

	2018
	\$'000
Assets	
Trade and other receivables	754
Plant and equipment	29
Total assets	783
Net assets directly associated with REMSAFE Pty Ltd	783

The net cash flows incurred by REMSAFE Pty Ltd are as follows:

	2018	2017
	\$'000	\$'000
Operating	(448)	(1,789)
Investing	181	587
Financing	-	-
Net cash inflow/(outflow)	(267)	(1,202)

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the consolidated statement of profit or loss and other comprehensive income. All other disclosures in the financial statements include amounts for continuing operations, unless otherwise indicated.

F.2 Goodwill

Goodwill arising from the acquisition of REMSAFE Pty Ltd on 4 February 2015 is set out below:

	2018	2017
	\$'000	\$'000
Cost	-	5,218
Accumulated impairment	-	(5,218)
Net book value	-	-
At 1 July	-	5,218
Impairment charge for the year	-	(5,218)
At 30 June	-	-

In the prior period, the Group recognised an impairment loss against the carrying amount of goodwill for its full amount of \$5,218,000 in relation to the Safety and Productivity cash generating unit (CGU). The impairment loss reflected the significant decline in capital expenditure in the iron ore industry in Western Australia, combined with ongoing economic uncertainty, which led to decreased demand for remote isolation systems.

Orbital Corporation Ltd

Appendix 4E

Annual General Meeting

The Annual General Meeting will be held as follows:

Place: City of Perth Library
Auditorium
573 Hay Street
Perth, Western Australia

Date: Friday, 23rd November 2018

Time: 10:00am

Approximate date the annual report will be available: 28 September 2018

Audit

This report is based on financial statements which are in the process of being audited

Signed



Todd Alder
Managing Director

Perth
31 August 2018