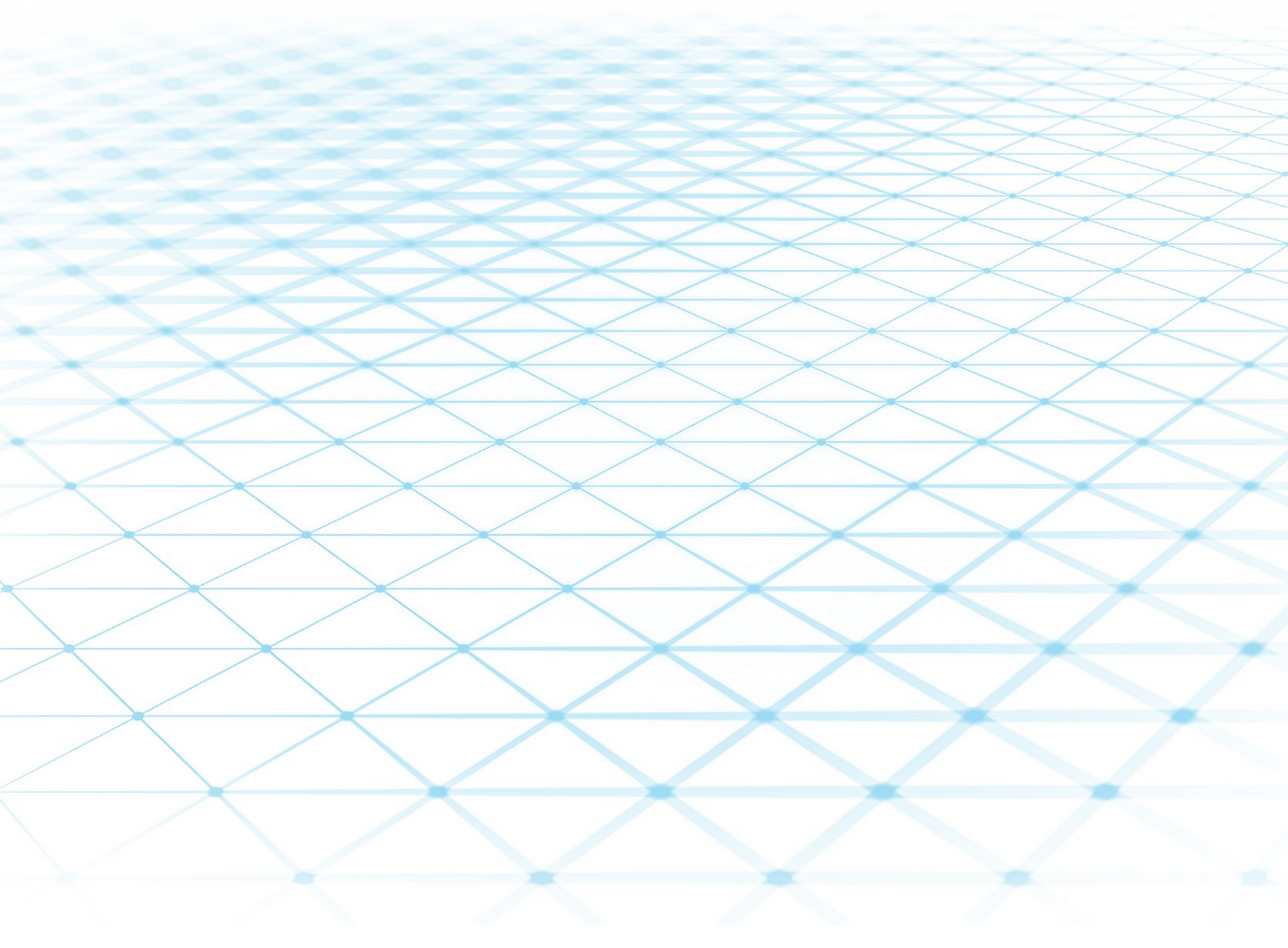




2018 ANNUAL REPORT



# CORPORATE PROFILE

**Orbital UAV** provides integrated propulsion systems and flight critical components for tactical unmanned aerial vehicles (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.

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# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The Directors present their report together with the financial report of Orbital Corporation Limited (the Company or Orbital) and of the Group, being the Company and its subsidiaries for the year ended 30 June 2018 and the auditors' report thereon.

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# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## 1. OPERATING AND FINANCIAL REVIEW

### Chairman and CEO Report



**John Welborn**  
Chairman  
Non-Executive Director



**Todd Alder**  
Managing Director and Chief Executive Officer

Dear Shareholders,

On behalf of the Board of Directors ("the Board"), we are pleased to present the annual report of Orbital Corporation ("Orbital" or "the Company") and its subsidiaries ("the Group") for the year ended 30 June 2018.

#### Overview and financial results

The Company reported strong financial results for the year ended 30 June 2018 with revenue from continuing operations of \$21,000,000 (2017: \$13,661,000) and profit before tax from continuing operations of \$1,737,000 (2017: loss of \$3,970,000). The company reported a net profit after tax of \$2,218,000 (2017: loss of \$12,251,000).

The Company reports a strong balance sheet with cash and receivables of \$24,178,000 (2017: \$26,008,000) and net current assets of \$20,882,000 (2017: \$19,892,000).

Net cash used in operating activities during the period was \$8,778,000 (2017: \$4,853,000).

#### Shareholder returns

	2018	2017	2016	2015	2014
Closing share price (\$)¹	0.36	0.50	0.69	0.49	0.16
Market capitalisation (\$m)	27.9	38.6	52.4	24.0	7.9
Basic EPS (cents) from operations	2.87	(15.55)	2.73	(9.83)	3.39

¹ as at 30 June

#### 2018 Milestones

Many of the key milestones achieved by the Company during the year ended 30 June 2018 reconfirmed our strategic focus on the tactical unmanned aerial vehicle (UAV) market.

The successful divestment of the Company's interest in REMSAFE for an unconditional cash consideration of \$2,200,000 in December 2017 diverted previously allocated working capital towards near term UAV priorities. This included our new operational facility in Oregon, USA and accelerated research and development. The new facility is now operational and will serve our key customer base, including Insitu (Boeing) – one of the world's leading suppliers of tactical UAVs into both military and commercial markets.

There were also significant milestones related to our ongoing partnership with Insitu. We successfully delivered all requested ScanEagle N20 propulsion systems to the company, on time and on budget. We also achieved the performance milestones specified within the \$900,000 N20 propulsion system engineering contract – delivering the targeted power improvements and weight reduction enhancements identified by Insitu.

These positive steps continue to cement Orbital as an emerging global leader in the supply of premium UAV propulsion systems.

#### Management and Board transition

Mr Terry Stinson's role transitioned to Non-Executive Director as of 11 August 2017 after holding the dual Managing Director and CEO positions with Orbital for the past nine years. Mr Todd Alder, who after being appointed CFO and Company Secretary in December 2016, was appointed Managing Director and CEO on 11 August 2017. Following the transition of Mr Alder to Managing Director and CEO was the appointment of Ms Roulé Jones as CFO and Company Secretary.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

On 1 May 2018, the Company appointed Mr Kyle Abbott to the Board. Mr Abbott is an experienced aerospace and defense industry executive and brings considerable knowledge and contacts to the Board, as the Company seeks to grow and diversify its existing customer relationships.

With these new appointments and transitions, Orbital has the leadership team to deliver on its strategic objectives and vision of delivering superiority in UAV propulsion systems and flight critical components.

## **Deferred Tax Asset**

Consistent with previous periods, the Company has recognised a deferred tax asset of \$5,505,000 as at 30 June 2018 (2017: \$5,507,000), (Refer to note A5 in the financial report). The recoverability of the deferred tax asset is dependent on the Company generating sufficient future taxable income to realise the carried forward tax losses in each of the tax jurisdictions in which the Company operates.

The Board assessed that the deferred tax asset was recoverable based on forecasted taxable income included in its Business Plan. Forecasted income included in Orbital's Business Plan is founded on existing supply contracts plus maturing contract negotiations on expanded revenue opportunities. Confidence in the Company's ability to generate future taxable income is further supported by Orbital's improvement in year on year revenue from continuing operations from \$13,661,000 (2017) to \$21,000,000 (2018) and profit before tax from continuing operations from a loss of \$3,970,000 (2017) to a profit of \$1,737,000 (2018). In addition the Board is of the view that the US operating facility and product development programs further underpin the confidence of the income growth of the business.

## **2019 Outlook**

The outlook for the Company remains positive, as we continue to target the growing tactical UAV market. We will build on our position as a global leader in the supply of premium UAV propulsion systems and flight critical components by further developing our relationships with our tier one customer base and identifying organic growth opportunities first and foremost. This includes the ongoing development of our Engine Family – a range of propulsion systems, capable of being integrated across multiple UAV platforms.

Where acquisition opportunities arise they will be aligned to the Company's core competencies of innovation and precision engine, fuel system and integrated component design and manufacturing expertise.

Our new operational facility in the US will develop our client relationships and enhance our ability to meet their service requirements.

The Chairman and Managing Director would like to thank the ongoing commitment of the Company's shareholders and staff.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## 2. DIRECTORS

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

**Mr John Paul Welborn**, B.Com, CA, MAICD, SA Fin

*Chairman*

Joined the Board in June 2014 and appointed as Chairman in March 2015. Mr Welborn is the Managing Director and Chief Executive Officer of Resolute Mining Limited (ASX: RSG), an ASX listed gold producer with two operating gold mines in Africa and Australia, effective 1 July 2015.

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 (ICAA), the Financial Services Institute of Australasia (FINSIA) and the Australian Institute of Company Directors (AICD).

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 has served on the Boards of a number of charitable organisations, and is a former Commissioner of Tourism Western Australia.

Mr Welborn also serves as a director of Resolute Mining Limited (appointed February 2015) and Equatorial Resources Limited (appointed August 2010).

**Mr Todd Alder**, BEc (Acc), CPA, ACIS

*Managing Director and Chief Executive Officer (Appointed 11 August 2017)*

Joined Orbital as Chief Financial Officer and Company Secretary in December 2016 and appointed as Managing Director and Chief Executive Officer in August 2017. Mr Alder's experience includes successful start – ups, acquisitions and the implementation of lean concept business transformations. Mr Alder is an accomplished leader focused on financial discipline, strategy alignment and operational efficiency.

His previous role was Chief Financial Officer and Company Secretary at Toro Energy Limited where he was responsible for financial and management accounting, company secretarial functions, investor relations and information technology. Mr Alder has also worked with Capgemini Consulting (previously Ernst & Young) and Origin Energy Limited.

**Mr Terry Dewayne Stinson**, B.Bus Admin (magna cum laude), *(Resigned as Managing Director and Chief Executive Officer 11 August 2017)*

*Non-Executive Director*

Mr Stinson has over 30 years of executive leadership experience with innovation companies globally. He was formerly CEO and Managing Director of Orbital Corporation Ltd before transitioning to the position of Non-Executive Director in 2017.

Mr Stinson was previously also a Vice President and General Manager at Siemens AG, responsible for overseeing an international business across multiple sites, over 1,200 staff and delivering sales in excess of US\$300 million p.a. He was also previously CEO and MD at Synerject, VP Manufacturing OMC, Director Advanced R&D Product and Process Mercury Marine, division of Brunswick Corp, Project Engineer LT-5 Corvette engine, and USA SME 1990 Young Engineer of the Year.

He has also held executive lead positions at various international ventures of Yamaha, Honda, Chrysler, Penske and others. Mr Stinson also currently serves as Non-Executive Chairman of Carnegie Clean Energy and Non-Executive Chairman of Talga Resources Ltd.

**Mr Steve Gallagher**, B.E (Hons), B.Com, MAICD

*Non-Executive Director*

Joined the Board in April 2017. Mr Gallagher is Principal of Agere Pty Ltd, an advisory and investment company drawing on his capability and professional networks established over 30 years as a CEO and director of global businesses.

Mr Gallagher has operated in various business sectors including industrial automation, building technology and power systems, having spent 15 years living and working in Asia (China, Hong Kong and Singapore) and Europe (Switzerland).

Mr Gallagher is currently a Non-Executive Director with Optal Ltd (an innovative global payment solutions company), Vix Technology Ltd (an industry leader in transport ticketing, fare collection/payments), Ventura Bus Lines Pty Ltd (a leading public transport and charter bus service provider in Australia), Transact1 Pty Ltd (a financial services provider for cash management optimisation, Littlepay Pty Ltd (transit payment processing service provider) and the Australian Sports Tech Co Pty Ltd (sports technology investment company).

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

**Mr Kyle Abbott**, B.Com (Hons 1<sup>st</sup>), CA

*Non-Executive Director (Appointed 1 May 2018)*

Mr Abbott is an experienced aerospace and defense industry executive. Mr Abbott was Managing Director of Western Australian Specialty Alloys (WASA) from 1996 to 2015. During this period WASA grew from a Western Australian specialised alloy manufacturer to become a major supplier to the global aerospace industry, with key customers in the United States, the United Kingdom and Japan. In 2000, Mr Abbott managed the successful sale of WASA to United States-based Precision Castparts Corporation (PCC), an S&P 500 company. PCC was subsequently acquired by Berkshire Hathaway in 2015.

### 3. COMPANY SECRETARY

**Ms Roule Jones**, B Com, BA, CA, PGDA (*Appointed as Company Secretary 16 August 2017*)

Joined Orbital as Financial Controller in February 2013 and appointed as Chief Financial Officer and Company Secretary in August 2017. Ms Jones is a qualified Chartered Accountant with over 15 years' experience across senior financial management, strategic planning, risk management, audit and governance. Prior to joining Orbital, Ms Jones held senior financial management roles with Credit Suisse and Ernst & Young in the United Kingdom and South Africa.

**Mr Todd Alder**, BEc (Acc), CPA, ACIS (*Resigned as Company Secretary 16 August 2017*)

Joined Orbital as Chief Financial Officer and Company Secretary in December 2016 and appointed as Managing Director and Chief Executive Officer in August 2017.

### 4. DIRECTOR MEETINGS

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

Director	No. of meetings attended	No. of meetings held*
J P Welborn	5	5
T M Alder	5	5
T D Stinson	5	5
S Gallagher	5	5
K Abbott	1	1

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

### 5. PRINCIPAL ACTIVITIES

Orbital's focus is on the revolutionary design, proven manufacturing processes and rigorous testing to deliver superiority in UAV propulsion systems and flight critical components. Through its technology and experience, the Company is capable of meeting the long endurance and high reliability requirements of the rapidly evolving UAV market.

Our dedicated UAV production facility in Balcatta, Perth offers a world class design, development, production and refurbishment environment. With the appropriate combination of academic qualifications and industry experience, concept and detailed designs, prototyping and sourcing, and testing and validation are executed in-house by our dedicated team.

#### Change in operations

In December 2017, Orbital secured an exclusive lease over a purpose built facility in Hood River, Oregon, in the United States of America. The facility is now operational and will expand Orbital's existing UAV engine assembly and service capabilities – strengthening key client relationships in the region.

The Company divested its non-core REMSAFE division, for an unconditional cash consideration of \$2,200,000. The divestment provides additional working capital and Management the opportunity to focus exclusively on the expanding UAV business. Orbital recognised a gain on sale of discontinued operations of \$1,106,000 recorded in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018.

There were no other significant changes in the nature of activities of the Group during the year.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## 6. CONSOLIDATED RESULT

The consolidated earnings before interest and tax was \$2,265,000 (2017 loss \$3,430,000). The consolidated profit after income tax from continuing operations for the year attributable to the members of Orbital was \$1,735,000 (2017: loss of \$3,869,000).

## 7. DIVIDENDS

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

## 8. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature 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.

## 9. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

## 10. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Directors do not believe that the Group has significant environmental obligations, the Group's policy is to comply with any applicable environmental regulations that are in force during the reporting period.

## 11. DIRECTORS' INTERESTS

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

Director	Ordinary Shares	Performance Rights
J P Welborn	779,103	-
T M Alder	372,333	1,242,250
T D Stinson	1,672,621	500,000
S Gallagher	100,000	-
K Abbott	-	-
Total	2,924,057	1,742,250

## 12. SHARE OPTIONS

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



# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## 13. INDEMNIFICATION

### Indemnification and insurance of officers

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

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

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

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

### Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## 14. CORPORATE GOVERNANCE STATEMENT

The Board of Orbital Corporation Limited is responsible for corporate governance. The Board has prepared the Corporate Governance Statement in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations which is available on the Company's website at [www.orbitaluav.com](http://www.orbitaluav.com) under the About Us/Corporate Governance section.

## 15. ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

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

As lead auditor for the audit of Orbital Corporation Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Orbital Corporation Limited and the entities it controlled during the financial year.



Ernst & Young



T G Dachs  
Partner  
27 September 2018

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## 17. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

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

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

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for audit and non-audit services provided during the year are shown in note F.7 to the financial statements.

In June 2017 the Board approved the extension of the lead partner rotation from five years to seven years in accordance with section 324DB of the *Corporations Act 2001* and the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*. The reasons why the Board approved the extension included:

- Mr Dachs, the Lead Audit Partner, has a detailed understanding of the Group's business and strategies, its systems and controls and this knowledge is considered to be valuable to the Board at this point in time.
- The existing independence and service metrics in place with EY and Mr Dachs, are sufficient to ensure that auditor independence would not be diminished in any way by such an extension.
- Mr Dachs will continue to abide by the independence guidance provided in APES 110 'Code of Ethics for Professional Accountants' as issued by the Accounting Professional and Ethical Standards Board and EY's own independence requirements.
- The Board is of the view that Mr Dachs' continued involvement with the Group as the Lead Audit Partner will not in any way diminish the audit quality provided to the Group.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## REMUNERATION REPORT - AUDITED

### KEY MANAGEMENT PERSONNEL AND SUMMARY OF ORBITAL'S FIVE-YEAR PERFORMANCE

#### Key management personnel ("KMP")

This Remuneration Report outlines the remuneration in place and outcomes achieved for KMPs during the year ended 30 June 2018.

KMPs are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director, whether executive or otherwise, of the parent company.

The names and positions of the individuals who were KMP during 2018 are set out in Table 1.

Table 1 – KMP

Executive	Non-executive directors
<i>Executive Director</i> Todd M Alder (Chief Executive Officer and Managing Director) <sup>1</sup>	John P Welborn (Chairman) Terry D Stinson <sup>4</sup> Steve Gallagher Kyle Abbott <sup>5</sup>
<i>Senior Executives</i> Geoff P Cathcart (Chief Technical Officer) Roulé Jones (Chief Financial Officer) <sup>2</sup> Michael C Lane (Executive Chairman REMSAFE) <sup>3</sup>	

1. Mr Alder was promoted from Chief Financial Officer to Managing Director and Chief Executive Officer on 11 August 2017
2. Ms Jones became a KMP on 16 August 2017
3. Mr Lane ceased employment with REMSAFE on 6 October 2017
4. Mr Stinson changed roles from Managing Director and Chief Executive Officer to Non-Executive Director on 11 August 2017
5. Mr Abbott was appointed to the Board on 1 May 2018

Table 2 – Five-year performance

The table below outlines Orbital's performance over the last five years against key metrics.

	2018	2017	2016	2015	2014
Closing share price (\$)	0.36	0.50	0.69	0.49	0.16
Market capitalisation (\$m)	27.9	38.6	52.4	24.0	7.9
Basic EPS (cents) from operations	2.87	(15.55)	2.73	(9.83)	3.39

## REMUNERATION OVERVIEW

The Group's remuneration strategy is designed to attract, motivate and retain employees in a globally competitive market. The Board structures remuneration so that it rewards those who perform, is valued by executives, and is strongly aligned to the company's strategic direction and the creation of returns to shareholders.

Total Fixed Remuneration ("TFR") is determined by the scope of the executive's role and their level of knowledge, skills and experience.

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 \$133,431 were paid during the year ended 30 June 2018 (2017: \$31,600).

Long-term incentives ("LTI") consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives. During the financial year, the Group introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which were approved by shareholders on 27 October 2017 and 23 May 2018. No rights vested during the 2018 financial year.

**The remuneration of Non-Executive Directors of the Company consists only of Directors' fees. Director fees were not reviewed or adjusted during the 2018 financial year.**

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## Remuneration Report at 2017 AGM

The 2017 Remuneration Report received positive shareholder support at the 2017 AGM with a vote of 99 per cent of votes cast in favour.

### Remuneration strategy

The Group's remuneration strategy is designed to attract, motivate and retain employees and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

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

- Are aligned to the Group's business strategy;
- Offer competitive remuneration, benchmarked against the external market;
- Provide strong linkage between individual and Group performance and rewards; and
- Align the interests of executives with shareholders through measuring the Company's market capitalisation or share price.

### Key changes to remuneration structure in 2018

There were no changes to the remuneration structure of executives or Directors during the 2018 financial year.

## REMUNERATION GOVERNANCE

### Board of Directors

The Board reviews and approves remuneration packages and policies applicable to Directors, the Company Secretary and the senior executives of the Group.

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.

### Remuneration approval process

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the LTI plan. The Board also sets the aggregate remuneration of Non-Executive Directors which is then subject to shareholder approval.

The Board approves, having regard to the recommendations made by the CEO, the 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 1 July 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the *Corporations Act 2001*) are subject to prior approval by the Board or Human Resources.

During the year ended 30 June 2018, the Group engaged CJ Ryan Holdings, an external remuneration consultant, to provide remuneration recommendations regarding the remuneration payable to Todd Alder as part of his appointment to Managing Director and Chief Executive Officer on 11 August 2017.

The Board is satisfied that the advice received by CJ Ryan Holdings is free from undue influence from Todd Alder to whom the remuneration recommendations apply.

The remuneration recommendations were provided to the Board as an input into decision making only. The Board considered these recommendations, along with other factors, in making its remuneration decisions.

The fees paid to CJ Ryan Holdings for the remuneration recommendations were \$2,800. No other remuneration recommendations or other advisory services were provided by CJ Ryan Holdings for the year ended 30 June 2018.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## CHIEF EXECUTIVE OFFICER AND EXECUTIVE KMP REMUNERATION

### 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

Orbital Corporation's remuneration structure for the CEO and executive KMP is comprised of one component that is fixed, being Total Fixed Remuneration (TFR), and two components that are variable, being short-term incentives (STI) and long-term incentives (LTI).

The STI is an annual "at risk" component of remuneration for executives. It is payable based on performance against key performance indicators (KPIs) set at the beginning of the financial year. STI's are structured to remunerate executives for achieving annual Company targets and their own individual performance targets. The net amount of any STI after allowing for applicable taxation, is payable in cash.

LTI targets are set as a percentage of fixed remuneration, converted to performance rights with vesting conditions subject to the Company's share price performance. Vesting of performance rights is subject to share price targets with the overall value exposed to the upside or downside of the share price movement, therefore closely aligning with shareholder interests.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) established for each executive is approved by the Board and for the year ended 30 June 2018 was as follows:

	Fixed Remuneration	Variable Remuneration	
CEO	Fixed Remuneration (59%)	Target STI (19%)	Target LTI (22%)
Other executives	Fixed Remuneration (94%)	Target STI (5%)	Target LTI (1%)

The remuneration structure for the 2018 financial year is explained below:

### Summary of executive KMP remuneration for the 2018 financial year

#### Total Fixed Remuneration ("TFR")

TFR consists of base compensation, which is calculated on a total cost basis and includes any fringe benefits tax 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 Board. The process consists of a review of Company, business division and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in the Statutory Table on page 17.

#### Variable Annual Reward - Short-term incentive ("STI")

Under the STI, all executives have the opportunity to earn an annual incentive award which is delivered in cash. The STI recognises and rewards annual performance.

#### How is performance measured?

The STI performance measures were chosen as they reflect the core drivers of short-term performance and also provide a framework for delivering sustainable value to the Group, its shareholders and customers.

Key performance indicators ("KPIs") are measured covering financial and non-financial measures of performance. For each KPI, a target and stretch objective is set. A summary of the measures and weightings are set out below:

	Financial	Non-financial
	Group EBIT	Group KPIs
CEO	70%	30%
Other executives	75%	25%

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Earnings before interest and tax ("EBIT") is the measure against which management and the Board assess the short-term performance of the Group. Non-financial performance measures which enter into the calculation of the STI are:

- Individual performance rating in respect of the quality of work performed in all essential areas of responsibility;
- Individual cultural rating in respect of the extent to which demonstrated behavior aligns with the values of the Group;
- Establishment of the American plant at Hood River, Oregon, within budget; and
- Consolidation of strategically aligned merger and acquisition opportunities.

## How much can executives earn?

The maximum STI for the Chief Executive Officer is 40 per cent of fixed remuneration. The maximum STI for other executives is 20 per cent of fixed remuneration.

The minimum STI that may be awarded to the Chief Executive Officer and other executives is nil where the company performance factor is zero.

## When is it paid?

The STI award is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the Executive Leadership Team. The Board approves the final STI award based on this assessment of performance. The STI awarded was settled in cash in full in August 2018.

## Changes to the STI plan from 1 July 2017

A review of the Group's incentive arrangements resulted in a change to the 2018 STI Plan. The intention of the change to the STI Plan was to support business objectives and to ensure that the STI is aligned with the creation of shareholder value.

## Actual STI performance for the year ending 30 June 2018

The following table outlines the proportion of the maximum STI earned in relation to the 2018 financial year. Please refer to Table 1 on Page 17 for further details on the actual STI paid to KMPs for the year ended 30 June 2018.

	Maximum STI opportunity (Percentage of fixed remuneration)	Percentage of maximum STI earned
Todd M Alder	40%	75%
Geoff P Cathcart	20%	37%
Roulé Jones	20%	25%

The proportion of the STI forfeited is derived by subtracting the actual percentage of the maximum received from the maximum STI opportunity. The percentage of the STI forfeited was, on average, 53 per cent for the year ended 30 June 2018.

## Long-term incentive ("LTI")

Under the LTI for 2018, the grant of performance rights and share acquisition performance rights were made to executives to align remuneration with the creation of shareholder value over the long-term.

## How is it paid?

Executives are eligible to receive performance rights and share acquisition performance rights; that is, being the right to receive a given number of ordinary shares in the Group if a nominated performance milestone is achieved.

## Performance Rights Plan – 2018 Long Term Incentives

The Company introduced a new Performance Rights Plan ("2018 LTI Plan") which was approved by shareholders on 27 October 2017.

Performance rights were issued to the Managing Director and CEO ("CEO LTIs") and other executives ("Executive LTIs") under the 2018 LTI Plan in two tranches, with each tranche subject to a separate performance milestone linked to the volume weighted average share price ("VWAP") of the Company and tested over a three-year period as follows:

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Tranche	Performance condition	Expiry date	Grant date (CEO LTIs)	Grant date (Executive LTIs)	Fair value/right (CEO LTIs)	Fair value/right (Executive LTIs)	Vesting of rights
1	The Company having a 60 day VWAP of at least \$0.90 per share between 27 October 2017 and 10 August 2020.	10 August 2020	27 October 2017	23 May 2018	36.5 cents	20.9 cents	50 per cent
2	The Company having a 60 day VWAP of at least \$1.20 per share between 27 October 2017 and 10 August 2020.	10 August 2020	27 October 2017	23 May 2018	27.8 cents	13.8 cents	50 per cent

The allocation of Performance Rights to executives was as follows:

Executive	Title	Performance rights issued Tranche 1	Performance rights issued Tranche 2	Total
Mr T.Alder	Managing Director and CEO	340,000	255,000	595,000
Mr G.Cathcart	Chief Technical Officer	116,284	87,213	203,497
Ms R.Jones	Chief Financial Officer	87,500	65,625	153,125
<b>Total</b>		<b>543,784</b>	<b>407,838</b>	<b>951,622</b>

## Performance Rights Plan – 2018 Share Acquisition Performance Rights (“2018 SAPR Plan”)

On 11 August 2017, the Group announced the appointment of Mr T.Alder as Managing Director and Chief Executive Officer. The announcement also set out the material terms of his employment which included the grant of two Share Acquisition Performance Rights (“SAPRs”) for each share acquired by Mr Alder during the period 11 August 2017 to 31 December 2017.

During the relevant period Mr T.Alder acquired 372,333 shares in the Group resulting in a maximum entitlement of 647,250 share acquisition performance rights. The grant of the performance rights was approved by shareholders at an extraordinary general meeting held on 23 May 2018. The performance rights were issued under the terms of the Performance Rights Plan.

The SAPRs are subject to a share price performance milestone of \$0.62 tested over a three-year period and 100 per cent of the SAPRs will vest if this performance milestone is achieved. Any SAPRs that do not vest will lapse and are not restated.

Performance condition	Expiry date	Grant date	Fair value/right	Total number of rights granted
The Company having a 30 day VWAP equal to or greater than \$0.62 per share between 11 August 2017 and 10 August 2020.	10 August 2020	23 May 2018	31.6 cents	647,250
<b>Total</b>				<b>647,250</b>

### When is performance measured?

Performance rights may vest at any time during the three year period to 10 August 2020, subject to the abovementioned performance milestones. Performance rights lapse if the employment of the executive is terminated with cause, or by resignation, prior to vesting.

Performance rights may vest prior to the satisfaction of the vesting conditions upon a change of control event, or if the Board allows early exercise on cessation of employment or in light of specific circumstances.

No performance rights vested for the year ended 30 June 2018 (2017: nil).

### How is performance measured?

Awards are subject to the market capitalisation of the Group. The performance rights link the rewards payable to KMPs to the creation of shareholder value by increasing the share price of the Company. The Company's share price at the date of calling the AGM to approve the CEO LTIs was \$0.52 per share. The Company's share price at the date of calling the EGM to approve the 2018 SAPR was \$0.39 per share. The vesting of performance rights will only occur where the Company's share price increases to \$0.62, \$0.90 and \$1.20 per share as set out in the abovementioned tables.



# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## Actual LTI performance for the year ending 30 June 2018

During the financial year, no rights vested under the 2018 LTI Plan, the SAPR Plan or for any earlier plans issued in previous financial years (2017: 900,000 rights vested relating to market capitalisation targets met as approved at the 2014 AGM).

## Performance Rights Plans approved in prior years

Mr. T. Stinson, the previous Managing Director and CEO of the Group, was issued 500,000 performance rights based on market capitalisation and share price milestones to be met over a three-year period which was approved by shareholders on 8 November 2016.

Under this long-term incentive plan, performance rights only vest if the terms and conditions detailed below are satisfied.

Tranche	Performance condition	Expiry	Fair value per right	Performance rights issued
1	The Company having a market capitalisation of \$125 million and share price of \$1.50 per share for a period of 30 consecutive days.	7 November 2018	50.0 cents	200,000
2	The Company having a market capitalisation of \$200 million and a share price of \$2.00 per share for a period of 30 consecutive days.	7 November 2019	42.0 cents	300,000
<b>Total</b>				<b>500,000</b>

## OTHER EQUITY PLANS

Orbital has a history of providing employees with the opportunity to participate in ownership of shares in the company using equity to support a competitive base remuneration position.

### Employee Share Plan

Eligible employees are offered shares in the Company, at no cost to the employees, to the value of \$1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. KMP's participating in the issue of shares under Employee Share Plan No.1 for the year ended 30 June 2017 amounted to \$3,000. No Directors participated in the share plan in 2018. Directors and other KMP did not participate in the issue of shares under Employee Share Plan No.1 for the year ended 30 June 2018.

## CONTRACTS FOR EXECUTIVE KMP

All KMP have a contract for employment. The table below contains a summary of the key contractual provisions of the contracts of employment for the executive KMP.

	Contract Duration	Termination notice period (Company) <sup>1, 2</sup>	Termination notice period (Executive)
T Alder	Unlimited	3 months	3 months
G Cathcart	Unlimited	3 months	3 months
R Jones <sup>3</sup>	Unlimited	3 months	3 months

1. Termination provisions – Orbital may choose to terminate the contract immediately by making a payment in lieu of notice equal to the fixed remuneration the executive would have received during the 'Company Notice Period'. In the event of termination for serious misconduct or other nominated circumstances, executives are not entitled to this termination payment. Any payments made in the event of a termination of an executive contract will be consistent with the Corporations Act 2001 (Cth).

2. On termination of employment, executives will be entitled to the payment of any fixed remuneration calculated up to the termination date and any leave entitlement accrued up to the termination date. Unvested LTI awards are forfeited upon termination for serious misconduct or employee initiated termination and at Board discretion if termination is initiated by the Company.

3. In the event of the Group terminating the employment of Ms R.Jones (Chief Financial Officer), other than by reason of serious misconduct or material breach of service agreement, an equivalent of three months salaries is payable, in addition to:

- two weeks' salaries for each completed year of service to ten years of service
- one half of a week of salaries for each year of service beyond ten years of service

As at 30 June 2018, Ms Jones has completed five years' service for the Company.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## NON-EXECUTIVE DIRECTORS REMUNERATION

### Objective

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

### Structure

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

The Company's constitution and the ASX listing rules specify that the Non-Executive Directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 Annual General Meeting (AGM) held on 25 October 2001 when shareholders approved an aggregate fee pool of \$400,000 per year. The Board will not seek any increase for the Non-Executive Director pool at the 2018 AGM.

### 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 \$120,000 (2017: \$120,000) and the Non-Executive Directors receive a base fee of \$60,000 (2017: \$60,000).

The remuneration of Non-Executive Directors for the year ended 30 June 2018 and 30 June 2017 is detailed in Table 1 of this report on page 17.

## OTHER TRANSACTIONS WITH KMP AND THEIR RELATED PARTIES

There were no other transactions with KMPs and their related parties, such as purchases, sales and investments, for the year ended 30 June 2018.

## REPORTING NOTES

### Reporting in Australian dollars

In this report, the remuneration and benefits reported are in Australian dollars. This is consistent with the functional and presentational currency of the Company.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

## Statutory tables

Table 1 - Compensation of Non-Executive Directors and executive KMP's for the year ended 30 June 2018 and 2017

		Short Term Benefits			Post-	Long-term	Share Based Payments		Total		
		Salary & Directors Fees	Cash Bonuses	Non-monetary	Total	Employment	Benefits	Employee Share Plans	Performance Rights Plan	Total Remuneration	Proportion of remuneration performance related
						Termination Benefits					
		\$	\$	\$	\$	\$	\$ (a)(b)	\$ (c)	\$	%	
<b>Non-executive Directors</b>											
<b>J Welborn</b>	<b>2018</b>	<b>109,589</b>	-	-	<b>109,589</b>	<b>10,411</b>	-	-	-	<b>120,000</b>	-
Chairman and Director (Non-executive)	2017	109,589	-	-	109,589	10,411	-	-	-	120,000	-
<b>T Stinson (1)</b>	<b>2018</b>	<b>48,489</b>	-	-	<b>48,489</b>	<b>4,606</b>	-	-	-	<b>53,096</b>	-
Director (Non-executive)	2017	-	-	-	-	-	-	-	-	-	-
<b>S Gallagher (2)</b>	<b>2018</b>	<b>60,000</b>	-	-	<b>60,000</b>	-	-	-	-	<b>60,000</b>	-
Director (Non-executive)	2017	13,167	-	-	13,167	-	-	-	-	13,167	-
<b>K Abbott (3)</b>	<b>2018</b>	<b>10,000</b>	-	-	<b>10,000</b>	-	-	-	-	<b>10,000</b>	-
Director (Non-executive)	2017	-	-	-	-	-	-	-	-	-	-
<b>J Poynton (4)</b>	<b>2018</b>	-	-	-	-	-	-	-	-	-	-
Director (Non-executive)	2017	88,514	-	-	88,514	8,409	-	-	-	96,923	-
<b>Total Consolidated, all non-executive directors</b>	<b>2018</b>	<b>228,078</b>	-	-	<b>228,078</b>	<b>15,017</b>	-	-	-	<b>243,096</b>	-
	2017	211,270	-	-	211,270	18,820	-	-	-	230,090	-
<b>Executive Director</b>											
<b>T Alder (5)</b>	<b>2018</b>	<b>274,773</b>	<b>102,000</b>	-	<b>376,773</b>	<b>26,103</b>	-	<b>12,696</b>	-	<b>117,850</b>	<b>41.2%</b>
Managing Director and Chief Executive Officer	2017	-	-	-	-	-	-	-	-	-	-
<b>T Stinson (1)</b>	<b>2018</b>	<b>39,219</b>	-	<b>3,336</b>	<b>42,556</b>	<b>3,726</b>	-	<b>86,493</b>	-	<b>92,030</b>	<b>40.9%</b>
Managing Director and Chief Executive Officer	2017	349,147	-	17,349	366,496	36,526	-	5,000	-	86,579	17.5%
<b>Executive Key Management Personnel</b>											
<b>G Cathcart</b>	<b>2018</b>	<b>254,870</b>	<b>20,931</b>	-	<b>275,801</b>	<b>36,679</b>	-	<b>9,632</b>	-	<b>1,705</b>	<b>7.0%</b>
Chief Technical Officer	2017	254,870	25,000	5,089	284,959	32,392	-	2,860	1,000	10,931	10.8%
<b>R Jones (6)</b>	<b>2018</b>	<b>167,086</b>	<b>10,500</b>	-	<b>177,586</b>	<b>15,873</b>	-	<b>11,988</b>	-	<b>1,283</b>	<b>5.7%</b>
Chief Financial Officer	2017	-	-	-	-	-	-	-	-	-	-
<b>T Alder (5)</b>	<b>2018</b>	<b>29,749</b>	-	-	<b>29,749</b>	<b>2,826</b>	-	-	-	-	<b>32,575</b>
Chief Financial Officer	2017	133,960	-	-	133,960	9,924	-	2,767	-	-	146,651
<b>T Stinson (1)</b>	<b>2018</b>	<b>155,098</b>	-	-	<b>155,098</b>	<b>14,734</b>	-	-	-	-	<b>169,832</b>
Corporate Advisor	2017	-	-	-	-	-	-	-	-	-	-
<b>M Lane (7)</b>	<b>2018</b>	<b>63,713</b>	-	<b>6,346</b>	<b>70,059</b>	<b>6,053</b>	-	-	-	-	<b>76,112</b>
Chairman - REMSAFE	2017	231,962	-	-	231,962	21,576	19,026	83,275	1,000	-	356,839
<b>I Veitch (8)</b>	<b>2018</b>	-	-	-	-	-	-	-	-	-	-
Chief Financial Officer	2017	87,620	6,600	-	94,220	14,204	76,294	70,034	1,000	10,931	266,683
<b>C Law (9)</b>	<b>2018</b>	-	-	-	-	-	-	-	-	-	-
Chief Commercial Officer	2017	195,820	-	-	195,820	18,603	74,640	9,166	-	-	298,229
<b>Total Consolidated, Executive Key Management Personnel</b>	<b>2018</b>	<b>984,509</b>	<b>133,431</b>	<b>9,683</b>	<b>1,127,623</b>	<b>105,995</b>	-	<b>120,809</b>	-	<b>212,867</b>	<b>1,567,294</b>
	2017	1,253,379	31,600	22,438	1,307,417	133,225	169,960	173,102	3,000	108,441	1,895,145

1. Mr Stinson changed roles from Managing Director and Chief Executive Officer to Corporate Advisor and Non-Executive Director on 11 August 2017

2. Mr Gallagher became a Director on 12 April 2017

3. Mr Abbott became a Director on 1 May 2018

4. Mr Poynton ceased as a Director on 12 April 2017

5. Mr Alder became a KMP on 14 December 2016 and changed roles from Chief Financial Officer to Managing Director and Chief Executive Officer on 11 August 2017

6. Ms Jones became a KMP on 16 August 2017

7. Mr Lane ceased as a KMP on 6 October 2017

8. Mr Veitch ceased as a KMP on 18 November 2016

9. Ms Law ceased as a KMP on 3 May 2017

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Table 2 - Summary of CEO and executive KMP's allocated, vested or lapsed equity

	Type of equity	Grant date	Expiry date	Awarded but not vested	Vested in 2018	% of total vested	Lapsed in 2018	Fair value of equity (\$) <sup>1</sup>
<b>T Stinson <sup>2</sup></b>	Equity rights	8 November 2016	7 November 2018	200,000	-	-	-	0.500
Director (Non-executive)	Equity rights	8 November 2016	7 November 2019	300,000	-	-	-	0.420
<b>T Alder</b>	Equity rights	23 May 2018	10 August 2020	647,250	-	-	-	0.316
Director and Chief Executive Officer	Equity rights	27 October 2017	10 August 2020	340,000	-	-	-	0.365
	Equity rights	27 October 2017	10 August 2020	245,000	-	-	-	0.278
<b>G Cathcart</b>	Equity rights	23 May 2018	10 August 2020	116,284	-	-	-	0.209
Chief Technical Officer	Equity rights	23 May 2018	10 August 2020	87,213	-	-	-	0.138
<b>R Jones</b>	Equity rights	23 May 2018	10 August 2020	87,500	-	-	-	0.209
Chief Financial Officer	Equity rights	23 May 2018	10 August 2020	65,525	-	-	-	0.138

1. In accordance with AASB2 Share-based Payments, the fair value of variable pay rights as at the grant date has been determined by applying the Monte Carlo simulation model. For the assumptions used in the valuation of the rights, please refer to note F.3. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should these equity instruments vest.

2. Mr Stinson was employed as Managing Director and CEO during the year, with Mr Alder transitioning into this role on 11 August 2017.

Table 3 - KMP share and equity holdings

Details of Shares and rights held by KMP including their personally related entities for the 2018 financial year are as follows:

	Type of equity (1)	Opening holding at 1 July 2017	Rights allocated in 2018	Rights vested in 2018	Net Changes other	Closing holding at 30 June 2018 (2)
<b>Non-executive Directors</b>						
<b>John P Welborn</b>	Shares	679,103	-	-	100,000	779,103
<b>Terry D Stinson (3)</b>	Equity Rights	500,000	-	-	-	500,000
	Shares	1,672,621	-	-	-	1,672,621
<b>Steve Gallagher</b>	Shares	-	-	-	100,000	100,000
<b>Kyle Abbott (4)</b>	Shares	-	-	-	-	-
<b>Executive Directors</b>						
<b>Todd Alder (5)</b>	Equity Rights	-	1,242,250	-	-	1,242,250
	Shares	-	-	-	372,333	372,333
<b>Executives</b>						
<b>Geoff P Cathcart</b>	Equity Rights	-	203,497	-	-	203,497
	Shares	272,720	-	-	-	272,720
<b>Roule Jones (6)</b>	Equity Rights	-	153,125	-	-	153,125
	Shares	5,313	-	-	-	5,313
<b>Michael C Lane (7)</b>	Equity Rights	-	-	-	-	-
	Shares	127,763	-	-	-	127,763

1. Opening holding represents amounts carried forward in respect of KMP.

2. Closing equity rights holdings represent unvested rights held at the end of the reporting period. There were no rights vested but unexercised as at 30 June 2018.

3. Mr Stinson changed roles from Chief Executive Officer to Non-executive Director on 11 August 2017

4. Mr Abbott became a Director on 1 May 2018

5. Mr Alder changed roles from Chief Financial Officer to Managing Director and Chief Executive Officer on 11 August 2017

6. Ms Jones became a KMP on 16 August 2017

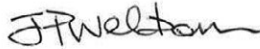
7. Mr Lane ceased as a KMP on 6 October 2017

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

End of Remuneration Report.

Signed in accordance with a resolution of the Directors:



J P Welborn  
Chairman



T M Alder  
Managing Director and Chief Executive Officer

Dated at Perth, Western Australia this 27<sup>th</sup> day of September 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
<b>Continuing operations</b>			
Sale of goods		17,535	10,569
Engineering services income		2,635	2,196
Royalty and licence income		623	802
Interest revenue		207	94
<b>Total revenue</b>	A.2	<b>21,000</b>	13,661
Other income	A.3	1,826	2,960
Materials and consumables expenses	A.4(d)	(5,813)	(3,389)
Employee benefits expenses	A.4(a)	(9,070)	(10,373)
Depreciation and amortisation expenses	B.1	(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.4(b)	(528)	(540)
Other expenses	A.4(c)	(1,102)	(1,872)
<b>Profit/(loss) before income tax from continuing operations</b>		<b>1,737</b>	(3,970)
Income tax (expense)/benefit	A.5	(2)	101
<b>Profit/(loss) for the year from continuing operations</b>		<b>1,735</b>	(3,869)
<b>Discontinued operations</b>			
Profit/(loss) after tax for the year from discontinued operations	F.6	483	(8,382)
<b>Profit/(loss) for the year</b>		<b>2,218</b>	(12,251)
Attributable to:			
Equity holders of the parent		2,218	(11,948)
Non-controlling interests	-	-	(303)
<b>Profit/(loss) for the year</b>		<b>2,218</b>	(12,251)
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		9	-
<b>Total comprehensive profit/(loss) for the year</b>		<b>2,227</b>	(12,251)
Attributable to:			
Equity holders of the parent		2,227	(11,948)
Non-controlling interests	-	-	(303)
<b>Total comprehensive profit/(loss) for the year</b>		<b>2,227</b>	(12,251)
<b>Earnings per share</b>			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.87	(15.55)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.87	(15.55)
<b>Earnings per share from continuing operations</b>			
Basic profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.24	(5.04)
Diluted profit/(loss) for the year attributable to ordinary equity holders of the parent (cents)	A.6	2.24	(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
<b>ASSETS</b>			
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>26,880</b>	<b>29,510</b>
<b>Non-current assets</b>			
Deferred taxation asset	A.5	5,505	5,507
Plant and equipment	B.1	2,216	1,497
<b>Total non-current assets</b>		<b>7,721</b>	<b>7,004</b>
<b>Total assets</b>		<b>34,601</b>	<b>36,514</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	C.5	1,535	1,108
Deferred revenue	C.6	943	5,144
Borrowings	D.1	1,032	860
Government grants	E.2	225	225
Provisions	E.1	2,090	2,035
<b>Total current liabilities</b>		<b>5,826</b>	<b>9,371</b>
<b>Non-current liabilities</b>			
Trade payables and other liabilities	C.5	173	246
Borrowings	D.1	6,738	7,242
Government grants	E.2	74	299
Provisions	E.1	128	172
<b>Total non-current liabilities</b>		<b>7,113</b>	<b>7,959</b>
<b>Total liabilities</b>		<b>12,939</b>	<b>17,331</b>
<b>Net assets</b>		<b>21,663</b>	<b>19,183</b>
<b>Equity</b>			
Share capital	D.2	31,144	31,106
Reserves	D.3	1,216	992
Accumulated losses		(10,697)	(12,915)
<b>Total equity</b>		<b>21,663</b>	<b>19,183</b>

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	Foreign currency translation 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	D.3			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2017</b>	<b>31,106</b>	<b>(12,915)</b>	<b>1,759</b>	-	<b>3,440</b>	<b>(4,455)</b>	<b>248</b>	<b>19,183</b>	-	<b>19,183</b>
Profit for the period	-	<b>2,218</b>	-	-	-	-	-	<b>2,218</b>	-	<b>2,218</b>
Foreign currency translation	-	-	-	<b>9</b>	-	-	-	<b>9</b>	-	<b>9</b>
Total comprehensive income for the period	-	<b>2,218</b>	-	<b>9</b>	-	-	-	<b>2,227</b>	-	<b>2,227</b>
Share based payments	<b>38</b>	-	<b>215</b>	-	-	-	-	<b>253</b>	-	<b>253</b>
<b>At 30 June 2018</b>	<b>31,144</b>	<b>(10,697)</b>	<b>1,974</b>	<b>9</b>	<b>3,440</b>	<b>(4,455)</b>	<b>248</b>	<b>21,663</b>	-	<b>21,663</b>
At 1 July 2016	30,051	(967)	1,788	-	-	(670)	248	30,450	818	31,268
Loss for the 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
<b>Cash flows from operating activities</b>			
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)
<b>Net cash used in operating activities</b>	C.3	<b>(8,778)</b>	<b>(4,853)</b>
<b>Cash flows from investing activities</b>			
Proceeds from/(purchase of) financial instruments		2,029	(2,465)
Proceeds from sale of plant and equipment		29	29
Proceeds from sale of subsidiary	F.6	720	-
Purchase of plant and equipment		(1,303)	(170)
Redemption of short term deposit		152	697
<b>Net cash provided by/(used in) investing activities</b>		<b>1,627</b>	<b>(1,909)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	D.1	(860)	(717)
<b>Net cash used in financing activities</b>		<b>(860)</b>	<b>(717)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(8,011)</b>	<b>(7,479)</b>
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)
<b>Cash and cash equivalents at 30 June</b>	C.3	<b>9,926</b>	<b>17,131</b>

The accompanying notes form part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## About these statements

Orbital Corporation Ltd ("Orbital" or the "Group") is a for-profit company limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Stock Exchange ("ASX"). The registered office is 4 Whipple Street, Balcatta, Western Australia.

The nature of the operations and principal activities of the Group are described in the Directors Report and in the segment information in Note A.1.

The financial statements were authorised for issue in accordance with a resolution of the directors on 27th September 2018. The Directors have the power to amend and reissue the financial report.

## Statement of compliance

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group applied for the first time new and amended Accounting Standards and Interpretations which are effective for annual periods beginning on or after 1 July 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective. The adoption of these standards, interpretations or amendments has not significantly affected the Group's accounting policies, financial position or performance.

## Currency

The financial statements are presented in Australian dollars, which is the functional currency of the Company and the majority of its subsidiaries. Transactions are recorded in the functional currency of the transacting entity using the spot rate.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions.

The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

## Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for investment in marketable securities which are measured at fair value.

The financial statements comprise the financial results of the Group and its subsidiaries as at 30 June each year. Subsidiaries are fully consolidated from the date of which control is obtained by the Group and cease to be consolidated from the date at which the Group ceases to have control.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

Profit or loss and 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.

Comparative information has been reclassified where required for consistency with the current year's presentation.

## Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to understanding the financial statements are provided throughout the notes to the financial statements.

## Financial and capital risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management strategy, policy and key risk parameters. The Board of Directors have oversight of the Group's internal control system and risk management process.

The Group's management of financial and capital risks is aimed at ensuring that available capital, funding and cash flows are sufficient to meet the Group's financial commitments as and when they fall due and maintain the capacity to fund its committed project developments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

The below risks arise in the normal course of the Group's business. Risk information can be found in the following sections:

Section A	Foreign currency risk	Page 27
Section C	Liquidity risk	Page 37
Section C	Interest Rate risk	Page 38
Section C	Credit risk	Page 38
Section C	Equity price risk	Page 38
Section D	Capital risk management	Page 41

## Key estimates and judgements

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experiences and other factors, including expectations of future events that may have an impact on the Group. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are found in the following notes:

Note	Key estimate/ judgement	Page
A.2	Recognition of engineering services revenue	30
A.5	Recoverability of deferred tax assets	32
B.1	Impairment of non-current assets	35
D.3	Classification of contingent consideration	42
E.1	Valuation of provision for warranties	44
E.1	Valuation of provision for long service leave	44

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### In this section

This section addresses financial performance of the Group for the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made. The section also includes the tax position of the Group for and at the end of the reporting period.

#### A. Current Performance

A.1	Operating segments	Page 28
A.2	Revenue	Page 30
A.3	Other income	Page 30
A.4	Expenses	Page 31
A.5	Taxes	Page 32
A.6	Earnings per share	Page 34

#### Key financial risks in this section

##### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities, in which sales and purchases are denominated in foreign currencies.

The Group manages its exposure to foreign currency risk by regularly monitoring and performing sensitivity analysis on the Group's financial position and performance as a result of movements in foreign exchange rates. Furthermore, the Group holds bank accounts in foreign denominated currencies which are converted to Australian dollars through rate orders for targeted exchange rates.

##### Exposure

The Group's exposure to USD at the reporting date for the years ended 30 June 2018 and 2017 are as follows:

	2018 USD A\$'000	2017 USD A\$'000
<b>Financial assets</b>		
Cash and cash equivalents	9,660	12,290
Trade and other receivables	11,190	2,643
<b>Financial liabilities</b>		
Trade and other payables	99	97

For the year ended 30 June 2018, revenue from external customers denominated in USD was A\$18,035,000 (2017: A\$10,283,000).

##### Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. There is no impact on changes in foreign currencies on other comprehensive income. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group has used the observed range of actual historical rates for the preceding five year period, with a heavier weighting placed on recently observed market data, in determining reasonably possible exchange movements as part of their sensitivity analysis. Past movements in exchange rates are not necessarily indicative of future movements.

	Change in AUD/USD rate	Increase / (Reduction) on profit before taxes
2018	+5%	(988)
	-5%	1,092
2017	+5%	(706)
	-5%	781

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### 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") who monitor 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.6 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 Group's strategic focus includes building on its position as a global leader in the supply of premium UAV propulsion systems and flight critical components by further developing relationships with customers and identifying organic growth opportunities. The prior year segments which included Unmanned Aerial Vehicles, Engineering Services and Consumer have been restated to align with the new operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### 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
<b>Total revenue</b>	<b>17,535</b>	<b>10,568</b>	<b>2,652</b>	<b>1,679</b>	<b>814</b>	<b>1,414</b>	<b>21,000</b>	<b>13,661</b>
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	(3,218)	(3,680)	(2,086)	(2,386)	(3,766)	(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)	(2,852)
<b>Segment result</b>	<b>7,177</b>	<b>2,051</b>	<b>(629)</b>	<b>(187)</b>	<b>(6,080)</b>	<b>(5,386)</b>	<b>467</b>	<b>(3,521)</b>
Other income							1,798	91
Finance costs							(528)	(540)
<b>Net profit/(loss) before income tax</b>							<b>1,737</b>	<b>(3,970)</b>
Income tax (expense)/benefit							(2)	101
<b>Profit/(loss) after tax from continuing operations</b>							<b>1,735</b>	<b>(3,869)</b>
<b>Profit/(loss) from discontinued operations</b>							<b>483</b>	<b>(8,382)</b>
<b>Profit/(loss) after tax</b>							<b>2,218</b>	<b>(12,251)</b>

### 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. Non-current operating assets above is based on the physical location of the asset.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### A.2 Revenue

#### Recognition and measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue may be reliably measured. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment, excluding Goods and Services Tax ("GST").

The specific recognition criteria described below must also be met before revenue is recognised:

#### • Revenue from rendering of services

Revenue from engineering services is recognised by reference to the stage of completion. Stage of completion is measured by reference to total costs incurred to date as a percentage of total estimated costs for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

#### Revenue

Deferred revenue represents cash payments received from customers in accordance with contractual commitments prior to the performance of the service. Refer to Note C.5 for further details.

#### Grant

#### Key estimate

#### Recognition of engineering services revenue

Management estimates the total cost to complete each contract used to derive the stage of completion of engineering services recognised in the statement of profit or loss and other comprehensive income.

#### • Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer; ordinarily, on the delivery of the goods. A liability for potential warranty claims is recognised at the time the goods are sold. Refer to Note E.1 for further details.

#### • License and royalties

Revenue earned under licencing and royalty arrangements is recognised on an accruals basis upon the delivery of an engine meeting specified performance targets and using the patented technologies of the Group.

Under the terms of the licence and royalty agreements, licensees are not specifically obliged to commence production and sale of engines using technology patented by the Group. Licensees may terminate the agreements upon notice to the Group. If a licensee were to terminate its agreement with the Group, the licensee would forfeit the licence and any technical disclosure fees paid through to the date of termination.

#### • Interest revenue

Interest income is recorded using the effective interest rate method ("EIR"). The EIR is the rate that exactly discounts the estimated cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

### A.3 Other income

	2018 \$'000	2017 \$'000
Grant income	225	225
Rental income	428	437
Research and development grant	28	2,248
Net foreign exchange gain	998	-
Gain on sale of quoted equity shares	132	-
Other	15	50
	<b>1,826</b>	<b>2,960</b>

#### Recognition and measurement

#### Grant income, including research and development tax incentives

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

#### Rental income

Rental income arising from operating leases on sub-leased properties is accounted for on a straight-line basis across the lease term.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### A.4 Expenses

#### (a) Employee benefits expense

	2018	2017
	\$'000	\$'000
Salaries and wages	7,302	8,772
Defined contribution plans	632	709
Share based payments (Note F.3)	250	153
Annual and long service leave (Note E.1)	115	90
Other personnel costs	771	649
	<b>9,070</b>	<b>10,373</b>

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
	<b>528</b>	<b>540</b>

#### (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
	<b>1,102</b>	<b>1,872</b>

#### (d) Materials and consumable expenses

	2018	2017
	\$'000	\$'000
Raw materials and consumables	4,687	2,439
Change in inventories	1,126	950
	<b>5,813</b>	<b>3,389</b>

#### (e) Research and development costs

	2018	2017
	\$'000	\$'000
Research and development costs	1,177	1,912

### Recognition and measurement

#### · Defined contribution plans

Obligations for contributions to defined contribution superannuation funds are recognised as an expense as incurred.

The Group contributes to defined contribution plans for the provision of benefits to Australian employees on retirement, death or disability. Employee and employer contributions are calculated on percentages of gross salaries and wages. Apart from contributions required under law, there is no legally enforceable right for the Group to contribute to a superannuation plan.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### A.5 Taxes

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

	2018 \$'000	2017 \$'000
<b>Deferred tax</b>		
Adjustments in respect of deferred tax of previous year	-	(105)
Net benefits arising from previously unrecognised tax losses	-	131
Relating to the origination and reversal of temporary differences	(2)	-
<b>Total income tax (expense)/benefit</b>	<b>(2)</b>	<b>26</b>

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

	2018 \$'000	2017 \$'000
Accounting profit/(loss) before tax from continuing operations	1,737	(3,970)
Accounting profit/(loss) before tax from discontinued operations	483	(8,307)
<b>Accounting profit/(loss) before income tax</b>	<b>2,220</b>	<b>(12,277)</b>
At Australia's statutory income tax rate of 27.5% (2017: 30%)	(611)	3,683
Adjustments in respect of the change in statutory income tax rate	(459)	-
Non assessable income	798	855
Recognition of previously unrecognised tax losses	459	131
Deferred tax asset not recognised	(116)	(1,168)
Non-deductible expenses	(73)	(3,445)
Income tax paid in the United States of America	-	(30)
<b>Income tax (expense)/benefit</b>	<b>(2)</b>	<b>26</b>
Income tax (expense)/benefit reported in the statement of profit or loss	(2)	101
Income tax attributable to discontinued operation	-	(75)

Deferred tax assets relate to the following:

	2018 \$'000	2017 \$'000
Inventory	62	69
Revenue received in advance	259	1,495
Property, plant, and equipment	66	66
Provisions and accruals	614	684
Other	(26)	348
Tax losses	24,019	23,151
Deferred tax assets not recognised	(19,489)	(20,306)
<b>Net deferred tax asset</b>	<b>5,505</b>	<b>5,507</b>

The Group has tax losses that arose in Australia of A\$76,765,000 (2017: A\$71,868,000) that are available indefinitely for offsetting against future taxable profits of the Group and its controlled entities in which those losses arose.

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 recognised a deferred tax asset in relation to unused tax losses in the United States of America of \$847,000 (2017: nil).

#### Recognition and measurement

##### • Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date in the countries where the Group operates and generates taxable income.

##### • Deferred tax

Deferred tax is provided for using the full liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### A.5 Taxes (cont.)

#### • Deferred tax

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits and unused tax losses may be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences may be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

#### Key estimate: Recoverability of deferred tax assets

At 30 June 2018, the Group recognised \$5,505,000 (2017: A\$5,507,000) of deferred tax assets after assessing the likelihood of offsetting unused tax losses against future taxable profits. The unused tax losses for which a deferred tax asset is recognised relate to operations in Australia and the United States of America.

The Board assessed that the deferred tax asset was recoverable based on forecast taxable income included in the Business Plan. Forecasted income included in Orbital's Business Plan is founded on existing supply contracts plus maturing contract negotiations on expanded revenue opportunities.

#### Offsetting deferred tax balances

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax assets and liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that the Group intends to settle its current tax assets and liabilities on a net basis.

#### 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.

Orbital Corporation Limited and its controlled entities continue to account for their own current and deferred tax amounts. The Group has applied the 'separate taxpayer within Group' approach by reference to the carrying amount in the separate financial statements of each entity and the tax values applying under tax consolidation. In addition to its own current and deferred tax amounts, Orbital Corporation Limited also recognised current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed from its controlled entities in the tax consolidated group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## A. CURRENT YEAR PERFORMANCE

### A.6 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	1,735	(3,869)
Discontinued operations	483	(8,079)
<b>Profit/(loss) attributable to equity holders of the Parent for basic earnings</b>	<b>2,218</b>	<b>(11,948)</b>

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 Notes F.3 and 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
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>77,337,066</b>	<b>76,811,878</b>

#### Earnings per share

	Cents	Cents
Basic earnings/(loss) per share	2.87	(15.55)
Diluted earnings/(loss) per share	2.87	(15.55)

#### Earnings per share from continuing operations

	Cents	Cents
Basic earnings/(loss) per share	2.24	(5.04)
Diluted earnings/(loss) per share	2.24	(5.04)

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of the financial statements.

The number of potential ordinary shares not considered dilutive and contingently issuable are as follows:

	2018 Number
Performance rights (Note F.3)	2,354,373
Contingent consideration (Note D.3)	4,000,000
<b>Total</b>	<b>6,354,373</b>

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.6 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## B. GROWTH ASSETS

### In this section

This section addresses the strategic growth and assets position of the Group at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.

### B.1 Plant and equipment

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

Leasehold improvements at 30 June 2018 includes \$1,000,000 (2017:nil) attributable to construction of the US facility, which was not available for use at balance date.

Plant and equipment was pledged as security under the Acknowledgement of Debt entered into with the Department of Jobs, tourism, Science and Innovation and is subject to floating charges. Refer to Note D.1 for further details.

### Recognition and measurement

Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates those parts separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are expensed as incurred to occupancy expenses in the statement of profit or loss and other comprehensive income.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the assets, is included in other income or other expenses in the statement of profit or loss and other comprehensive income when the asset is derecognised.

### Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the asset or cash generating unit ("CGU"). The recoverable amount of the asset or the CGU is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

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. In determining fair value less costs of disposals, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

### Key estimate - Impairment of non-current assets

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. The budgets and forecast calculations cover a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## B. GROWTH ASSETS

### B.1 Plant and equipment (cont.)

#### · Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life as follows:

Plant and equipment: 3 to 15 years

Leasehold improvements: 3 to 15 years

The residual values, useful lives and methods of depreciation of plant and equipment are reviewed at each financial year-end and adjusted prospectively, as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## C. WORKING CAPITAL MANAGEMENT

### In this section

This section addresses inventories, trade and other receivables, cash, other financial assets and trade and other payables of the Group at the end of the reporting period including, where applicable, the accounting policies applied and the key estimates and judgements made.

### C. Working Capital Management

C.1	Inventories	Page 38
C.2	Trade and other receivables	Page 39
C.3	Cash and cash equivalents	Page 39
C.4	Other financial assets	Page 40
C.5	Trade and other payables	Page 40
C.6	Deferred revenue	Page 40

### Key financial and capital risks in this section

#### Liquidity risk management

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay financial liabilities as and when they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet its financial commitments in a timely and cost effective manner.

The Group's liquidity position is managed by the Board of Directors who regularly review cash-flow forecasts prepared by management, which includes the Group's short and long-term obligations, cash position and forecast liability position to maintain appropriate liquidity levels. At 30 June 2018, the Group has a total of \$9,926,000 of cash at its disposal (2017: \$17,131,000) and a net current asset position \$20,417,000 (2017: \$19,892,000). The remaining contractual maturities of the Group's financial liabilities are:

	On demand \$'000	Less than 3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
<b>At 30 June 2018</b>						
Borrowings (Note D.1)	-	-	1,032	6,647	2,307	9,986
Trade payables and other liabilities (Note C.5)	-	1,304	58	173	-	1,535
	-	1,304	1,090	6,820	2,307	11,521
<b>At 30 June 2017</b>						
Borrowings (Note D.1)	-	-	860	5,540	4,447	10,847
Trade payables and other liabilities (Note C.5)	-	6,214	38	246	-	6,498
	-	6,214	898	5,786	4,447	17,345

1. Based on the maximum amount that may be called under a financial guarantee contract

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## C. WORKING CAPITAL MANAGEMENT

### Interest rate risk management

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in the market interest rates.

The Group's exposure to market interest rates relates primarily to the Group's cash and term deposits with financial institutions. The primary goal of the Group is to maximise returns on surplus cash, using deposits with maturities of 90 days or less. Management continually monitors the returns on funds invested. The exposure to interest rate risk as at 30 June 2018 is as follows:

	2018 \$'000	2017 \$'000
Cash and cash equivalents (Note C.3)	9,926	16,131
Short-term deposits (Note C.3)	-	1,000
Short-term deposits (Note C.4)	585	737
	<b>10,511</b>	<b>17,868</b>

A reasonable possible change in the interest rate (+0.5%/-0.5% (2017: +1%/-1%)), with all variables held constant, would have resulted in a change in post tax profit/(loss) of \$51,000/(\$51,000) (2017: \$179,000)/(\$179,000) and no impact to other comprehensive income.

### Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating and investing activities, including trade receivables and short-term deposits with financial institutions. Maximum exposure to credit risk equals to the carrying amount of these financial assets (as outlined in each applicable note). There are no significant concentrations of credit risk within the Group, other than receivable balances from the Avidsys Group and Insitu Inc.

The maximum exposure to credit risk for the components of the statement of financial position at 30 June 2018 and 2017 is the carrying amounts as illustrated in Note C.2.

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 cash consideration receivable from Avidsys Group and trade receivables from a key customer and cash held with investment grade financial institutions. Refer to Note F.6, Note A.1 and Note C3, respectively.

The investment of surplus cash in short-term deposits is only invested with a major financial institution to minimise the risk of default of counterparties.

### Equity price risk

The Group's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages this risk by the Board of Directors reviewing and approving all equity investment decisions made by the Group. During the current period the Group disposed of its non-controlling interest in listed equity securities. At reporting date, the exposure to listed equity securities at fair value was nil (2017: \$1,897,000). Refer to Note C.4 for further details.

## 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
	<b>2,154</b>	<b>3,280</b>

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

### Recognition and measurement

Inventories are carried at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- **Raw materials:** weighted average cost
- **Finished goods and work in progress:** weighted average cost of direct materials and direct manufacturing labour and a proportion of manufacturing overhead costs

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## C. WORKING CAPITAL MANAGEMENT

### 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
	<b>13,667</b>	<b>6,243</b>

Other receivables includes \$1,450,000 receivable from Avidsys Pty Ltd as consideration for the disposal of REMSAFE Pty Ltd on 18 December 2017. Refer to Note F.6 for further details.

See the "Credit risk management" section on credit risk of trade receivables, which explains how the Group manages and measures the quality of trade receivables that are neither past due nor impaired. At 30 June, the ageing of trade receivables is as follows:

	Neither past due nor impaired \$'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. No receivable at 30 June 2018 was considered impaired (2017: nil). The credit risk of trade receivables neither past due nor impaired was assessed as remote as historical default rates with associated customers are negligible.

#### Recognition and measurement

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Trade and other receivables are recognised on initial recognition at fair value. Subsequent to initial recognition, trade receivables are measured at amortised cost using the effective interest rate method, less an allowance for uncollectible amounts.

#### Impairment

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. Financial assets are tested for impairment on an individual basis.

#### Fair value

The carrying amount of trade and other receivables approximates their fair value.

### C.3 Cash and cash equivalents

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

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

	2018 \$'000	2017 \$'000
Profit/(loss) after income tax from continuing operations	1,735	(3,869)
Profit/(loss) after income tax from discontinued operations	483	(8,382)
Profit/(loss) after income tax	2,218	(12,251)
Loss on sale of plant and equipment	-	(9)
Depreciation	555	579
Impairment of goodwill (Note F.10)	-	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 (Note F.3)	253	166
Net foreign exchange (gain)/loss	(999)	72
Net cash used in operating activities before changes in assets and liabilities	2,211	(5,574)

#### Changes in assets and liabilities during the year:

Increase in receivables and prepayments	(8,464)	(998)
Decrease in inventories	1,127	967
Decrease/(increase) in deferred tax assets	2	(25)
(Decrease)/increase in payables	(3,654)	777
	<b>(10,989)</b>	<b>721</b>
Net cash used in operating activities	<b>(8,778)</b>	<b>(4,853)</b>

#### Recognition and measurement

Cash and cash equivalents in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk as to change in value.

#### Fair value

The carrying amount of short-term deposits approximates their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## C. WORKING CAPITAL MANAGEMENT

### C.4 Other financial assets

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

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.

The Group has pledged short term deposits of \$585,000 (2017: \$665,000) as collateral for financing facilities and pledged nil short-term deposits (2017: \$72,000) as collateral for performance guarantees under contractual arrangements related to customer agreements. Refer to Note D.1 for details on long-term borrowings.

#### Short-term deposits

##### Recognition and measurement

Short-term deposits represent term deposits with financial institutions for periods greater than 90 days and less than 365 days earning interest at the respective interest rate at time of lodgement. Short-term deposits are stated at amortised cost.

#### Fair value

The carrying amount of short-term deposits approximates their fair value.

#### Investment in quoted equity shares

##### Recognition and measurement

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value, with net changes in fair value represented as other expenses (negative net changes fair value) or other income (positive net changes in fair value) in the statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

#### Fair value

The fair value of quoted equity shares was determined by reference to published price quotations in an active market, classified as Level 1 in the fair value hierarchy.

### C.5 Trade and other payables

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

At 30 June, the ageing of trade 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.

#### Recognition and measurement

Trade and other payables are financial liabilities recognised when goods and services are received prior to the end of the reporting period, irrespective of whether or not billed to the Group. Trade and other payables are recognised on initial recognition at fair value. Subsequent to initial recognition, trade and other payables are measured at amortised cost.

#### Fair value

The carrying amount of trade and other payables approximates their fair value.

### C.6 Deferred revenue

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.

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	<b>943</b>	<b>5,144</b>

#### Recognition and measurement

Deferred revenue is recognised as a liability when consideration is received prior to goods being provided or services rendered. The deferred revenue is recognised as income over the periods that the goods are provided or services rendered.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## D. DEBT AND CAPITAL

### In this section

This section addresses the debt and capital position of the Group at the end of the reporting period including, where applicable, the accounting policies applies and the key estimates and judgements made.

#### D. Debt and capital

D.1	Long-term borrowings	Page 41
D.2	Share capital	Page 41
D.3	Reserves	Page 42

#### Key financial and capital risks in this section

##### Capital risk management

For the purposes of the Group's capital management, capital includes contributed shareholder equity. 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. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

#### D.1 Borrowings

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

Changes in 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

The interest-free loan was secured by way of a first ranking floating debenture over the whole of the assets and undertakings of the Group.

##### Fair value

The fair value of the Group's secured loan at 30 June 2018 was \$6,516,000 (2017: \$6,586,000). The fair value measurement is classified as Level 3 on the fair value hierarchy. The fair value of the secured loan was calculated by discounting future cash flows at the prevailing market interest rate at 30 June 2018 of 12.00% (2017: 12.00%).

#### Recognition and measurement

The interest-free loan was initially recognised at fair value and subsequently stated at amortised cost using the effective interest rate ("EIR") method. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the loan or a shorter period, where appropriate, to the net carrying amount of the financial liability. The effective interest rate was 6.52 per cent.

#### 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 (Note D.3)	1,000,000	860
Shares issued pursuant to employee share plan	61,785	57
Shares issued pursuant to performance rights plan	900,000	138
<b>At 30 June 2017</b>	<b>77,295,882</b>	<b>31,106</b>
At 1 July 2017	77,295,882	31,106
Shares issued pursuant to employee share plan	73,328	38
<b>At 30 June 2018</b>	<b>77,369,210</b>	<b>31,144</b>

##### Recognition and measurement

Share capital is recognised at the fair value of the consideration received. The cost of issuing shares is shown in the share capital as a deduction, net of tax, from the proceeds. Own equity instruments that are re-acquired are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## D. DEBT AND CAPITAL

### D.3 Reserves

	Employee benefits reserve \$000's	Foreign currency translation reserve \$000's	Contingent consideration \$000's	Consolidation reserve \$000's	Convertible notes reserve \$000's	Total \$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
Foreign currency translation	-	9	-	-	-	9
Rights issued pursuant to performance rights plan	215	-	-	-	-	215
At 30 June 2018	1,974	9	3,440	(4,455)	248	1,216

#### Nature and Purpose of reserves

##### 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. Refer to Note F.3 for further details.

##### 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. 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.

The fair value measurement of the contingent consideration was classified as Level 2 on the fair value hierarchy.

##### Key judgement: Classification of contingent consideration

In determining the equity classification of contingent consideration with respect to the acquisition of the remaining minority interest in REMSAFE Pty Ltd, the Group exercised its judgement. The Group determined that each performance target was non-cumulative, which may be paid in two different twelve month periods and resulting in the issue of a fixed number of ordinary shares. If a performance target is not met, no additional ordinary shares will be issued. In this scenario, as each of the performance targets are independent of one another, the arrangement may be regarded as being two distinct contingent consideration arrangements that are assessed separately. As either zero or the requisite number of shares will be issued if each performance target is met, the obligation in respect of each arrangement is classified to equity.

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. Should the REMSAFE business satisfy one or more of the abovementioned accumulated annual sales targets pertaining to the contingent consideration arrangement, Avidsys is obliged to reimburse the Group for the value of the consideration transferred under the arrangement up to a maximum amount of \$2,200,000. At 30 June 2018, the Group re-assessed the probability that the abovementioned accumulated annual sales targets would be met as nil. As a result, no financial asset for contingent consideration receivable from Avidsys was recognised in these financial statements.

Contingent consideration receivable from Avidsys Pty Ltd is an available-for-sale financial asset. The fair value measurement is classified as Level 3 in 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 the convertible notes issued in the 2016 financial year. The convertible notes were extinguished in prior periods.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## E. OTHER ASSETS AND LIABILITIES

### In this section

This section addresses the other assets and liabilities position of the Group at the end of the reporting period including, where applicable, the accounting policies applies and the key estimates and judgements made.

#### E. Other assets and liabilities

E.1	Provisions	Page 43
E.2	Government grants	Page 44

#### E.1 Provisions

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

#### Recognition and measurement

Provisions are recognised when the Group has a present obligation, legal or construction, as a result of a past event, it is probable that an outflow of resources embodying benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Provision for surplus lease space

The Group recognised a provision for surplus lease space for unused office space under an operating lease, expiring 17 February 2021. In addition the Group entered into a sublease agreement for the unused office space, expiring 28 February 2019. Refer to Note F.1 for further details. The provision for surplus lease space is calculated as the present value of the net cost of fulfilling the lease arrangement.

#### Provision for warranties

The Group provides for a provision for warranties for general repairs for two years after its propulsion system assemblies ("PSA") are sold. The provision for warranties represents the liability for potential warranty claims against the Group and is recognised at the point in time when a PSA is sold. The valuation of the provision for warranties is based on the product of the estimated defect rate, the cost of the PSA and the volume of PSAs sold. Estimates of the provision for warranties are revised annually.

#### Key estimate

##### Valuation of the provision for warranties

Management exercises judgement in estimating the expected defect rate for propulsion system assemblies sold, which was benchmarked to the historical defect rate of comparable products sold in prior periods. The expected defect rate reflects the assumption that historical defect rates on comparable products is indicative of future trends, which may not necessarily be the actual outcome.

#### Employee benefits

The Group does not expect its long-service or annual leave benefits to be settled wholly within twelve months of each reporting date. These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, estimated future cash flows.

Other employee benefits expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

#### Key estimate

##### Valuation of the provision for long-service leave

Management exercises judgement in calculating the provision for long-service leave as to the expected future salary and wage levels, future employee on-cost rates, the experience of employee departures and periods of service.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## E. OTHER ASSETS AND LIABILITIES

### E.2 Government grants

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

In June 2008, the Group received a \$2,760,000 grant 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. There are no unfulfilled conditions or contingencies attached to the grants.

#### Recognition and measurement

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognised in other income in the statement of profit or loss and other comprehensive income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. When a government grant relates to compensation for expenses or losses already incurred, or for the purposes of giving immediate financial support to the entity with no future related costs, government grants are recognised as income in the period in which it becomes receivable. When the grant relates to an asset, it is recognised as deferred revenue in the statement of financial position and income is recognised in equal amounts over the expected useful life of the related asset.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### In this section

This section addresses information on other items which require disclosure to comply with Australian Accounting Standards and the Corporations Act 2001 (Cth). However, these disclosures are not considered critical to understanding the financial performance or position of the Group. This section includes group structure information and other disclosures.

#### F. Other items

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For the year ended 30 June 2018, \$921,000 (2017: \$940,000) was recognised as an expense in occupancy expenses in the statement of profit or loss and other comprehensive income. Future minimum rentals payable under non-cancellable operating leases at 30 June are as follows:

	2018 \$'000	2017 \$'000
Within one year	1,110	899
After one year but not more than five years	2,366	2,498
More than five years	1,012	-
	<b>4,488</b>	<b>3,397</b>

#### F.1 Commitments

##### Operating leases - Group as lessee

The Group has entered into operating leases for properties as follows:

- A lease arrangement for the Balcatta, Australia, premises for ten years ending 17 February 2021. The lease includes two options to extend the lease term for two further periods of five years each on 17 February 2021 and 17 February 2026, respectively. The lease arrangement contains an escalation clause that allows for an increase in rent of 3.00 per cent per annum across the term of the lease arrangement.
- A lease agreement for the Oregon, United States of America premises for the five years ending 7 December 2022. The lease includes two options to extend the lease term for two further periods of five years each on 7 December 2022 and 7 December 2027 respectively. The lease arrangement contains an escalation clause that allows for an increase in rent of 3.00 per cent per annum across the term of the lease arrangement.

Other than already described, no operating lease arrangements include contingent rentals, purchase options or escalation clauses.

##### Recognition and measurement

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is or contains a lease if the fulfilment of the arrangement is contingent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that asset is or those assets are not explicitly specified in the arrangement.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

##### Operating leases – Group as lessor

The Group has entered into a sublease related to surplus capacity at its Balcatta property for a period of five years. It includes a clause to enable the upward revision of the rental charge based on an annual base according to prevailing market conditions.

For the year ended 30 June 2018, \$428,000 (2017: \$437,000) was recognised as other income in the statement of profit or loss and other comprehensive income. Future minimum rentals receivable under non-cancellable operating leases at 30 June are, as follows.

	2018 \$'000	2017 \$'000
Within one year	202	331
After one year but not more than five years	-	225
More than five years	-	-
	<b>202</b>	<b>556</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.1 Commitments (cont.)

#### Recognition and measurement

Operating lease rentals are recognised as other income on a straight-line basis over the lease term.

#### Commitments

At 30 June 2018, the Group had commitments of \$694,000 (2017: Nil) related to the fit-out of the Oregon, United States of America, leased premises.

#### Contingencies

At 30 June 2018, the Group was involved in a General Protections matter commenced by a terminated employee. The Group has received advice from its external legal counsel that it is not probable that the action will succeed. The potential quantum of damages, if any, have not been disclosed as it may prejudice the position of the Group. The Group does not believe that the matter against the Group will be successful in a court of law.

### F.2 Related parties

#### Group structure

Note F.4 provides information about the Group's structure, including details of subsidiaries.

#### Transactions with key management personnel

Agere Pty Ltd, a company of which Mr. Steve Gallagher is a director, received \$60,000 (2017: \$13,167) in director's fees for his service to the Group. At 30 June 2018, a total of \$5,000 remains due and payable (2017: \$5,000). Payment terms are 7 days.

No other director or key management personnel entered into a material contract with the Group from the end of the previous financial year.

#### Compensation of key management personnel of the Group

	2018	2017
	\$	\$
Short term employee benefits	1,355,701	1,517,435
Post-employment benefits	121,012	323,256
Long-term employee benefits	120,809	173,102
Share based payments	212,867	111,441
	<b>1,810,390</b>	<b>2,125,234</b>

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. The compensation of key management personnel is included in the employee benefits expense in the statement of profit or loss and other comprehensive income.

Refer to table 2 and table 3 of the Remuneration report for KMP share and equity holdings, including performance rights.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.3 Share based payments

	2018 \$'000	2017 \$'000
Equity-settled share based payment transactions	250	166
	250	166

There were no cancellations or modifications to awards in the 2018 or 2017 financial years. Share-based payment plans are explained below:

#### Employee Share Plan No. 1

The Group provides benefits to its employees in the form of share-based payments in which employees render services for ordinary shares in the Group. Under the plan, each eligible employee is offered fully paid ordinary shares to a maximum value of \$1,000 per annum.

For the year ended 30 June 2018, 73,328 ordinary shares (2017: 61,785 ordinary shares) were issued on 7 December 2017 at a market value on the date of issue of \$38,000 (2017: \$57,000).

#### CEO SAPR's

On 11 August 2017, the Group announced the appointment of Mr. Alder as the Managing Director and Chief Executive Officer of the Group. The announcement set out the material terms of his employment, which include the grant of two performance rights for each share acquired by Mr. Alder during the period from 11 August 2017 to 31 December 2017.

During this period, Mr. Alder acquired 372,333 ordinary shares in the Group, resulting in a maximum entitlement of 647,250 share acquisition performance rights ("SAPR's"). The grant of the performance rights was approved by the shareholders at an extraordinary general meeting on 23 May 2018.

The terms of the performance rights issued to Mr. Alder are subject to a vesting condition of a 30-day volume weighted average share price of \$0.62 per ordinary share.

During the year ended 30 June 2018, no performance rights issued under the plan vested. The share-based payment expense recognised for the year ended 30 June 2018 was \$60,000 (2017: Nil).

#### 2018 Executive LTI Plan and 2018 CEO LTI Plan

On 27 October 2017 and 23 May 2018, the Group issued 951,622 performance rights to key management personnel as part of their long-term incentive plan. The terms of the Performance Rights are set out on pages 10-11 of the Director's Report. During the year ended 30 June 2018, no performance rights issued under the plan vested. The share-based payment expense recognised for the year ended 30 June 2018 was \$63,000 (2017: Nil).

#### 2017 CEO LTI Plan

The 2017 Performance Rights Plan related to Mr Terry Stinson (the previous Managing Director and CEO) and was approved by shareholders on 7 November 2016. Pages 12-13 of the Director's report details the terms of the Performance Rights. During the year no rights under the plan vested. The total expense recognised during the period is \$92,000 (2017: \$59,000)

#### Movements during the year

The following table illustrates the number of performance rights during the year:

	2018 Number	2017 Number
Outstanding at 1 July	500,000	900,000
Granted during the year	1,854,373	500,000
Vested during the year	-	(900,000)
Outstanding at 30 June	2,354,373	500,000

The weighted average remaining contractual life of performance rights outstanding at 30 June 2018 was 2 years (2017: 2.4 years).

The following tables list the inputs into the models used for the four plans for the years ended June 30, 2017 and 2018, respectively:

	2017 CEO LTI Plan	2018 Executive LTI Plan	2018 CEO LTI Plan	CEO SAPR's
Grant date	7/11/2016	23/05/2018	27/10/2017	23/05/2018
Expiry date	7/09/2019	10/08/2020	10/08/2020	10/08/2020
Share price at grant	\$ 0.93	\$ 0.44	\$ 0.54	\$ 0.44
Fair value (\$/right) - Tranche 1	0.500	0.209	0.365	0.316
Fair value (\$/right) - Tranche 2	0.420	0.138	0.278	-
Expected volatility	70%	59%	60%	59%
Risk-free interest rate	1.68%	1.98%	1.95%	1.98%
Remaining contractual life	1.19 years	2.12 years	2.12 years	2.12 years
Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.3 Share based payments (cont.)

The expected life of the performance rights is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility of performance rights reflects the assumption that the historical volatility over a period similar to the life of the performance rights is indicative of future trends, which may not necessarily be the actual outcome.

#### **Recognition and measurement**

Employees, including key management personnel, of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments; that is, equity-settled transactions.

The cost of equity-settled transactions is determined using the fair value of the equity instrument at the date when the grant is made using an appropriate valuation model.

The cost arising from share-based payments is recognised as an employee benefits expense, together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions, are fulfilled; that is, the vesting period. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss and other comprehensive income represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of the awards, but the likelihood of the condition being met is assessed as part of the Group's best estimate of the number of shares that will vest. Market performance conditions are reflected within the grant date fair value.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.4 Subsidiaries

The ultimate parent company of the Group is Orbital Corporation Limited. The consolidated financial statements of the Group include:

Entity	Note	Class of shares	Country of incorporation	Principal activities	% equity interest	
					2018	2017
Orbital Australia Pty Ltd	(c)	Ordinary	Australia	Programme Delivery ("PD")	100	100
	(d)			Advanced Product Development ("APD")		
Orbital Australia Manufacturing Pty Ltd		Ordinary	Australia	Dormant	100	100
OEC Pty Ltd		Ordinary	Australia	Dormant	100	100
S T Management Pty Ltd		Ordinary	Australia	Dormant	100	100
OFT Australia Pty Ltd		Ordinary	Australia	Dormant	100	100
Investment Development Funding Pty Ltd		Ordinary	Australia	Dormant	100	100
Power Investment Funding Pty Ltd		Ordinary	Australia	Dormant	100	100
Kala Technologies Pty Ltd		Ordinary	Australia	Dormant	100	100
Orbital Share Plan Pty Ltd	(a)	Ordinary	Australia	Dormant	100	100
REMSAFE Pty Ltd	(b)	Ordinary	Australia	Safety and Productivity	-	100
Orbital Holdings (USA) Inc.		Ordinary	United States	Dormant	100	100
Orbital Fluid Technologies Inc.		Ordinary	United States	Dormant	100	100
Orbital UAV USA, LLC		Ordinary	United States	Programme Delivery ("PD") Advanced Product Development ("APD")	100	100

(a) Orbital Share Plan Pty Ltd was established on 22 September 2008 and acts as the trustee for Executive Long Incentive Performance Rights Plans.

(b) On 18 December 2017 Orbital divested its 100% interest in REMSAFE Pty Ltd. Refer to note F.6 for further details.

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

(d) The Advanced Product Development ("APD") segment specialises in the development of new UAV propulsion systems and flight critical components, including unmanned aerial vehicle engineering studies, engine mapping, maintenance certification and engineering technical support across the Group.

### F.5 Parent entity information

	2018	2017
	\$'000	\$'000
Current assets	1,451	3
Non-current assets	33,149	36,510
Current liabilities	1,032	860
Non-current liabilities	6,738	7,242
<b>Net assets</b>	<b>26,830</b>	<b>28,411</b>
Issued capital	31,144	31,106
Accumulated losses	(6,288)	(4,454)
Employee benefits reserve	1,974	1,759
<b>Total equity</b>	<b>26,830</b>	<b>28,411</b>
Loss of the parent	(1,834)	(14,258)
Total comprehensive loss of the parent entity	(1,834)	(14,258)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.6 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 receivable 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)
<b>Operating loss</b>	<b>(623)</b>	<b>(8,307)</b>
Gain on disposal of discontinued operation	1,106	-
<b>Profit/(loss) before tax from discontinued operation</b>	<b>483</b>	<b>(8,307)</b>
Income tax expense	-	(75)
<b>Profit/(loss) for the year from discontinued operation</b>	<b>483</b>	<b>(8,382)</b>

#### Earnings per share (in cents)

Basic earnings/(loss) for the year from discontinued operations	0.62	(10.91)
Diluted earnings/(loss) for the year from discontinued operations	0.62	(10.91)

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

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

The gain on sale of REMSAFE was calculated as follows:

	2018 \$'000
Cash consideration	2,200
Less: Transaction costs	(100)
Less: Bad debts written off	(211)
Less: Net assets transferred to Avidsys	(783)
<b>Gain on disposal of discontinued operation</b>	<b>1,106</b>

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

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

#### Recognition and measurement

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.7 Auditor remuneration

The auditor of Orbital Corporation Limited is Ernst & Young Australia ("EY").

	2018	2017
	\$	\$
<b>Amounts received or due and receivable by EY for:</b>		
Audit and review of the consolidated financial statements	127,000	105,000
Tax compliance services	28,500	110,095
	<b>155,500</b>	<b>215,095</b>

### F.8 Events after the end of the reporting period

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 Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

### F.9 Other accounting policies

#### Goods and services tax

Revenue, expenses and assets are recognised net of the amount of 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 ("ATO") is included as a current asset or liability in the consolidated 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.

#### Intangible assets

##### Patents

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

#### Research and development

Research costs are expensed as incurred. Development expenditures on individual projects are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- its intention to complete and its ability and intention to use or sell the asset
- how the asset will generate future economic developments
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure incurred during the development of the asset

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when the development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

#### Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.10 Goodwill

Goodwill arose from the acquisition of REMSAFE Pty Ltd on 4 February 2015:

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

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.

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. Refer to Note F.6 for further details.

#### Recognition and measurement

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets and liabilities assumed. After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, at acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the synergies of the business combination.

#### Impairment of goodwill

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. Refer to Note B.1 for further details. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The calculation of the value in use of the Safety and Productivity CGU was most sensitive to the market share and discount rate assumptions. The basis of determining the value assigned to key assumptions is outlined below:

Assumption	Description
<b>Calculation method</b>	The recoverable amount of the Safety and Productivity CGU was determined on the basis of value in use ("VIU") as at 30 June 2017. VIU calculations use projected cash flows, including working capital movements and were based on financial projections approved by the Board of Directors covering a four year period.
<b>Market share</b>	Projected cash flows were updated to reflect the decreased demand for remote isolation systems. Projected sales volumes were lower compared to projections formulated in the 2016 financial year. Growth rates used in the VIU calculation were restricted to existing customer demand for remote isolation systems.
<b>Terminal value earnings</b>	The VIU calculation did not include terminal value earnings beyond the four year forecast period.
<b>Discount rate</b>	The pre-tax discount rate applied to projected cash flows was 16.41 per cent. The pre-tax is based on the weighted average cost of capital ("WACC") and was adjusted for the risks specific to the cash generating unit to the extent these risks were not incorporated into the cash flow estimate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.11 New and amended accounting standards

#### (a) New and amended standards and interpretations issued but not yet effective

A number of new and amended standards and interpretations have been issued but are not yet effective and have not been adopted by the Group as at the financial reporting date.

The Group has reviewed these standards and interpretations and with the exception of the items listed below, none of the new and amended accounting standards and interpretations will significantly affect the Group's accounting policies, financial position or performance.

Title	Application of new standard	Summary
AASB 16 Leases ("AASB 16")	Periods beginning on or after 1 January 2019	<p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).</p> <p>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p> <p>The planned date of adoption of AASB 16 is 1 July 2019.</p> <p>The Group's current operating leases comprise only of real estate. Upon adoption of AASB 16, the Group's balance sheet is expected to include a right of use asset and liability related to these operating lease arrangements. Information on the undiscounted amount of the Group's operating lease commitments at 30 June 2018 under AASB 117 is disclosed at Note F.1 Commitments. The transition method the Group intends to use is the modified retrospective approach. Refer to F.1 for further information regarding the Group's lease arrangements.</p>
AASB 15 Revenue from contracts with customers ("AASB 15")	Periods beginning on or after 1 January 2018	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied).</p> <p>The core principle of AASB 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 an entity expects to be entitled in exchange for those goods or services.</p> <p>An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>• Step 1: Identify the contract(s) with a customer</li> <li>• Step 2: Identify the performance obligations in the contract</li> <li>• Step 3: Determine the transaction price</li> <li>• Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>• Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</li> </ul> <p>The planned date of adoption of AASB 15 is 1 July 2018.</p>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.11 New and amended accounting standards (cont.)

Title	Application of new standard	Summary
AASB 15 Revenue from contracts with customers ("AASB 15")	Periods beginning on or after 1 January 2018	<p>The Group has reviewed the terms and conditions of its contracts with customers. Based on the work performed to date, the Group does not expect that the adoption of AASB15 will have a material impact on the business. Under sale of goods contracts, the Group has assessed that accounting for variable consideration under AASB 15 will not have a material impact on the revenue recognition in future periods, as revenue at the full transaction price will continue to be recognised when control passes to the customer.</p> <p>In relation to engineering services contracts, the services rendered under each stage are highly interrelated and therefore treated as a single performance obligation. Orbital is entitled to payment for work completed in the event an engineering services contract is discontinued, and therefore performance obligations are satisfied over time with reference to the stage of completion under the input method for revenue recognition.</p> <p>The Group will implement the modified approach as its transition method for the adoption of AASB 15. Practical expedients available to the Group include:</p> <ul style="list-style-type: none"> <li>• Contracts commenced and completed in the same financial year will not be adjusted for the impact of AASB 15;</li> <li>• Licence and royalty revenue will continue to be recognised as and when customer sales of patented technologies are made.</li> </ul>
AASB 9 Financial Instruments ("AASB 9")	Periods beginning on or after 1 January 2018	<p>AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. The Group will apply AASB 9 for the first time prospectively from 1 July 2018. The impact of AASB 9 is assessed below:</p> <p><b>Impairment of financial assets:</b></p> <p>In relation to financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk on initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to the lifetime expected credit loss ("ELC") if the credit risk on the instrument has increased significantly since initial recognition. When the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ELC within the next 12 months.</p> <p>The Group has not yet assessed the expected credit loss to be applied to financial assets carried at amortised cost.</p> <p><b>Hedging:</b></p> <p>The Group does not apply hedge accounting.</p> <p><b>Measurement and classification:</b></p> <p>Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amounts outstanding (the "SPPI criterion"). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.</p>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## F. OTHER ITEMS

### F.11 New and amended accounting standards (cont.)

Title	Application of new standard	Summary																					
AASB 9 Financial Instruments ("AASB 9")	Periods beginning on or after 1 January 2018	Existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. In this regard, the Group has determined that the adoption of AASB 9 will impact the classification of financial assets and liabilities as follows:																					
		<table border="1"> <thead> <tr> <th>Class of financial instrument presented in the statement of financial position</th> <th>Original measurement category under AASB 9 (i.e. prior to 1 July 2018)</th> <th>New measurement category under AASB 9 (i.e. from 1 July 2018)</th> </tr> </thead> <tbody> <tr> <td>Cash and cash equivalents</td> <td>Loans and receivables</td> <td>Financial assets at amortised cost</td> </tr> <tr> <td>Trade and other receivables</td> <td>Loans and receivables</td> <td>Financial assets at amortised cost</td> </tr> <tr> <td>Available for sale financial assets</td> <td>Available for sale financial assets</td> <td>Financial assets will either be designated as fair value through other comprehensive income (when held for strategic investment reasons) or accounted for as financial assets at fair value through profit or loss</td> </tr> <tr> <td>Other financial assets</td> <td>Loans and receivables</td> <td>Financial assets at amortised cost</td> </tr> <tr> <td>Trade and other payables</td> <td>Financial liability at amortised cost</td> <td>Financial liability at amortised cost</td> </tr> <tr> <td>Interest bearing loans and borrowings</td> <td>Financial liability at amortised cost</td> <td>Financial liability at amortised cost</td> </tr> </tbody> </table>	Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 9 (i.e. prior to 1 July 2018)	New measurement category under AASB 9 (i.e. from 1 July 2018)	Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	Trade and other receivables	Loans and receivables	Financial assets at amortised cost	Available for sale financial assets	Available for sale financial assets	Financial assets will either be designated as fair value through other comprehensive income (when held for strategic investment reasons) or accounted for as financial assets at fair value through profit or loss	Other financial assets	Loans and receivables	Financial assets at amortised cost	Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost	Interest bearing loans and borrowings	Financial liability at amortised cost	Financial liability at amortised cost
Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 9 (i.e. prior to 1 July 2018)	New measurement category under AASB 9 (i.e. from 1 July 2018)																					
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost																					
Trade and other receivables	Loans and receivables	Financial assets at amortised cost																					
Available for sale financial assets	Available for sale financial assets	Financial assets will either be designated as fair value through other comprehensive income (when held for strategic investment reasons) or accounted for as financial assets at fair value through profit or loss																					
Other financial assets	Loans and receivables	Financial assets at amortised cost																					
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost																					
Interest bearing loans and borrowings	Financial liability at amortised cost	Financial liability at amortised cost																					

The change in classification will not result in any re-measurement adjustments at 1 July 2018.

# DIRECTORS' DECLARATION

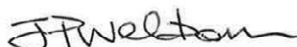
In accordance with a resolution of the Directors of Orbital Corporation Limited, I state that:

1. In the opinion of the Directors:


- (a) The financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, of the group are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the financial position of the Group as at 30 June 2018 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - (ii) Complying with Accounting Standards in Australia and the *Corporations Act 2001*.
- (b) The financial statements and notes also comply with International Financial reporting Standards as disclosed in note 2(a).
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001*, from the Chief Executive Officer and Chief Financial Officer for the financial year 30 June 2018.

On behalf of the Board,



JP Welborn  
Chairman



TM Alder  
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia this 27th day of September 2018.

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

### Report on the audit of the financial report

#### Qualified opinion

We have audited the financial report of Orbital Corporation Limited ("the Company") and its subsidiaries (collectively "the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effect of the matters described in the Basis for Qualified Opinion of our report, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for qualified opinion

As detailed in Note A5 to the financial report, at 30 June 2018, the Group has recognised a deferred tax asset amounting to \$5.505 million. The recoverability of the deferred tax asset is dependent on the Group generating sufficient future taxable income to realise the carried forward tax losses in each of the tax jurisdictions in which the Group operates.

The Group's ability to achieve the production volumes required to generate the future taxable income to realise the carried forward tax losses relating to \$2.619 million of the \$5.505 million recorded as a deferred tax asset at 30 June 2018 is dependent upon the significant expansion of sales volumes with the Group's major customer.

For our audit of the Group's financial report for the year ended 30 June 2018, we have been unable to obtain sufficient audit evidence to conclude that the deferred tax asset is fully recoverable. Had the financial report been prepared on projected volumes expected under the existing long term contract, the tax expense would have been increased by \$2.619 million and the deferred tax asset, profit for the year and shareholders' equity would have each been reduced by \$2.619 million.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying financial report.

## Engineering services revenue

Why significant	How our audit addressed the key audit matter
<p>For the year ended 30 June 2018, the Group recognised \$2.635 million in revenue from the rendering of engineering services.</p> <p>Revenue from engineering services is recognised by reference to the stage of completion. Stage of completion is measured by reference to total costs incurred to date as a percentage of total estimated costs for each contract.</p> <p>The measurement of revenue from engineering services was considered a key audit matter due to the judgement required to be exercised by the Group in relation to the estimation of total contract costs and the stage of completion of the contract.</p>	<p>We evaluated the Group's process to recognise contract revenues.</p> <p>We assessed relevant IT controls related to the project management and enterprise resource planning systems and the operating effectiveness of internal review controls. Internal review controls represent reviews performed by management to assess the reasonability of financial and non-financial information.</p> <p>Controls assessed included:</p> <ul style="list-style-type: none"> <li>▶ The automated calculation of the stage of completion in the project management system</li> <li>▶ The calculation and transfer of actual contract costs to the project management system</li> <li>▶ The periodic contract review performed by the Chief Technical Officer to assess the stage of completion, actual contract costs incurred to date and estimated total contract costs.</li> </ul> <p>We assessed the qualifications, competence and objectivity of the Chief Technical Officer.</p> <p>For a sample of contracts, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>▶ We agreed total contract revenue to the original service contract and approved variations or claims.</li> <li>▶ We agreed actual contract costs incurred to date to source documentation, such as timesheets.</li> <li>▶ We considered the Groups' historic ability to accurately forecast the stage of completion by comparing the accuracy of prior period forecasts to actual outcomes across the year ended 30 June 2018.</li> <li>▶ We enquired of the technical specialists with direct oversight over the contract portfolio to understand the performance and status of the contracts at 30 June 2018.</li> </ul> <p>We assessed the adequacy of the disclosures in relation to engineering services revenue as set out in Note A.2 to the financial report.</p>

## Sale of goods

### Why significant

For the year ended 30 June 2018, the Group recognised \$17.535 million from the sale of goods.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer; ordinarily, on the delivery of the goods.

The timing of revenue recognition in relation to the sale of goods was considered a key audit matter for the reason that customers are billed in advance of the delivery of the goods.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We inspected the terms of supply arrangements to confirm when the significant risks and rewards of ownership in relation to the sale of goods would pass to the customer.
- ▶ On a sample basis, we inspected customer invoices and proof of deliveries made near 30 June 2018 to confirm whether revenue was recognised in the correct accounting period.
- ▶ On a sample basis, we sourced independent confirmation from key customers to confirm trade receivables balances at balance date.
- ▶ We assessed the adequacy of the disclosures in relation to the sale of goods as set out in Note A.2 to the financial report.

## Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Except for the matter referred to in the *Basis for Qualified Opinion* section, we have nothing to report in this regard.

## Responsibilities of the Directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the audit of the remuneration report

### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 10 to 18 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Orbital Corporation Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



T G Dachs  
Partner  
Perth  
27 September 2018

# SHAREHOLDING DETAILS

## Class of Shares and Voting Rights

As at 16 August 2018 there were 4,104 shareholders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 8 of the Company's Constitution, subject to any rights or restrictions for the time being attached to any class or classes of shares, are:

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

## Substantial Shareholders and Holdings as at 16 August 2018

UIL Limited <i>(as notified 13 April 2017)</i>	23,227,904	30.05%
Commonwealth Bank of Australia <i>(as notified 10 January 2017)</i>	7,729,118	9.99%

## Distribution of Shareholdings as at 16 August 2018

1-1,000	2,580
1,001-5,000	905
5,001-10,000	247
10,001-100,000	308
100,001 and over	64
<b>Number of shareholders</b>	<b>4,104</b>
<b>Total Shares on Issue</b>	<b>77,369,210</b>
<b>Number of shareholders holding less than a marketable parcel</b>	<b>957,072</b>

## Top 20 Shareholders as at 16 August 2018

NAME	NUMBER OF SHARES HELD	% OF SHARES
1 J P MORGAN NOMINEES AUSTRALIA LIMITED	25,374,657	33.21
2 CITICORP NOMINEES PTY LIMITED	9,243,789	12.10
3 ANNAPURNA PTY LTD	2,600,000	3.40
4 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	2,581,066	3.38
5 DEBUSCEY PTY LTD	1,850,000	2.42
6 BIRKETU PTY LTD	1,600,000	2.09
7 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,568,882	2.05
8 SWEET AS DEVELOPMENTS PTY LTD	1,326,781	1.74
9 NATIONAL NOMINEES LIMITED	1,275,508	1.67
10 MR TERRY STINSON	1,172,621	1.53
11 MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD	1,000,122	1.31
12 MR CRAIG GRAEME CHAPMAN	950,173	1.24
13 MR CHRISTOPHER IAN WALLIN & MS FIONA KAY MCLOUGHLIN & MRS SYLVIA FAY	689,200	0.90
14 MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN	679,103	0.89
15 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	636,086	0.83
16 RACT SUPER PTY LTD	500,000	0.65
17 NALLAC NOMINEES PTY LTD	425,000	0.56
18 MR TODD MATHEW ALDER	372,333	0.49
19 MR JOHN AYRES	356,667	0.47
20 MR NORMAN COLBURN MAYNE	350,000	0.46
20 SOLANGE SUPER PTY LTD	350,000	0.46
<b>Top 20 Shareholders Total</b>	<b>54,901,988</b>	<b>71.85</b>

The 20 largest shareholders hold 71.85% of the ordinary shares of the Company (2017: 72.32%).

## On-market share buy-back

There is no current on-market buy-back.



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# CORPORATE INFORMATION

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ABN 32 009 344 058

## REGISTERED AND PRINCIPAL OFFICE

4 Whipple Street  
Balcatta, Western Australia 6021  
Australia



| @OrbitalCorpASX



| Orbital UAV

## CONTACT DETAILS

### Australia

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

### USA

Address: 210 Wasco Loop, Hood River, OR 97031, USA  
Phone: +1 541.399.6994

## INTERNET ADDRESS

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

## DIRECTORS

J.P. Welborn, Chairman  
T.M. Alder, Managing Director and Chief Executive Officer  
S.B. Gallagher  
T.D. Stinson  
F.K. Abbott

## COMPANY SECRETARY

R. Jones

## SHARE REGISTRY

### Link Market Services Limited

Level 4 Central Park  
152 St Georges Terrace  
Perth, Western Australia 6000  
Telephone: 61 (08) 9211 6670

## SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")

## AUDITORS

### Ernst & Young

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



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