# 2015 ANNUAL REPORT

# CORPORATE PROFILE

**Orbital is an innovative industrial technology company built on a 35 year track record of fundamental research, product design and development, and commercialisation. Orbital is uniquely placed to develop and commercialise cutting edge industrial products. Our focus is on profitable growth in targeted niche markets; aerospace, mining & industrial and consumer. Orbital invents and builds smart technology that delivers improved performance outcomes for our clients worldwide.**

Headquartered in Perth, Western Australia, Orbital operates on a global scale both on its own, through joint ventures, and through various commercial and technical collaborations. From our world class R&D facility in Western Australia, Orbital's pioneering magic takes shape – from research and design to development, from manufacturing and commercialisation to sale to end customer.

Delivering state-of-the-art products and services within the industrial technology sector is what we do.

Orbital's technology leadership is exemplified by the patented REMSAFE remote isolation system for global mining and industrial applications and Orbital's UAVE business that produces and supplies engine and propulsion systems using Orbital's patented FlexDI™ to secure business from the premier suppliers of unmanned aerial vehicles, Insitu division of Boeing and Textron.

The Orbital Accelerator has been launched to leverage Orbital's unique industrial innovation and commercialisation capabilities for the benefit of our stakeholders and shareholders. Orbital must grow to deliver sustainable profits and create lasting shareholder returns. Accelerator creates another channel to identify, filter, develop and commercialise new opportunities building on the successful models of Synerject and REMSAFE.

Orbital earns income from multiple channels:

- Aerospace;
- Mining & Industrial;
- Consumer; and
- Accelerator

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# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2015

The Directors present their report together with the financial report of Orbital Corporation Limited (the Company or Orbital) and of the Group, being the Company, its subsidiaries and the Group's interest in its associate for the year ended 30 June 2015 and the auditors' report thereon.

### 1. OPERATING AND FINANCIAL REVIEW

**SUMMARY OF BUSINESSES**

Orbital is an innovative industrial technology company.

Orbital invents and builds smart technology that delivers improved performance outcomes for our clients in the aerospace, mining & industrial and consumer sectors.

Orbital operates on a global scale and is headquartered in Perth, Western Australia. From a world class facility, Orbital's innovation magic takes shape – from research and design to development, manufacturing and implementation.

Delivering state-of-the-art products and services within the industrial technology sector is what we do.

Orbital's technology leadership is exemplified by the patented REMSAFE remote isolation system for global mining and industrial applications and Orbital's UAVE business that produces and supplies engine and propulsion systems for unmanned aerial vehicles

Orbital earns income from multiple channels:

- Aerospace;
- Mining & Industrial;
- Consumer; and
- Accelerator.

**FINANCIAL REVIEW**

Total revenue and loss after tax for the year ended 30 June 2015 from continuing operations was $9,660,000 and $661,000 respectively (2014: total revenue $6,929,000 and profit after tax from continuing operations of $1,204,000).

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

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| **Statutory (loss)/profit after tax** | (4,729) | 1,676 |
| Deduct income items | | |
| Change in fair value of contingent consideration | (638) | (248) |
| Research and development grant | (2,265) | (2,224) |
| Add-back expense items | | |
| Loss from discontinued items | 4,068 | - |
| Research and development expenditure | 2,564 | 1,244 |
| **Underlying (loss)/profit after tax** | (1,000) | 448 |

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

The financial performance of the Company has declined from a profit of $1,676,000 last year to a loss of ($4,729,000) this year. The decline in profitability was primarily due to the performance of the LPG-related business and associated impairment of those businesses ($4,068,000) and an increased investment in Research and Development ($2,564,000) which was partially offset by the benefits of a Research and Development grant $2,265,000.

With the strategic changes made over the year, the business is now on a better base to achieve sustainable profits in the future.

The Company's net assets increased by 4%, compared with the previous year. This increase is largely attributable to the translation of the foreign subsidiary and the acquisition of the REMSAFE business offset by current year's loss after tax. Trade receivables have increased by $1,583,000, inventories have decreased by $2,938,000 and trade payables have increased by $814,000. Other receivable of $2,265,000 for the Research and Development Tax Incentive is outstanding at the end of the period. Inventories of the LPG related businesses were reclassified to assets held for sale.

Net cash used in operating activities was $3,382,000 (2014: $1,951,000) reflecting an excess of operational expenditures of $4,202,000 (2014: $1,373,000) and a decrease in working capital of $820,000 (2014: increase of $542,000).

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

The segment review information presented below (unaudited) is non-IFRS information.

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

**SEGMENT REVIEW**

## AEROSPACE

Unmanned Aerial Vehicles is an exciting new growth market and Orbital is positioned as the market leader for Small Unmanned Aerial Engine Systems capable of operating on heavy fuels.

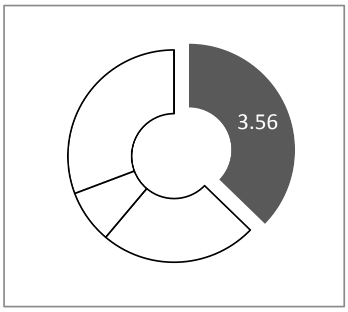
**2015 KEY PERFORMANCE HIGHLIGHTS**

- Significant progress made in the new propulsion system development contract for Insitu-Boeing achieving a new standard for performance and reliability in the industry.
- Delivery of additional EMS (Engine Management Systems) to the small unmanned aircraft market, both fixed wing and for unmanned helicopter applications market.

**SIGNIFICANT CHANGES**

- Major design, development and production contract with Insitu-Boeing, the world's largest SUAS operator.
- ORBITAL UAVE establishing as a major growth business for Orbital.

**SALES $m**




**METRICS**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Segment Revenue | 3,560 | 2,750 |
| Segment Result | 492 | 193 |

**FUTURE OBJECTIVES**

- Secure long- term production contract with Insitu-Boeing.
- Establish USA based engine production, overhaul and technical support facility.
- Expand UAVE business into other customers, larger engine sizes and types.

**Summary of Segment**

Orbital's 35 year history of innovation in a wide range of engine technologies is now focused within ORBITAL UAVE. The vision for the new Orbital UAVE business is to design, develop, and manufacture the world's best leading edge engines and propulsion systems for Unmanned Aerial Vehicles ("UAV") and be the worldwide market share leader. Orbital's unique FlexDI™ technology is the world's best technology and solution for spark ignited heavy fuel engine applications and the reason Orbital is now suppling number one and two in the small unmanned aircraft market worldwide.

The UAV market is growing rapidly and ORBITAL UAVE is poised to leverage their engine expertise and experience, world class development facilities, and Orbital's proprietary FlexDi technology to secure commercial production contracts which will underwrite the development of the large scale UAV engine production facility in the United States.

The key focus of the UAVE business during the year was to deliver on the contract for the design, development and validation of a next generation production engine for Insitu Inc., a subsidiary of The Boeing Company (NYSE: BA)., and one of the largest and most experienced UAV operators in the world. The development program will continue into early FY2016. To meet customer expectations, low volume production of UAV engines is projected to commence before the end of calendar year 2015, with production ramp-up in subsequent years. The UAV market is projected to double in the next decade and with Orbital's unique FlexDI™ technology, this is projected to be a significant growth area for the Company.

**Highlights**

Highlights for the year have been the development and real world demonstration of the next generation production engine for Insitu. Orbital's new small unmanned aircraft engine and propulsion system sets a new benchmark in the industry. Orbital has also developed new electronics and software products that have the performance and weight characteristics to satisfy future market requirements

**Business Model**

Development and supply of high value systems, starting with engine systems, engine management systems and engine parts is the cornerstone of Orbital's growth strategy. Orbital will also be responsible for engine overhauls, which will be required on a regular basis to get the maximum life from the capital. Engine and systems supply already supplements and will soon replace Orbital's traditional revenue streams of engineering consulting services and royalties. Growth to date has been underpinned by demand for alternative fuel systems in niche markets.

**Outlook**

Revenues from UAVE engine and systems sales will be higher in the next financial year as we transition from the UAV engine design, development and validation programme with Insitu into low volume engine production, whilst continuing sales of EMS components to Textron. The Orbital UAVE team will concurrently develop new products for unmanned helicopters and larger unmanned aircraft applications.

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

**SEGMENT REVIEW (CONTINUED)**

## MINING & INDUSTRIAL

REMSAFE optimises production, increases safety and delivers immediate cost savings.

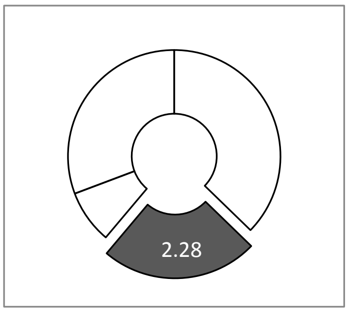
**2015 KEY PERFORMANCE HIGHLIGHTS**

- Acquisition of the new REMSAFE business diversifies the group into new markets with new products.
- REMSAFE has won multiple significant orders since acquisition and customer interest continues to be strong.

**SIGNIFICANT CHANGES**

- REMSAFE acquired in February 2015.
- REMSAFE operations integrated into Orbital Balcatta facilities.
- Expansion of customer base with first international orders.

**SALES $m**




**METRICS**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Segment Revenue | 2,281 | - |
| Segment Result | 257 | - |

**FUTURE OBJECTIVES**

- Further expansion into new geographic locations.
- Expansion into new markets, including oil & gas, rail and other mineral resources.
- Continued development of new products offering additional features, faster installation and quicker pay-back, to expand market potential for REMSAFE.

**Summary of Segment**

REMSAFE is a patented, automated remote isolation system that enables plant operators to safely and promptly isolate fixed equipment from its energy source. REMSAFE optimises production, increases safety and delivers immediate cost savings.

Today REMSAFE products provide for the highest level of safety for high and low voltage electrical isolations. The old manual process of electrical isolation is avoided completely as the REMSAFE remote isolation technology allows the plant operator to isolate, on the spot, avoiding the requirement for a licensed electrician to enter switch rooms and substations and risk injury due to arc flash.

The REMSAFE system is currently utilised in Pilbara iron-ore operations by BHP Billiton, Rio Tinto and FMG and the first international installation will be operational at an Anglo American coal mine in South Africa by the end of the calendar year. The REMSAFE product is delivering on safety and productivity expectations and this is driving more sales. The new application is a pilot and with success is projected to lead to a proliferation of REMSAFE applications in South Africa.

**Highlights**

Orbital acquired an initial 50% interest in REMSAFE in February 2015 and moved to a 61.5% controlling interest through funding working capital growth and research and development activities to develop the next generation of Remote Isolation System. Since joining the Orbital group, REMSAFE has won new orders at a number of Pilbara iron-ore mine sites and also won its first international order for a South African coal mine. Working with Orbital, the REMSAFE team has developed the latest product, the GEN 4; the first of these systems was recently commissioned at one the REMSAFE customer sites and is delivering on expectations. The GEN 4 is the most refined, highest featured, and lowest cost product offered to date. REMSAFE continues to leverage Orbital to develop next generation products and grow internationally

**Business Model**

Orbital continues to invest in the development of an expanded business plan for REMSAFE. The extraordinary customer interest provides confidence that REMSAFE has significant potential for growth. The business model includes other applications and other industries. As a part of the model, new pathways to market are being developed by Orbital with industry alliances driving new commercialisation opportunities worldwide. developing the right product for each market and application, and offering the REMSAFE product to these new worldwide markets is an integral part of the plan under development.

**Outlook**

The outlook for REMSAFE is for continued growth domestically and internationally. There are considerable growth opportunities from within the existing customer base as REMSAFE installations continue to provide productivity and safety improvements to their mine, rail and port operations. REMSAFE has already started expansion into new geographic areas and this new business stream will be a significant game changer for Orbital. REMSAFE has potential to far exceed any commercial endeavour Orbital has participated in to date, including Synerject. The current markets of Pilbara iron-ore and South African coal will be expanded into other minerals, commuter and freight rail, oil & gas and a wide range of other industries across the globe. The existing order book continues to grow with Orbital targeting rapid sales growth to annual sales in excess of A$100,000,000.

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

**SEGMENT REVIEW (CONTINUED)**

## ACCELERATOR

**The Company's diversification strategy continues to deliver a reduced reliance on consulting services while identifying opportunities for innovative product and systems sales growth**

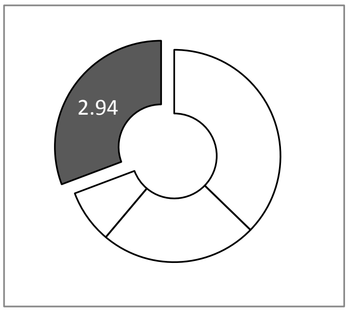
**2015 KEY PERFORMANCE HIGHLIGHTS**

- Broadening domestic customer base, less reliance on international customers.
- Continued revenues from the Heavy Duty Engine Testing facility.
- Facilities and Labs shifting focus to support of UAVE and away from general vehicle and engine development.

**SIGNIFICANT CHANGES**

- Orbital Engineering Consulting becomes Accelerator with objective to identify and grow innovative ideas.
- Focused on engineering services sales from domestic customers, particularly in fuel and additive testing.
- Project selection shifting from consulting to the development of new products and systems.

**SALES $m**




**METRICS**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Segment Revenue | 2,936 | 2,898 |
| Segment Result | (375) | (842) |

**FUTURE OBJECTIVES**

- Identify, innovate and develop new high value add products.
- Reduce but maintain Perth-based development, testing and certification facilities.
- Continue as the incubator for new product development and commercialisation.

### Summary of Segment

The Board has reaffirmed its commitment to the aggressive growth strategy with focus on innovation and commercialisation of technologies as the means to deliver significant future growth and sustainable profits. To enable this strategy, Orbital is establishing a Centre for Innovation and Commercialisation with a focus on industrial technologies, "The Orbital Accelerator", will leverage off the Company's engineering expertise, world class facilities, and proven track record in the commercialisation of innovative and patent protected technologies. Through the Accelerator, Orbital transforms the historical Consulting Services Division into a well-funded technology incubator targeted at attracting new investment opportunities. Accelerator is Orbital's vehicle to assess new ideas and if commercially attractive, develop them into high value business's that fit within Orbital's mandate for profitable growth.

Orbital provides fuel economy and emission solutions to a wide variety of engine and vehicle applications, from 150 tonne trucks through to small industrial engines. Orbital also provides contract design and analysis for the local resources industry. And provides engineering and testing facility services to domestic customers and advanced engineering services for international customers based in India, Japan, China, USA, and Europe.

Throughout the year, the engineering consulting group have provided internal research and development support across the Orbital group. This is a key service made available to the group, ranging from technical support of existing products and customers through to analysis and design of potential future product offerings. At 30 June 2015, the OCS order book (inclusive of the Insitu program) stood at approximately $1,752,000 (30 June 2014 $3,033,000).

### Highlights

OCS revenue for the year was $2,936,000 up 1% compared to last year. Several new potential opportunities for products were identified through OCS, the process of identifying, filtering and follow-up will transfer into the Accelerator over the coming year.

### Business Model

The task for the Orbital Accelerator is to field new ideas from a broad range of sources. The "filter" for new ideas and products is defined by a stringent process including technical feasibility and business plan analysis to maximise the revenue from investment.

### Outlook

This year the OCS group became the Orbital Accelerator to better leverage Orbital's technical and commercial skill base and to identify and cultivate new and innovative product opportunities. There is a significant level of innovation in Western Australia, and Australia wide. The goal is for individual inventors and small companies to use Orbital's Accelerator group to evolve from innovation to product, and from low volume speciality sales to high volume sales potentially on a worldwide scale. Accelerator will be used to identify the next Synerject, and the next REMSAFE and add these to the Orbital group portfolio to insure delivery on our aggressive strategy focused on growth and diversification. The Accelerator group will also continue to provide a base level of contract services from advanced engineering and testing to general engineering contract work and in parallel provide another avenue to identify new opportunities and covering the overhead of maintaining our world-class capabilities and facilities.

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

**SEGMENT REVIEW (CONTINUED)**

## SYNERJECT

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

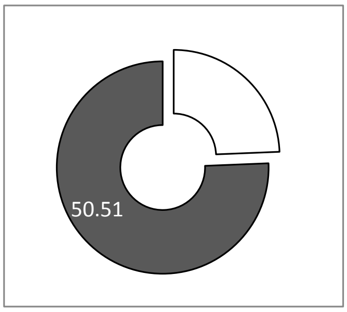
**2015 KEY PERFORMANCE HIGHLIGHTS**

- 0.5% decline in Revenue.
- 2.4% decline in Profit after Tax.

**SIGNIFICANT CHANGES**

- Continued improvement in non-traditional markets.

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




**METRICS**

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Revenue (100%) | 141,054 | 141,746 |
| Profit after tax (100%) | 9,727 | 9,970 |
| | **A$'000** | **A$'000** |
| Share of profit | 2,860 | 3,256 |
| Investment in Synerject | 17,826 | 13,980 |

**FUTURE OBJECTIVES**

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

**Summary of Segment**

Synerject, Orbital's 30:70 Partnership with Continental AG, is a key supplier of engine management systems and fuel systems to the non-automotive market. Original equipment products using Synerject's engine management systems range from the high performance motorcycle/recreational vehicles to the high volume scooter and small engine applications. Application centres in Europe, China, Taiwan and the United States provide on-site support of customer development and production programs.

**Highlights**

Synerject's market and product expansion has enabled that company to achieve revenue growth consistently over the last 5 years despite the severe contractions in the recreational market during and following the global financial crisis. Whilst the recreational market has somewhat improved, it is still being influenced by the current financial situation in the key USA and European markets, highlighting the success and importance of Synerject's expanded/diversified product strategy.

**Business Model**

Synerject continues to develop new products and new markets to expand on their product offering beyond their original markets of EMS for recreational marine product and scooters. Synerject's markets today include a range of EMS for top end motorcycles, ATV's (All Terrain Vehicles), snowmobiles, marine outboard engines and scooters through to systems specifically designed for small engines such as those used in the Lawn and Garden market.

**Outlook**

The outlook for Synerject is for continued growth in the marine and recreational segment and in the low-end 2 & 3 wheeler and utility markets in future years. The Board is actively exploring opportunities to unlock the significant value represented by Orbital's 30% joint venture interest.

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

**SEGMENT REVIEW (CONTINUED)**

## CONSUMER

**The Consumer segment includes Orbital Autogas Systems, Sprint Gas Australia and Royalties on Consumer products**

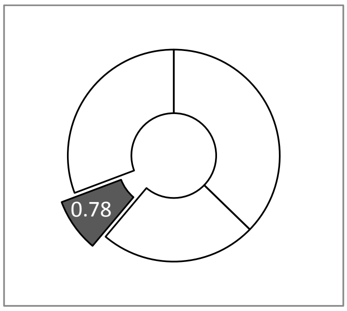
**2015 KEY PERFORMANCE HIGHLIGHTS**

- Royalty revenue similar year over year, high horsepower outboards retaining popularity.
- LPG businesses struggle due to continued declines in their markets, OEM and aftermarket LPG systems.

**SIGNIFICANT CHANGES**

- Australian Automotive LPG markets continue to decline.
- Australian automotive manufacturers to exit market by end of 2017.
- Oil prices drop significantly resulting in less interest in alternative fuels.

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




**METRICS**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Segment Revenue | 777 | 1,124 |
| Segment Result | 904 | 884 |

**FUTURE OBJECTIVES**

- Divest LPG related businesses to mitigate future losses and focus on growth opportunities.
- For royalty revenue – technical support for expansion of low end 2 & 3 wheeler EMS markets targeting India, China & Asia.to increase royalty revenues.
- Identify new consumer product markets that fit Orbital's criteria for strategic growth.

### Summary of Segment

Orbital Autogas Systems (OAS) developed, and is the supplier of Liquid LPG systems to Ford Motor Company of Australia for the Ford EcoLPi Falcon range of passenger cars and utilities. The Ford EcoLPi Falcon offers performance of a big family car with fuel running cost better than many mid/small sized cars. OAS sells this system into the aftermarket under the brand name "Liquid". Sprint Gas Australia (Sprint Gas) is a major nationwide distributor of LPG systems for the aftermarket. SPRINT GAS offers a wide range of systems from the older generation "vapouriser" systems through to sequential injection systems and the Orbital Liquid LPG systems.

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

### Highlights

As anticipated, the LPG fuel system businesses experienced significant declines in revenues as both Ford production and the LPG aftermarket continued to be subdued. Orbital's strategy to be largest in the LPG market has been successful over the year with a combined market share estimated at sixty percent. Unfortunately this growth in market share is not sufficient for a national distribution enterprise to generate sustainable profits.

The larger horsepower outboard engines incorporating FlexDI™ have maintained their popularity and have actually achieved a fifth consecutive year of increased volumes. Total marine volumes overall were slightly lower compared to last financial year.

### Business Model

For Consumer based products Orbital is continuing to transition from selling IP and engineering to a company that develops and sells high value products and is no longer projecting significant future intellectual property based license and royalty revenues. Orbital's intellectual property portfolio is dated and there is no longer an expectation that manufacturers will pay large licence fees and ongoing royalties to gain access to the combustion and engine based technologies developed over the last 20 years.. Orbital will continue to be a company that at its core is innovation and plans to add new consumer products and business streams over time. The investment in R&D, development and commercialisation will be returned through sales of high value products to customers rather than through future royalties.

### Outlook

Due to the subdued LPG systems market, Orbital has decided to exit the OAS and Sprint Gas businesses through a restructure and sale to the minority shareholder, and original founder, of Sprint Gas. This decision considered the declining LPG market, the resulting lack of sustainable profitability for future years, and the recent changes in Orbital's business focus. The Orbital board made to exit the existing LPG businesses and the company announced this intention on June 30, 2015 and subsequently initiated discussions with our partner and key suppliers with the goal of facilitating the sale of Orbital's LPG businesses in a manner that has minimal impact to ongoing trading.

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

## 2. DIRECTORS

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

**Mr 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 has accepted the position as 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 stepped down as Managing Director and Chief Executive Officer of Equatorial Resources Limited (ASX: EQX) effective from 30 June 2015 and remain as a non-executive director of the Company.

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

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

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

During the past three years Mr Welborn has also served as a director of Resolute Mining Limited (appointed February 2015; ongoing), Equatorial Resources Limited (appointed August 2010; ongoing), Prairie Mining Limited (appointed February 2009; ongoing) and Noble Mineral Resources Limited (appointed March 2013; resigned December 2013).

**Mr Terry Dewayne Stinson,** BBA (magna cum laude), FAICD

*Managing Director and Chief Executive Officer*

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

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

**Mr John Hartley Poynton AM,** BCOM, Hon D. Com, S F Fin, FAICD, FAIM

*Non-Executive Director*

Joined the Board in March 2015. Mr Poynton is the Chairman of Azure Capital, a Director of the Future Fund Board of Guardians and a Non-Executive Director of Crown Perth. He is also Chairman of Giving West and the Council of Christ Church Grammar School.

He has previously served as the Chairman, Deputy Chairman or non-executive Director of a number of ASX listed companies, Federal Government boards, education institutions and not for profit enterprises. Mr Poynton brings extensive corporate advisory, equity capital markets and governance experience to Orbital's board.

Mr Poynton is a Life Member and Senior Fellow of the Financial Services Institute of Australasia (FINSIA), and a Fellow of the Australian Institute of Company Directors (AICD) and Australian Institute of Management (AIM).

**Dr Mervyn Thomas Jones,** B.E(Hons), Ph.D, DipBusStuds, CEng (UK), FIChemE (UK), FAICD, MIoD (NZ) *(Resigned as Chairman and as Director 17 March 2015)*

*Chairman, Independent Non-Executive Director*

Joined the Board in March 2008, appointed Chairman 2 September 2013. Dr Jones has more than 40 years experience as a consulting engineer and as a senior executive. He has specific expertise in the development and management of organic business growth in the Asia Pacific region, as well as acquisition experience in both Australia and China.

Dr Jones was also a member of the Company's Audit Committee and the Company's Human Resources, Remuneration and Nomination Committee.

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

**Dr Vijoleta Braach-Maksvytis**, BSc (Hons), Ph.D, FAICD *(Resigned as Director 17 March 2015)*

*Independent Non-Executive Director*

Joined the Board in March 2008. Dr Braach-Maksvytis is an innovation strategist with more than 20 years experience in organisational change, formation of cross-sectoral and global partnerships, the commercialisation of technology, and intellectual property strategy. Previous roles include Head of the Office of the Chief Scientist of Australia, Science Executive and Director Global Development for CSIRO, and most recently, Deputy Vice Chancellor Innovation and Development at the University of Melbourne, and is currently an advisor in the area of social innovation.

Dr Braach-Maksvytis pioneered nanotechnology in Australia and holds over 20 patents in the field. Dr Braach-Maksvytis was a Member of the Australian Federal Government's Green Car Innovation Fund Committee and on the advisory board of the Intellectual Property Research Institute of Australia, and is a member of a number of other public interest boards.

Dr Braach-Maksvytis chaired the Company's Human Resources, Remuneration and Nomination Committee and was also a member of the Company's Audit Committee.

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

## 3. DIRECTORS' INTERESTS

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

| Director | Ordinary Shares | Performance Rights | Convertible Notes |
|---|---|---|---|
| J P Welborn | 21,663 | - | 5 |
| T D Stinson | 541,134 | 1,000,000 | 1 |
| J H Poynton | 2,665,688 | - | 1 |
| Total | 3,228,485 | 1,000,000 | 7 |

## 4. DIRECTORS' MEETINGS

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

| | Directors' Meetings | | Audit Committee Meetings | | Human Resources, Remuneration & Nomination Committee Meetings | |
|---|---|---|---|---|---|---|
| Director | No. of meetings attended | No. of meetings held* | No. of meetings attended | No. of meetings held* | No. of meetings attended | No. of meetings held* |
| J P Welborn | 11 | 11 | 3 | 3 | 2 | 2 |
| T D Stinson | 11 | 11 | - | - | - | - |
| J H Poynton | 3 | 3 | - | - | - | - |
| M T Jones | 8 | 8 | 3 | 3 | 2 | 2 |
| V Braach-Maksvytis | 8 | 8 | 3 | 3 | 2 | 2 |

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

## 5. COMPANY SECRETARY

**Mr Ian G Veitch**, B.Bus, GradDipACG, ACA, ACIS, AGIA

Mr Veitch joined Orbital in 2006 and was appointed to the position of Company Secretary on 1 July 2009, and subsequently appointed to the position of Chief Financial Officer on 11 February 2013. He has over 20 years experience in company secretarial, corporate and financial accounting roles. Mr Veitch holds a Bachelor of Business degree, is a Chartered Accountant and is also a Chartered Secretary. Mr Veitch is a Member of the Institute of Chartered Accountants in Australia, a Member of the Institute of Chartered Secretaries and Administrators, and an Associate of the Governance Institute of Australia.

## 6. PRINCIPAL ACTIVITIES

Orbital is an innovative industrial technology company. Orbital invents and builds smart technology that delivers improved performance outcomes for our clients in the mining & industrial, aerospace and consumer sectors.

Orbital's innovation and technology leadership is exemplified by the patented REMSAFE remote isolation system for global mining and industrial applications and Orbital's UAVe business that produces and supplies engine and propulsion systems for unmanned aerial vehicles.

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

**Changes in nature of activities**

During the reporting period the Company acquired a controlling interest in REMSAFE Pty Ltd, the maker of a patented, automated remote isolation system that enables plant operators to safely and promptly isolate fixed equipment from its energy source.

During the reporting period the Company announced the planned divestment of the LPG related businesses.

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

## 7. CONSOLIDATED RESULT

The consolidated loss after income tax for the year attributable to the members of Orbital was $4,542,000 (2014: profit $1,676,000).

## 8. DIVIDENDS

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

## 9. STATE OF AFFAIRS

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

## 10. EVENTS SUBSEQUENT TO BALANCE 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.

## 11. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

## 12. SHARE OPTIONS

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

## 13. INDEMNIFICATION

**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.

### 13. INDEMNIFICATION (CONTINUED)

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. NON-AUDIT SERVICES

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

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

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

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for audit and non-audit services provided during the year are shown in note 40 to the financial statements.

### 15. CORPORATE GOVERNANCE STATEMENT

The Board of Directors 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 under which the Corporate Governance Statement may be made available on the Company's website.

Accordingly, a copy of the Company's Corporate Governance Statement is available on the Orbital website at www.orbitalcorp.com.au under the Investors/Corporate Governance section.

### 16. ROUNDING OFF

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

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

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

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

In relation to our audit of the financial report of Orbital Corporation Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth

25 September 2015

## 18. REMUNERATION REPORT - AUDITED

**Principles of compensation**

This Remuneration Report for the year ended 30 June 2015 outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and the senior executives of the Group.

The remuneration report is presented under the following sections:
18.1. Individual key management personnel disclosures
18.2. Remuneration overview
18.3. Remuneration governance
18.4. Non-executive director remuneration arrangements
18.5. Executive remuneration arrangements
18.6. Company performance and the link to remuneration
18.7. Executive contractual arrangements
18.8. Directors and executive officers' remuneration - company and group
18.9. Equity instruments

### 18.1. INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of KMP of the Group are set out below.

| **Key management personnel** | **Position** |
|---|---|
| **(i) Directors** | |
| John P Welborn | Chairman (Non-executive) (appointed Chairman 18 March 2015) |
| Terry D Stinson | Managing Director and Chief Executive Officer (Executive) |
| John H Poynton | (Non-executive) (appointed 18 March 2015) |
| Mervyn T Jones | Chairman (Non-executive) (ceased being a KMP 17 March 2015) |
| Vijoleta Braach-Maksvytis | (Non-executive) (ceased being a KMP 17 March 2015) |
| **(ii) Executives** | |
| Geoff P Cathcart | Chief Technical Officer |
| Michael C Lane | Chief Executive Officer – REMSAFE (commenced 4 February 2015) |
| Ian G Veitch | Chief Financial Officer |

### 18.2. REMUNERATION OVERVIEW

Orbital's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the growth and success of the Group.

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 $nil became payable during the 2015 financial year (2014: $74,000).

Long-term incentive (LTI) awards consisting of shares that vest based on attainment of pre-determined performance goals are awarded to selected executives. For the 2015 financial year, the Company used market capitalisation as the performance measure for the share awards. During the 2015 financial year, the performance hurdle of increasing the market capitalisation of the Company to over $20 million was achieved and 900,000 shares vested to three executives.

The remuneration of non-executive directors of the Company consists only of directors' fees and committee fees. Director fees and committee fees were reviewed and adjusted during the 2015 financial year.

***Remuneration report at FY2014 AGM***

The FY2014 remuneration report received positive shareholder support at the FY2014 AGM with a vote of 97% of votes cast in favour.

***Remuneration strategy***

Orbital's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:
- Are aligned to the Group's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and Group performance and rewards; and
- Align the interests of executives with shareholders through measuring the Company's market capitalisation.

### 18.2. REMUNERATION OVERVIEW (CONTINUED)

***Key changes to remuneration structure in 2015***

**Cancellation of Incentive Plans**
The key changes made to remuneration structure in 2015 related to the cancellation of the existing Short Term Incentive (STI) Plan, Executive Long Term Share Plan (LTI) and Performance Rights Plan (LTI).

**Implementation of new Incentive Plan**
Shareholders approved the implementation of a new Performance Rights Plan (LTI) at the AGM held on 21 October 2014. The key features of the new LTI plan are summarised in the table below.

**Table 1 – LTI Performance hurdles**

| Tranche | Number of performance rights | Market Capitalisation target | Timeframe |
|---|---|---|---|
| 1 | 900,000 | $20 million | 18 months |
| 2 | 900,000 | $35 million | 24 months |
| 3 | 900,000 | $60 million | 36 months |

### 18.3. REMUNERATION GOVERNANCE

***Board***

The Board reviews and approves remuneration packages and policies applicable to directors, company secretary and senior executives of the Company.

Data is obtained from independent surveys to ensure that compensation throughout the Group is set at market rates having regard to experience and performance. In this regard, formal performance appraisals are conducted at least annually for all employees. Compensation packages may include a mix of fixed compensation, performance-based compensation and equity-based compensation.

***Remuneration approval process***

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the long-term incentive (LTI) plan. 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 short-term incentive (STI) bonus plan and any discretionary bonus payments.

***Remuneration structure***

In accordance with best practice corporate governance, the structure of non-executive directors and executive remuneration is separate and distinct.

***Services from remuneration consultants***

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

| | |
|---|---|
| Did a remuneration consultant provide a remuneration recommendation in relation to any of the KMP for the financial year? | No remuneration recommendation was provided by a remuneration consultant for the financial year. |

### 18.4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

***Objective***

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

***Structure***

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

The Company's constitution and the ASX listing rules specify that the non-executive directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 annual general meeting (AGM) held on 25 October 2001 when shareholders approved an aggregate fee pool of $400,000 per year.

The Board will not seek any increase for the non-executive director pool at the 2015 AGM.

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

***Fees***

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

The Chairman of the Board receives a fee of $120,000 (effective 14 March 2015) (2014: $102,500). Each non-executive director receives a base fee of $120,000 (effective 14 March 2015) (2014: $72,000) for being a director of the Group.

The remuneration of non-executive directors for the year ended 30 June 2015 and 30 June 2014 is detailed in Section 18.8 of this report.

| | |
|---|---|
| Are the non-executive directors paid any incentive or equity based payments or termination/retirement benefits? | No. The non-executive Directors are not paid any short term incentives, long term incentives, equity based remuneration or termination/retirement benefits |
| If non-executive directors are paid additional fees, how are these additional fees calculated? | From time to time, non-executive Directors may be requested to provide additional non-executive director related services. This could include sitting on a due diligence committee or undertaking a special project for the Group. During the year, no additional fees were paid to any of the non-executive Directors. |
| Are non-executive Directors' fees going to increase in FY2016? | The Board has decided not to increase the directors' fees. |

### 18.5. EXECUTIVE REMUNERATION ARRANGEMENTS

***Objective***

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice. The Group undertakes an annual remuneration review to determine the total remuneration positioning against the market.

***Structure***

The CEO's remuneration mix for FY2015 comprised 66% fixed remuneration and 34% LTI. The LTI value is the total accounting expense associated with the grant made during the financial year. Key Management Personnel's remuneration mix for FY2015 ranged from 80-100% fixed remuneration and 0-20% LTI opportunity.

In the 2015 financial year, the executive remuneration framework consisted of the following components:

- ► Fixed remuneration
- ► Variable remuneration (STI and LTI)

### 18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

The table below illustrates the structure of Orbital's executive remuneration arrangements:

**Table 2 – Structure of remuneration arrangements**

| Remuneration component | Vehicle | Purpose | Link to company performance |
|---|---|---|---|
| Fixed compensation | • Represented by total fixed remuneration (TFR).<br>• Comprises base salary, Superannuation contributions and other benefits. | • Set with reference to role, market and experience.<br>• Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. | • No direct link to company performance. |
| STI component<br>(discretionary) | • Paid in cash | • Rewards executives for their contribution to achievement of Group outcomes. | • Discretionary award by the Board to reward executives for exceptional performance in a specific area of importance. |
| LTI component | • Awards are made in the form of performance rights. | • Rewards executives for their contribution to the creation of shareholder value over the longer term through growth in the Company's market capitalisation. | • Vesting of awards is dependent on Orbital Corporation Limited's market capitalisation. |

***Fixed compensation***

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

Executive contracts of employment do not include any guaranteed base pay increases. TFR is reviewed annually by the Board. The process consists of a review of Company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in Section 18.8.

***Variable remuneration — short-term incentive (STI) (discretionary)***

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

| | |
|---|---|
| What is the STI? | Executive directors and senior executives may from time-to-time receive a discretionary cash bonus approved by the Board as a retrospective reward for exceptional performance in a specific matter of importance. |
| When is the STI grant paid? | There are no pre-determined timeframes at which assessments for STI rewards are to be undertaken. |
| How does the Company's STI structure support achievement of the Company's strategy? | The STI rewards executives for their contribution to the achievement of Group outcomes in areas of significant importance not addressed by the pre-determined performance criteria of the LTI. |
| How are the performance conditions of the STI determined? | The Board has no pre-determined performance criteria against which the amount of a STI is assessed. |
| What are the maximum possible values of award under the STI plan? | There are no pre-determined maximum possible values of award under the STI scheme. In assessing the value of an STI award to be granted the Board will give consideration to the contribution of the action being rewarded to the success of the Group. |
| What was the value of STI paid in the financial year? | No discretionary STI cash bonuses were paid during the 2015 financial year. Discretionary STI cash bonuses totalling $74,000 were awarded during the 2014 financial year. |
| Is a portion of STI deferred? | No discretionary STI cash bonuses relating to the 2015 or 2014 financial years will become payable in future financial years. |

### 18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

***Variable remuneration — long-term incentive (LTI)***

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

*Employee Share Plan No.1*

Senior executives (together with all other eligible employees) are each offered shares in the Company, at no cost to the employees, to the value of $1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. Directors do not participate in Employee Share Plan No.1.

*Performance Rights Plan*

The table below contains a summary of the key features of the Performance Rights Plan (PRP).

| | |
|---|---|
| What is the PRP? | The PRP is a performance based share plan under which offered shares will vest for no consideration subject to the satisfaction of performance conditions over a 3 year period or subject to Board discretion for other qualifying reasons. |
| How does the PRP align the interests of shareholders and executives? | The PRP links rewards for the executive KMP to the Company's strategy to grow shareholder value by increasing the Company's market capitalisation. Vesting of shares only occurs if Orbital increases its market capitalisation to $20 million, $35 million and $60 million. |
| How does the PRP support the retention of executives? | An objective of offering shares under the PRP is to promote retention. At any one time, an executive KMP will have unvested rights. If an executive resigns they would forfeit the benefits of those unvested rewards. This provides a valuable incentive to stay with the Company so long as the shares are seen by the executive KMP as likely to vest within the performance period. |
| What are the principal terms of the issue made under the LTI in 2015? | • Grant date: 22 October 2014 (following the AGM at which the Terms of the plan were approved by shareholders).<br>• Life: 3 years.<br>• Expiry date: 22 October 2017.<br>• Market capitalisation on grant date: $14.8 million.<br>• Performance timeframes and targets:<br>o Tranche 1 $20 million within 18 months<br>o Tranche 2 $35 million within 24 months<br>o Tranche 3 $60 million within 36 months<br>• Exercise Price: nil.<br>• Fair value per right:<br>o Tranche 1 23.1 cents<br>o Tranche 2 17.5 cents<br>o Tranche 3 15.3 cents<br><br>See tables 3 and 4, below for the vesting schedules for EPS tested and TSR tested LTI awards granted in prior years. |
| What are the performance conditions for the vesting of LTIs? | The performance conditions, which are based 100% on market capitalisation, apply to determine the number of shares (if any) that vest to the Executives.<br>See tables 3 and 4, below for the vesting schedules for EPS tested and TSR tested LTI awards granted in prior years. |
| How is the market price of the PRP determined? | The fair value of the PRP related rights is calculated at the date of grant through utilisation of the assumptions underlying at the grant date 21 October 2014 using the "Hoadley Barrier 1" trinomial option valuation model. |

### 18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

***Variable remuneration — long-term incentive (LTI) (continued)***

| | |
|---|---|
| In what circumstances would the LTI entitlements be forfeited? | Where a participant ceases employment prior to the vesting of their award, the unvested shares are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances. |
| What happens to LTI entitlements upon a change of control in the Group? | In the event of a change of control of the Group, the performance period end date will generally be brought forward to the date of the change of control and awards will vest. |
| Do shares granted under the LTI dilute existing shareholders' equity? | The issue of shares can have a small dilutionary impact upon other shareholders. However, the number of shares issued under the PRP in the five years preceding the offer must not exceed 5% of the total shares on issue at the time an offer to a participant is made. |
| Are the shares issued under the LTI bought on market? | No. the company issues new shares for the PRP; it does not buy the shares on the market. |
| Does the executive obtain the benefit of dividends paid on shares issued under the LTI? | KMP are entitled to any dividends paid on vested shares. Unvested rights do not participate in dividend payments or any other distributions to shareholders. |
| What other rights does the holder of vested LTI shares have? | The holder of the shares has the same rights as any other holder of shares. This includes voting rights, a right to dividends, bonus shares and capital distributions. |
| Does the Company have executive share ownership guidelines? | The Company does not have a formal policy requiring executives to own shares. However a significant component of each executive's remuneration consists of grants under an employee share plan. Hence, at any given time, after an executive has been with the Company for more than three years, the executive typically has three unvested equity grants which are subject to performance conditions. As at the date of this report, all executives who have been with the company for longer than three years have shares in the Company which have fully vested or been acquired on market. |
| Can executive KMP hedge to ensure that they obtain a benefit from unvested LTI's? | No. All executive KMP have been advised that under section 206J of the Corporations Act it is an offence for them to hedge unvested grants made under the PRP. |
| How many LTI awards vested in the financial year? | 900,000 Performance Rights in respect of the 2015 award vested in FY2015. To the extent that had not expired, the former Executive Long Term Share Plan and Performance Rights Plan were cancelled during FY2015 with nil shares issued to KMPs. |
| Is a portion of LTI deferred? | No. Vested Performance Rights are issued to KMP without restriction. |

The following table sets out the relevant percentages of shares offered under the 2014 ELTSP which could have vested based on various percentile rankings of the Company:

**Table 3 – Vesting schedule for the EPS tested LTI awarded for the performance year 2014 (See Table 11)**

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

The unvested portion of this award was cancelled during the year.

**18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)**

***Variable remuneration — long-term incentive (LTI) (continued)***

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

**Table 4 – Vesting schedule for the TSR tested LTI awarded for the performance year 2012**

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

TSR is the percentage increase in a company's share price plus reinvested dividends over a given period and reflects the increase in value delivered to shareholders over that period. The peer group to which the Company's TSR will be compared will comprise the 50 smallest companies, other than resource companies and property and investment trust companies, within the S&P / ASX 300 Index. These companies have a similar market capitalisation to the Company.

The Company's TSR ranking at the end of the Performance Period, when compared to the TSR of the peer group will determine the percentage of shares originally offered which will vest to the Executive. The TSR tested ELTSP expired during FY2015.

*Performance Rights Plan*

The Company also introduced a Performance Rights Plan in 2009 as part of the employment contact of Mr T D Stinson. The Performance Rights Plan was approved by shareholders in October 2008. The Board cancelled this Performance Rights Plan in FY2015.

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

(a) Mr T D Stinson will be awarded 1,150,000 performance rights;

(b) the grant of performance rights will be in seven tranches, each tranche with a different specified share price target as set out below:

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

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

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

(c) the acquisition price and exercise price of the performance rights will be nil.

(d) Mr T D Stinson will only be permitted to exercise a performance right if:

- the Company attains the specified share price target (see table above) within eight years from the date of grant of the performance right; and
- the specified share price target is also achieved at the end of two years from the date the target is first achieved ("**Vesting Date**") based on the Company's average closing share price over a 90 day period up to and including the Vesting Date;

(e) If the specified share price target is either not achieved within eight years from the date of grant, or if so achieved, not also achieved at the end of the Vesting Date, the performance right will lapse.

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

### 18.5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

***LTI awards for 2015 financial year***

Shares were granted under the Employee Share Plan No.1 to a number of executives on 25 November 2014. 2,700,000 Performance Rights were granted under the new Performance Rights Plan on 22 October 2014. No shares were granted under the cancelled ELTSP or the cancelled Performance Rights Plan during the 2015 financial year.

Details in respect of the award are provided in Section 18.9.

### 18.6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION

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

In considering the Group's performance and benefits for shareholders wealth the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

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

The performance measure which drives LTI vesting in future years is the Company's market capitalisation. The table below show the closing share price and market capitalisation for the past five years (including the current period) to 30 June 2015.

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

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

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Closing share price ($) | 0.25 | 0.22 | 0.15 | 0.16 | 0.49 |
| Market capitalisation ($m) | 12.1 | 10.7 | 7.4 | 7.9 | 24.0 |
| Earnings per share (cents) | 3.65 | (6.28) | 0.74 | 3.39 | (10.01) |

The Performance Target for the first tranche of the new PRP was met during FY2015 and as a result 900,000 shares were issued. The performance targets for the LTIs offered in 2008, 2009, 2010, 2011 and 2012 were not met during the financial years 2011, 2012, 2013, 2014 and 2015 and as such no shares vested under the cancelled ELTSP or the cancelled PRP.

### 18.7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

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

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

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

- The CEO receives fixed remuneration of $389,000 per annum
- The CEO is eligible to participate in Orbital Corporation Limited's LTI plan on terms determined by the Board, subject to receiving any required or appropriate shareholder approval

The CEO's termination provisions are as follows:

**Table 7 – Summary of contractual provisions for the CEO**

| | Notice Period | Payment in lieu of notice | Treatment of LTI on termination | Termination payments |
|---|---|---|---|---|
| Employer initiated termination | 12 months | 12 months | Board discretion | None |
| Termination for serious misconduct | None | None | Unvested awards forfeited | None |
| Employee-initiated termination | 3 months | 3 months | Unvested awards forfeited | None |

**18.7. EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONTINUED)**

*Other KMP*

All other KMP have rolling contracts. Standard KMP termination provisions are as follows:

**Table 8 – Summary of KMP termination provisions**

| | Notice Period | Payment in lieu of notice | Treatment of LTI on termination | Termination payments |
|---|---|---|---|---|
| Employer initiated termination | 3 months | 3 months | Board discretion | 4 weeks pay, plus 2 weeks' pay for each completed year of service, plus for each completed year of service beyond 10, an additional 1/2 weeks pay, plus a pro-rata payment for each completed month of service in the final year. The maximum entitlement to termination pay is limited to 65 weeks pay. |
| Termination for serious misconduct | None | None | Unvested awards forfeited | None |
| Employee-initiated termination | 3 months | 3 months | Unvested awards forfeited | None |

### 18.8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION – COMPANY AND GROUP

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

**Table 9 – Compensation of KMP for the years ended 30 June 2015 and 2014**

| | | Short Term | | | Post Employment | Long-term Benefits | Share Based Payments | | Total | Proportion of remuneration performance related |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Salary and Director' Fees | Cash Bonuses | Total | Employer Superannuation Contributions | Long Service Leave | Employee Share Plans | Performance Rights Plan | | |
| | | $ | $ | $ | $ | $ | $ (a)(b) | $ (c) | $ | % |
| **Non-executive Directors** | | | | | | | | | | |
| John P Welborn (d) | **2015** | **78,364** | **-** | **78,364** | **7,445** | **-** | **-** | **-** | **85,809** | **-** |
| *Chairman and Director (Non-executive)* | 2014 | 2,522 | - | 2,522 | 240 | - | - | - | 2,762 | - |
| John H Poynton (e) | **2015** | **31,526** | **-** | **31,526** | **2,995** | **-** | **-** | **-** | **34,521** | **-** |
| *Director (Non-executive)* | 2014 | - | - | - | - | - | - | - | - | - |
| Mervyn T Jones (f) | **2015** | **66,679** | **-** | **66,679** | **6,335** | **-** | **-** | **-** | **73,014** | **-** |
| *Chairman and Director (Non-executive)* | 2014 | 88,494 | - | 88,494 | 8,195 | - | - | - | 96,689 | - |
| Vijoleta Braach-Maksvytis (g) | **2015** | **46,838** | **-** | **46,838** | **4,450** | **-** | **-** | **-** | **51,288** | **-** |
| *Director (Non-executive)* | 2014 | 65,474 | - | 65,474 | 6,063 | - | - | - | 71,537 | - |
| W Peter Day (h) | **2015** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *Chairman and Director (Non-executive)* | 2014 | 46,234 | - | 46,234 | 4,277 | - | - | - | 50,511 | - |
| *Total Consolidated, all non-executive directors* | **2015** | **223,407** | **-** | **223,407** | **21,225** | **-** | **-** | **-** | **244,632** | **-** |
| | 2014 | 202,724 | - | 202,724 | 18,775 | - | - | - | 221,499 | - |
| **Executive Director** | | | | | | | | | | |
| Terry D Stinson | **2015** | **355,865** | **-** | **355,865** | **32,918** | **16,321** | **(19,805)** | **208,827** | **594,126** | **31.8%** |
| *Director and Chief Executive Officer* | 2014 | 346,508 | 34,000 | 380,508 | 32,088 | 12,161 | 15,221 | 34,511 | 474,489 | 17.6% |
| **Other Key Management Personnel** | | | | | | | | | | |
| Geoff P Cathcart | **2015** | **250,538** | **-** | **250,538** | **26,112** | **7,635** | **(9,472)** | **69,996** | **344,809** | **17.6%** |
| *Chief Technical Officer* | 2014 | 242,643 | 20,000 | 262,643 | 26,803 | 7,581 | 9,388 | - | 306,415 | 9.6% |
| Michael C Lane (i) | **2015** | **101,615** | **-** | **101,615** | **8,735** | **7,026** | **-** | **-** | **117,376** | **-** |
| *Chief Executive Officer - REMSAFE* | 2014 | - | - | - | - | - | - | - | - | - |
| Ian G Veitch | **2015** | **214,735** | **-** | **214,735** | **19,863** | **4,898** | **(8,088)** | **69,996** | **301,404** | **20.5%** |
| *Chief Financial Officer* | 2014 | 208,308 | 20,000 | 228,308 | 19,269 | 4,670 | 2,941 | - | 255,188 | 9.0% |
| Total Consolidated, Executive Director and Key Management Personnel | **2015** | **922,753** | **-** | **922,753** | **87,628** | **35,880** | **(37,365)** | **348,819** | **1,357,715** | **19.4%** |
| | 2014 | 797,459 | 74,000 | 871,459 | 78,160 | 24,412 | 27,550 | 34,511 | 1,036,092 | 13.1% |

## 18.8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION – COMPANY AND GROUP (CONTINUED)

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

(a) The fair value of the Employee Share Plan #1 is based upon the market value (at offer date) of shares offered.

(b) The fair value of the Executive Long Term Share Plan right are calculated at the date of grant through utilisation of the assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model and is allocated to each reporting period evenly over the period from grant date to expected vesting date. The value disclosed is the portion of the fair value of the rights recognised in this reporting period. In valuing the rights the market based hurdles that must be met before the executive long term share plan rights vest in the holder have been taken into account.

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

**Table 10 – Summary of terms and conditions of unvested TSR related rights**

| Grant Date | Life | Expiry Date | Fair Value per right | Exercise Price | Market price of shares on grant date | Expected volatility | Risk free interest rate |
|---|---|---|---|---|---|---|---|
| 31-Aug-11* | 3 years | 31-Aug-14 | 25 cents | nil | 35 cents | 110.00% | 3.79% |

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

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

**Table 11 – Summary of terms and conditions of unvested EPS related rights**

| Grant Date | Life | Expiry Date | Fair Value per right | Exercise Price | Market price of shares on grant date |
|---|---|---|---|---|---|
| 31-Aug-11* | 3 years | 31-Aug-14 | 35 cents | nil | 35 cents |
| 31-Aug-12** | 3 years | 31-Aug-15 | 20 cents | nil | 20 cents |
| 31-Aug-13** | 3 years | 31-Aug-16 | 19.5 cents | nil | 19.5 cents |

* The grant dates of the EPS related rights for the Managing Director were 26 October 2011, 7 November 2012 and 23 October 2013 respectively.

** Rights were cancelled during the year. These rights were not expected to vest.

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

(c) The fair value of the Performance Rights is calculated at the date of grant through utilisation of the assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model and allocated to each reporting period evenly over the period from grant date to expected vesting date. The value disclosed is the portion of the fair value of the performance rights recognised in this reporting period. In valuing the performance rights the hurdles that must be met before the Performance Rights vest in the holder have been taken into account.

**Table 12 – Summary of terms and conditions of 2015 performance rights**

| Grant Date | Life | Number of Rights granted | Number of Rights vested | Fair Value per right | Target Market Capitalisation | Market Capitalisation on grant date | Expected volatility | Risk free interest rate |
|---|---|---|---|---|---|---|---|---|
| 22-Oct-14 | 18 months | 900,000 | 900,000 | 23.1 cents | $20m | $14.8m | 80.00% | 2.45% |
| 22-Oct-14 | 24 months | 900,000 | - | 17.5 cents | $35m | $14.8m | 80.00% | 2.45% |
| 22-Oct-14 | 36 months | 900,000 | - | 15.3 cents | $60m | $14.8m | 80.00% | 2.51% |

### 18.8. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION – COMPANY AND GROUP (CONTINUED)

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

(d) Mr Welborn became a KMP on 17 June 2014

(e) Mr Poynton became a KMP on 17 March 2015

(f) Dr Jones ceased to be a KMP on 17 March 2015

(g) Dr Braach-Maksvytis ceased to be a KMP on 17 March 2015

(h) Mr Day ceased to be a KMP on 28 February 2014

(g) Mr Lane became a KMP on 4 February 2015

### 18.9. EQUITY INSTRUMENTS

All shares refer to ordinary shares and rights of Orbital Corporation Limited.

**Analysis of Shares Offered as Compensation**

Details of the shares and rights offered under the LTI to each key management person during the reporting period are as shown below. Please refer to footnote (b) below for the terms and conditions relating to the granting of the rights offered under the Executive Long Term Share Plan.

**Table 13 – Summary of KMP executives interests in LTI equity rights**

| | | Employee Share Plan No. 1 | | | Performance Rights Plan | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Number of shares issued | Share Price | Value (a) $ | Number of Rights Offered | Value of Rights Offered (b) $ | Number of Rights Vested | Number of Forfeited | Number of Expired | Number of Cancelled |
| **Executive Director** | | | | | | | | | | |
| T D Stinson | 2015 | - | - | - | 1,500,000 | 279,500 | 500,000 | 385,000 | 385,000 | 3,415,000 |
| **Executives** | | | | | | | | | | |
| G P Cathcart | 2015 | 2,550 | $0.3921 | 1,000 | 600,000 | 111,800 | 200,000 | 155,000 | 155,000 | 987,000 |
| I G Veitch | 2015 | 2,550 | $0.3921 | 1,000 | 600,000 | 111,800 | 200,000 | 46,250 | 46,250 | 796,000 |

(a) The fair value of the employee share plan No. 1 based upon the market value (at offer date of 31 October 2014 and 31 October 2013 respectively) of shares offered. These awards are fully vested.

(b) Represents the fair value of rights offered on 22 October 2014 using the "Hoadley Barrier 1" trinomial option valuation model for the Performance Rights.

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

| | Held at 1-Jul14 | Offered | Forfeited | Expired | Cancelled | Vested | Held at 30-Jun-15 | Not Exercisable |
|---|---|---|---|---|---|---|---|---|
| **Executive director** | | | | | | | | |
| Mr TD Stinson | 4,185,000 | 1,500,000 | - | (770,000) | (3,415,000) | 500,000 | 1,000,000 | 1,000,000 |
| **Executives** | | | | | | | | |
| Dr GP Cathcart | 1,297,000 | 600,000 | - | (310,000) | (987,000) | 200,000 | 400,000 | 400,000 |
| Mr IG Veitch | 888,500 | 600,000 | - | (92,500) | (796,000) | 200,000 | 400,000 | 400,000 |

### 18.9. EQUITY INSTRUMENTS (CONTINUED)

**Table 15 – Movement of KMP interests in shares**

| | Held at 1-Jul-14 | Purchases | Granted as compensation ESP #1 | PRP | Sales | Other (b)(c) | Held at 30-Jun-15 |
|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | |
| Mr JP Welborn | - | 8,195 | - | - | - | - | 8,195 |
| Mr JH Poynton (a) | - | - | - | - | - | 2,665,688 | 2,665,688 |
| Dr MT Jones (b) | 70,000 | - | - | - | - | (70,000) | - |
| Dr V Braach-Maksvytis (c) | - | - | - | - | - | - | - |
| **Executive director** | | | | | | | |
| Mr TD Stinson | 392,690 | 1,639 | - | 500,000 | (355,888) | - | 538,441 |
| **Executives** | | | | | | | |
| Dr GP Cathcart | 67,407 | - | 2,550 | 200,000 | (200,000) | - | 69,957 |
| Mr MC Lane | - | - | - | - | - | - | - |
| Mr IG Veitch | 26,287 | - | 2,550 | 200,000 | (200,000) | - | 28,837 |

(a) Mr JH Poynton was appointed a Non-executive director on 17 March 2015.
(b) Represents shareholdings at the time that Mr Poynton became a KMP.
(c) Represents shareholdings at the time that Dr MT Jones ceased to be a KMP.

**Key management personnel participation in Convertible Note issuance**

Some key management personnel participated in the Convertible Note issuance on the same terms as other Convertible Note holders. The Convertible Notes issued to key management personnel were not issued in their capacity as key management personnel. The terms and potential financial benefit of the Convertible Notes issued to the Directors have been determined on an arms-length basis.

The issue of Convertible Notes to Mr TD Stinson and Mr JP Welborn was approved by shareholders at the Extraordinary General Meeting on 21 January 2015. Mr JH Poynton joined the Group as a Director subsequent to the Convertible Notes issuance. Mr MC Lane joined the Group as a KMP subsequent to the Convertible Notes issuance.

| | Number of Convertible Notes | Amounts owed to KMP 2015 | 2014 | Interest Paid to KMP 2015 | 2014 |
|---|---|---|---|---|---|
| **Executive Director** | | $ | $ | $ | $ |
| Mr TD Stinson | 1 | 51,250 | - | 783 | - |
| **Non-Executive Directors** | | | | | |
| Mr JP Welborn | 5 | 256,250 | - | 3,915 | - |
| Mr JH Poynton | 1 | 51,250 | - | 783 | - |
| **Other KMP** | | | | | |
| Mr MC Lane (Managing Director of REMSAFE) | 4 | 205,000 | - | 3,132 | - |
| **Total** | 11 | 563,750 | - | 8,613 | - |

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

The Group has not made any loans to key management personnel or their related parties since the end of the previous financial year and there were no loans to any key management personnel or their related parties at year-end.

End of Remuneration Report

Signed in accordance with a resolution of the Directors:

J P Welborn
Chairman

T D Stinson
Managing Director

Dated at Perth, Western Australia this 25th day of September 2015.

# STATEMENT OF PROFIT OR LOSS

## FOR THE YEAR ENDED 30 JUNE 2015

| | Note | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sale of goods | | **3,560** | 2,750 |
| Engineering services income | | **5,217** | 2,898 |
| Royalty and licence income | | **777** | 1,124 |
| Other revenue | 6 | **106** | 157 |
| **Total Revenue** | | **9,660** | 6,929 |
| Other income | 7 | **5,291** | 4,221 |
| Materials and consumables expenses | 8(d) | **(518)** | (875) |
| Employee benefits expenses | 8(a) | **(8,925)** | (7,020) |
| Depreciation and amortisation expenses | | **(504)** | (530) |
| Engineering consumables and contractors expenses | | **(3,413)** | (883) |
| Occupancy expenses | | **(1,296)** | (1,316) |
| Travel and accommodation expenses | | **(333)** | (250) |
| Communications and computing expenses | | **(371)** | (281) |
| Patent expenses | | **(212)** | (260) |
| Insurance expenses | | **(401)** | (501) |
| Audit, compliance and listing expenses | | **(621)** | (928) |
| Finance costs | 8(b) | **(964)** | (533) |
| Other expenses | 8(c) | **(466)** | (304) |
| Share of profit from associate | 16 | **2,860** | 3,256 |
| **(Loss)/profit before income tax from continuing operations** | | **(213)** | 725 |
| Income tax (expense)/benefit | 9(a) | **(448)** | 479 |
| **(Loss)/profit for the year from continuing operations** | | **(661)** | 1,204 |
| **Discontinued operations** | | | |
| (Loss)/profit after tax for the year from discontinued operations | 31 | **(4,068)** | 472 |
| **(Loss)/profit for the year** | | **(4,729)** | 1,676 |
| Attributable to: | | | |
| Equity holders of the Parent | | **(4,542)** | 1,676 |
| Non-controlling interests | | **(187)** | - |
| | | **(4,729)** | 1,676 |
| Earnings per share | 10 | cents | cents |
| Basic, profit for the year attributable to ordinary equity holders of the Parent | | **(9.83)** | 3.39 |
| Diluted, profit for the year attributable to ordinary equity holders of the Parent | | **(9.83)** | 3.39 |
| Earnings per share from continuing operations | | | |
| Basic, profit for the year attributable to ordinary equity holders of the Parent | | **(1.03)** | 2.43 |
| Diluted, profit for the year attributable to ordinary equity holders of the Parent | | **(1.03)** | 2.43 |

The statement of profit or loss is to be read in conjunction with the notes to the financial statements set out on pages 31 to 84.

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2015

| | Consolidated | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **Net (loss)/profit for the year** | **(4,729)** | 1,676 |
| Other Comprehensive income | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Share of foreign currency reserve of equity accounted investment | **(421)** | 80 |
| Foreign currency translation | **4,613** | (340) |
| **Other comprehensive income/(loss) for the period, net of tax** | **4,192** | (260) |
| **Total comprehensive (loss)/income for the year** | **(537)** | 1,416 |
| Attributable to: | | |
| Equity holders of the Parent | **(350)** | 1,416 |
| Non-controlling interests | **(187)** | - |
| **Total comprehensive (loss)/income for the year** | **(537)** | 1,416 |

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 31 to 84.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2015

| | Share Capital | Retained Profits/ (Accumulated Losses) | Employee Equity Benefits Reserve | Foreign Currency Translation Reserve | Consolidation Reserve | Convertible Note Reserve | Total | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2013** | 19,518 | 366 | 1,645 | (2,032) | - | - | 19,497 | - | 19,497 |
| Profit for period | - | 1,676 | - | - | - | - | 1,676 | - | 1,676 |
| Other comprehensive income | - | - | - | (260) | - | - | (260) | - | (260) |
| Total comprehensive income/(loss) for the period | - | 1,676 | - | (260) | - | - | 1,416 | - | 1,416 |
| Share based payments | 72 | - | 60 | - | - | - | 132 | - | 132 |
| **Balance at 30 June 2014** | 19,590 | 2,042 | 1,705 | (2,292) | - | - | 21,045 | - | 21,045 |
| **At 1 July 2014** | **19,590** | **2,042** | **1,705** | **(2,292)** | **-** | **-** | **21,045** | **-** | **21,045** |
| (Loss)/profit for period | **-** | **(4,542)** | **-** | **-** | **-** | **-** | **(4,542)** | **(187)** | **(4,729)** |
| Other comprehensive income | **-** | **-** | **-** | **4,192** | **-** | **-** | **4,192** | **-** | **4,192** |
| Total comprehensive (loss)/income for the period | **-** | **(4,542)** | **-** | **4,192** | **-** | **-** | **(350)** | **(187)** | **(537)** |
| On market share buy-back | **(773)** | **-** | **-** | **-** | **-** | **-** | **(773)** | **-** | **(773)** |
| Convertible Note reserve | **-** | **-** | **-** | **-** | **-** | **248** | **248** | **-** | **248** |
| Convertible Note conversions | **366** | **-** | **-** | **-** | **-** | **-** | **366** | **-** | **366** |
| Convertible Note interest paid in shares | **73** | **-** | **-** | **-** | **-** | **-** | **73** | **-** | **73** |
| Acquisition of subsidiary | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **653** | **653** |
| Increase in subsidiary equity | **-** | **-** | **-** | **-** | **(670)** | **-** | **(670)** | **670** | **-** |
| Share based payments | **765** | **-** | **102** | **-** | **-** | **-** | **867** | **-** | **867** |
| **Balance at 30 June 2015** | **20,021** | **(2,500)** | **1,807** | **1,900** | **(670)** | **248** | **20,806** | **1,136** | **21,942** |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 31 to 84.

# STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2015

| | Note | Consolidated 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | **6,649** | 5,416 |
| Other financial assets | 12 | **1,369** | 1,341 |
| Trade and other receivables | 14 | **6,991** | 5,755 |
| Inventories | 15 | **390** | 3,328 |
| | | **15,399** | 15,840 |
| Disposal group held for sale | 31 | **909** | - |
| **Total current assets** | | **16,308** | 15,840 |
| **Non-current assets** | | | |
| Investment in associate | 16 | **17,826** | 13,980 |
| Deferred taxation asset | 17 | **5,621** | 5,001 |
| Plant and equipment | 18 | **2,259** | 2,845 |
| Intangibles and goodwill | 19 | **5,530** | - |
| **Total non-current assets** | | **31,236** | 21,826 |
| **TOTAL ASSETS** | | **47,544** | 37,666 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables and other liabilities | 20 | **4,510** | 3,696 |
| Borrowings | 12 | **597** | 521 |
| Contingent consideration | 12 | **-** | 638 |
| Employee benefits | 22 | **2,026** | 1,938 |
| Deferred revenue | 23 | **-** | 316 |
| Government grants | 24 | **225** | 225 |
| Other provisions | 25 | **241** | 192 |
| | | **7,599** | 7,526 |
| Liabilities associated with disposal group held for sale | 31 | **382** | - |
| **Total current liabilities** | | **7,981** | 7,526 |
| **Non-current liabilities** | | | |
| Long term borrowings | 12 | **16,604** | 7,811 |
| Employee benefits | 22 | **35** | 32 |
| Government grants | 24 | **749** | 974 |
| Other provisions | 25 | **233** | 278 |
| **Total non-current liabilities** | | **17,621** | 9,095 |
| **TOTAL LIABILITIES** | | **25,602** | 16,621 |
| **NET ASSETS** | | **21,942** | 21,045 |
| **EQUITY** | | | |
| Share capital | 26 | **20,021** | 19,590 |
| Reserves | 27 | **3,285** | (587) |
| (Accumulated Losses)/Retained profits | 27 | **(2,500)** | 2,042 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **20,806** | 21,045 |
| Non-controlling interests | | **1,136** | - |
| **TOTAL EQUITY** | | **21,942** | 21,045 |

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 31 to 84.

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2015

| | Note | Consolidated 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash receipts from customers | | **19,042** | 20,825 |
| Cash paid to suppliers and employees | | **(22,417)** | (22,826) |
| Cash used by operations | | **(3,375)** | (2,001) |
| Interest received | | **132** | 179 |
| Interest paid | | **(80)** | (51) |
| Income taxes paid | | **(59)** | (42) |
| **Net cash used in operating activities** | 34 | **(3,382)** | (1,915) |
| **Cash Flows from Investing Activities** | | | |
| Dividends received from associate | | **2,060** | 1,634 |
| Acquisition of subsidiary, net of cash acquired | 30 | **(4,741)** | - |
| Net Proceeds from sale of plant and equipment | | **36** | 64 |
| Acquisition of plant and equipment | | **(249)** | (377) |
| Investment in short term deposit | | **(260)** | (460) |
| **Net cash (used in)/from investing activities** | | **(3,154)** | 861 |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from borrowings | | **9,890** | - |
| Repayment of borrowings | | **(498)** | (433) |
| On market share buy-back | | **(773)** | - |
| **Net cash from/(used in) financing activities** | | **8,619** | (433) |
| **Net increase /(decrease) in cash and cash equivalents** | | **2,083** | (1,487) |
| Cash and cash equivalents at 1 July | | **5,416** | 6,903 |
| **Cash and cash equivalents at 30 June** | 34 | **7,499** | 5,416 |

**Non-Cash Investing and Financing Activities**

There were no non-cash investing or financing activities for the years ended 30 June 2014 and 2015.

Refer to note 5 for details of non-cash operating items.

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 31 to 84.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015

## 1. REPORTING ENTITY

Orbital Corporation Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 4 Whipple Street, Balcatta, Western Australia. The consolidated financial report of the Company for the year ended 30 June 2015 comprises the Company and its subsidiaries (together referred to as the "Group"). Orbital Corporation Limited is a for-profit entity and the Group operates in a number of industries (see the Directors' Report and Note 5).

The consolidated financial report was authorised for issue by the directors on 25 September 2015.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance with IFRS

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

### (b) Basis of Preparation

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

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

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

### (c) Functional and Presentation Currency

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

### (d) Use of Estimates and Judgements

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year. From 1 July 2014, the Group has adopted all the standards and interpretations effective from 1 July 2014 as described in the table below. Adoption of these standards and interpretations did not have a material impact on the Group. The Group has not elected to early adopt any new standards or amendments.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) New Accounting Standards and Interpretations (continued)

| Reference | Title | Summary |
|---|---|---|
| AASB 2012-3 | Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities | AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. |
| AASB 2013-3 | Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets | AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets (IAS 36). The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. |
| AASB 1031 | Materiality | The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.<br>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.<br>AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014. |
| AASB 2013-9 | Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments | The Standard contains three main parts and makes amendments to a number of Standards and Interpretations.<br>Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.<br>Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. |
| AASB 2014-1 Part A – Annual Improvements 2010-2012 Cycle | Australian Accounting Standards Part A - Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle | AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.<br>Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:<br>• AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.<br>• AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.<br>• AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets.<br>• AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.<br>• AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 Related Party Disclosures for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed. |
| AASB 2014-1 Part A – Annual Improvements 2011-2013 Cycle | Amendments to Australian Accounting Standards Part A - Annual Improvements to IFRSs 2011-2013 Cycle | Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:<br>• AASB 13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.<br>• AASB 140 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3. |

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of Consolidation

*(i) Subsidiaries*

Subsidiaries are all those entities over which the Group has control.
Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

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

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

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

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

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

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

*(ii) Associate*

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

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

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

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

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

**(b) Basis of Consolidation (continued)**

*(ii) Associate (continued)*

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

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

*(iii) Transactions Eliminated on Consolidation*

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

**(c) Foreign Currency**

*(i) Foreign currency transactions*

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

*(ii) Financial statements of foreign operations*

The assets and liabilities of foreign operations are translated to Australian dollars, applying the step by step method, at exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity described as 'foreign currency translation reserve'. They are released into the statement of profit or loss upon disposal.

*(iii) Net investment in foreign operations*

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

**(d) Financial Instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

*Cash and cash equivalents - refer note 11*
Cash and cash equivalents comprise cash balances, at call deposits and bank-endorsed bills of exchange at discounted value.

*Other financial assets - refer note 12*
Other financial assets comprise term deposits with financial institutions with maturities between 90 days and 365 days. Subsequent to initial recognition other financial assets are stated at amortised cost.

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

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

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

*Trade and other receivables - refer note 14*
Subsequent to initial recognition, trade receivables are stated at their amortised cost, less impairment losses. Normal settlement terms are 30 to 60 days. The collectability of debts is assessed at balance date and specific allowance is made for any doubtful accounts. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

*Trade and other payables - refer note 20*
Liabilities are recognised for amounts due to be paid in the future for goods or services received. Subsequent to initial recognition, trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

*Borrowings - refer note 12*
Included in current liabilities is an amount for obligations under hire purchase contracts. The hire purchase contracts are capitalised at commencement of the contract at the present value of the minimum hire purchase payments. Hire purchase payments are apportioned between finance charges and reduction of the hire purchase liability. Finance charges are recognised in finance costs in the statement of profit or loss.

*Convertible Note issuance - refer note 12*
Included in current and non-current liabilities is an amount for obligations under the Convertible Note issuance that can be converted to share capital at the option of the holder, with the number of shares to be issued being fixed. The component of the convertible note that exhibits characteristics of debt is recognised initially at the fair value of a similar financial liability that does not have the equity conversion option. The residual amount is recognised as equity. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition the liability component of the convertible note issuance is measured at amortised cost using the effective interest method. The equity component is not re-measured subsequent to initial recognition. On conversion to ordinary shares, the financial liability converted will be reclassified against issued capital and no gain or loss is recognised on conversion.

*Long term borrowings - refer note 12*
Included in non-current liabilities is an amount owing to the Government of Western Australia resulting from a loan of $14,346,000 restructured in January 2010. The loan is interest-free with annual repayments commencing in May 2010 and concluding in May 2025.

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

*Contingent consideration - refer note 12*
Included in non-current liabilities is an amount owing to the owners of the non-controlling interest in Sprint Gas (Aust) Pty Ltd. The contingent consideration was recognised initially at fair value and subsequently at fair value through profit and loss.

*(ii) Derivative financial instruments*

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

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

**(e) Inventories – refer note 15**

Inventories are carried at the lower of cost and net realisable value. Inventory is valued at weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition, which for finished goods and work in progress includes cost of direct materials and direct manufacturing labour.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Plant and Equipment – refer note 18

*(i) Recognition and measurement*

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

*(ii) Subsequent costs*

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

*(iii) Depreciation and Amortisation*

Items of plant and equipment are depreciated/amortised on a straight line basis over their estimated useful lives. The depreciation rates used in the current and comparative period for each class of asset are as follows: Plant and Equipment 6.67% to 33.3%. Assets are depreciated or amortised from the date of acquisition.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

*(iv) Asset Sales*

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

### (g) Intangibles and goodwill – refer note 19

*(i) Research and Development*

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

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

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

*(ii) Patents, Licences and Technologies*

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

*(iii) Goodwill*

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Intangibles and goodwill (continued) – refer note 19

*(iv) Customer contract based intangible assets*

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The cost of customer contracts acquired in a business combination is their fair value at the acquisition date. Following initial recognition customer contracts are carried at fair value less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of when the benefits are expected to be received from such contracts which range from 6 months to 2 years.

### (h) Impairment

*(i) Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

### (i) Share Capital – refer note 26

*i) Issued Capital*

Share capital is recognised at the fair value of the consideration received.

*(ii) Treasury Shares*

Own equity instruments that are reacquired 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Share Capital – refer note 26 (continued)

*(iii) Dividends*

Dividends are recognised as a liability in the period in which they are declared.

*(iv) Transaction Costs*

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

### (j) Employee Benefits

*(i) Short-term benefits - refer note 22*

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

*(ii) Long Service Leave - refer note 22*

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

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

*(iii) Defined Contribution Superannuation Fund - refer note 36*

Obligations for contributions to the defined contribution superannuation fund are recognised as an expense in the statement of profit or loss as incurred.

*(iv) Share-based payment transactions - refer note 35*

Employees have been offered the right to take up shares in the Company under two plans (i) the Employee Share Plan No.1 provides $1,000 of shares per annum and is subject to qualification by length of service, (ii) the Executive Long Term Incentive Plan based on market capitalisation. In the prior period the Executive Long Term Incentive Plan was based on
(i) Earnings Per Share and was subject to qualification by length of service and achievement of corporate performance targets related to returns to shareholders, and (ii) the Performance Rights Plan was based on share price subject to qualification by length of service and achievement of share price targets. These Executive Long Term Incentive Plans were cancelled in the current period and replaced by the Executive Long Term Incentive Plan based on market capitalisation.

The fair value of rights granted to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value of the shares granted under the Employee Share Plan No.1 is based on the market price of the shares on the date of issue. The fair value of the Performance Rights Plan based on market capitalisation is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the performance–based shares. The fair value of the shares granted based on an Earnings Per Share basis were based on the market price of the shares on the date of issue. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where forfeiture is only due to market conditions that were not met. The fair value of the Performance Rights Plan based on share price was measured at grant date taking into account the share price targets and spread over the expected life of the rights.

### (k) Provisions – refer note 25

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

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

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

**(l) Revenue Recognition**

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

*(i) Revenue from Rendering of Services*

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

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

*(ii) Sale of goods*

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

*(iii) Licence and royalties*

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

*(iv) Interest Revenue*

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

*(v) Dividends*

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

**(m) Operating Leases**

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

**(n) Finance Costs**

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

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

**(o) Income Tax – refer note 9**

*(i) Current income tax expense and liability*

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(o) Income Tax (continued) – refer note 9**

*(ii) Deferred income tax expense and liability*

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

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

*(iii) Tax Consolidation*

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

**(p) Operating Segments – refer note 5**

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

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

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

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

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

**(q) Goods and Services Tax**

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

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

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

**(r) Earnings Per Share – refer note 10**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Government Grants – refer note 24

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

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

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

### (t) Business Combinations – refer note 30

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

### (u) Assets held for sale and discontinued operations – refer note 31

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs attributable to the sale excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected to be completed within one year from the date of classification.

Plant and equipment are not depreciated once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, 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 are of operations.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note 31. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

### (v) New standards and interpretations not yet effective

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

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

**(v) New standards and interpretations not yet effective (continued)**

| Reference | Title | Summary | Application date of standard * | Application date for Group* |
|---|---|---|---|---|
| AASB 9 (IFRS 9) | Financial Instruments | AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.<br>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.<br>**Classification and measurement**<br>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.<br>The main changes are described below.<br>***Financial assets***<br>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.<br>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.<br>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>***Financial liabilities***<br>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.<br>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:<br>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>• The remaining change is presented in profit or loss<br>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.<br>**Impairment**<br>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. | 1 January 2018 | 1 July 2018 |

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

**(v) New standards and interpretations not yet effective (continued)**

| Reference | Title | Summary | Application date of standard * | Application date for Group* |
|---|---|---|---|---|
| AASB 9 (IFRS 9) (continued) | Financial Instruments | **Hedge accounting**<br>Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.<br>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 - Part E.<br>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.<br>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015. | 1 January 2018 | 1 July 2018 |
| AASB 2014-3 | Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (AASB 1 & AASB11) | AASB 2014-3 amends AASB 11 Joint Arrangements to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:<br>a. the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and<br>b. the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.<br>This Standard also makes an editorial correction to AASB 11. | 1 January 2016 | 1 July 2016 |
| AASB 2014-4 | Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to AASB 116 and AASB 138 (IAS 16 and IAS 38) | AASB 116 Property Plant and Equipment (IAS 16) and AASB 138 Intangible Assets (IAS 38) both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.<br>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.<br>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. | 1 January 2016 | 1 July 2016 |

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

**(v) New standards and interpretations not yet effective (continued)**

| Reference | Title | Summary | Application date of standard * | Application date for Group* |
|---|---|---|---|---|
| AASB 15 (IFRS 15) | Revenue from Contracts with Customers | AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts (IAS 11), AASB 118 Revenue and related Interpretations (IAS 18) (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).<br>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).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 the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:<br>(a) Step 1: Identify the contract(s) with a customer<br>(b) Step 2: Identify the performance obligations in the contract<br>(c) Step 3: Determine the transaction price<br>(d) Step 4: Allocate the transaction price to the performance obligations in the contract<br>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation<br>Currently, AASB 15 is effective for annual reporting periods commencing on or after 1 January 2017. Early application is permitted. (Note A)<br>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. | 1 July 2017 | 1 July 2017 |
| AASB 2014-10 | Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | AASB 2014-10 amends AASB 10 Consolidated Financial Statements (IFRS 10) and AASB 128 (IAS 28) to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:<br>(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and<br>(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.<br>AASB 2014-10 also makes an editorial correction to AASB 10.<br>AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted. | 1 January 2016 | 1 July 2016 |

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

**(v) New standards and interpretations not yet effective (continued)**

| Reference | Title | Summary | Application date of standard * | Application date for Group* |
|---|---|---|---|---|
| AASB 2015-1 | Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012 - 2014 Cycle | The subjects of the principal amendments to the Standards are set out below:<br>AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*:<br>• Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.<br>AASB 7 *Financial Instruments: Disclosures:*<br>• Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.<br>• Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.<br>AASB 119 *Employee Benefits:*<br>• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.<br>AASB 134 *Interim Financial Reporting:*<br>• Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information. | 1 January 2016 | 1 July 2016 |
| AASB 2015-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. | 1 January 2016 | 1 July 2016 |
| AASB 2015-3 | Amendments to Australian Accounting Standards – arising from the Withdrawal of AASB 1031 *Materiality* | The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. | 1 July 2015 | 1 July 2015 |

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) New standards and interpretations not yet effective (continued)

The Directors have not yet determined the impact of new and amended accounting standards and interpretations applicable from 1 July 2016.

### (w) Comparatives

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

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

### (a) Significant accounting judgements

*Discontinued operations and impairment of disposal group*

On 30 June 2015, the Group publicly announced the decision of this Board of Directors to exit the LPG businesses due to the decline in the LPG market, the resulting lack of sustainable profitability and the recent changes in Orbital's business focus.

The Group will exit both the Sprint Gas Australia ("Sprint Gas") business and Orbital Autogas Systems ("OAS") business. The sale of the net assets of Sprint Gas and the sale of the OAS inventory assets have been combined to form a single co-ordinated plan to exit the loss-making LPG businesses with minimal cost of closure to the Group. The Sprint Gas business exit will be through the sale of the net assets of Sprint Gas to the non-controlling shareholder for no consideration. The OAS business exit will be through the closure of the OAS operations and the transfer of the inventory of the OAS business to Sprint Gas at recoverable amount. The net assets of Sprint Gas and the OAS inventory have been classified as a disposal group held for sale as at 30 June 2015. The results of both the Sprint Gas business and the OAS business were reported as discontinued operations in the statement of profit and loss.

The Board considered the disposal group to meet the criteria to be classified as held for sale at 30 June 2015 for the following reasons:

- Sprint Gas net assets and OAS inventory are available for immediate sale and will be sold in its current condition
- The sale to the non-controlling shareholder of Sprint Gas is highly probable and expected to be completed within the next 12 months
- Management announced the plan to the market, employees and shareholders.

The LPG business represents a separate line of business of the Group. The sale of the net assets of Sprint Gas and the inventory of OAS combined with the closure of the OAS business is considered to be part of a single co-ordinated plan of the Group to dispose of this line of business. Further details are provided in Note 31.

*Consolidation of Sprint Gas (Aust) Pty Ltd*

On 27 May 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a new company incorporated to acquire the operating business of Sprint Gas, an Australian business specializing in the importation and wholesaling of LPG Fuel systems. Concurrently with the entering into of the Business Acquisition Agreement, the Group entered into a Subscription and Shareholders Agreement with the owners of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd. As part of the Subscription and Shareholders Agreement Put and Call options were issued over the remaining 45% non-controlling interest. Management has determined that the Put and Call options, exercisable after 30 months, are in nature a forward contract and in substance represent contingent consideration. The Group has accounted for the business combination as though it acquired a 100% interest and has recognised a financial liability to the non-controlling shareholders equal to the fair value of the underlying obligations under the Put and Call option (Contingent consideration liability).

*Capitalised development costs*

Development costs are only capitalised when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

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

### (b) Significant accounting estimates and assumptions

*Taxation*

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of profit or loss.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of shares granted under the Employee Share Plan No.1 is the market value on the date of issue. The fair value of the performance rights is determined by an external valuer using a trinomial option valuation model, with assumptions detailed in note 35. The fair value of the TSR related Executive Long Term Share Plan rights was determined by an external valuer using a monte-carlo simulation model, with the assumptions detailed in note 35. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

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

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. Refer to Note 19 for further information.

Plant and equipment are tested whenever events or changes in circumstances indicate that the carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer to Note 18 for further information.

*Recognition of contingent consideration*

The Group has measured the value of the contingent consideration liability by reference to the fair values of the underlying obligations under the Put and Call options that give rise to the liability. In determining the fair values of underlying obligations under the Put and Call options the Group has made judgements in respect of the expected earnings before interest, depreciation and amortisation expected to be generated by the business during the calculation period.

*Product warranty*

In determining the level of provision required for product warranties the Group has made judgements in respect of the expected performance of the product, number of customers who will actually use the product warranty and how often, and the costs of fulfilling the performance of the product warranty. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in note 25.

*Revenue from rendering of services*

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

## 5. OPERATING SEGMENTS

### Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of service line manager and country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

**5. OPERATING SEGMENTS (CONTINUED)**

The reportable segments are based on the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

During the 2015 financial reporting period the Group changed the reportable segments to represent the internal reorganisation of the operating segments in line with Orbital's updated strategy. The acquisition of the REMSAFE business, expansion of the Unmanned Aerial Vehicle engines business and the divestment of the LPG businesses were the main drivers of the change in operating segments. Comparatives have been updated to be presented on a consistent basis.

**Types of products and services as reported in 2015**

Aerospace
The Aerospace segment is focused on the design, development and construction of engines and propulsion systems for Unmanned Aerial Vehicles (UAV) based on Orbital's unique FlexDI™ technology for spark ignited heavy fuel engine applications. The Small Unmanned Aerial System engines business was previously reported as part of the System Sales segment. Due to the expansion of the business to include the broader Unmanned Aerial Vehicle engines business, the business is now reported a stand-alone operating segment.

Mining & Industrial
REMSAFE has developed an electrical isolation system that provides a safety solution which delivers cost savings and increases productivity. The Group acquired the REMSAFE business during the current reporting period. This is a new operating segment for the Group.

Accelerator
The Accelerator segment contains Orbital's centre for innovation, leveraging off the engineering expertise, facilities and experience to commercialise innovative and patent protected technologies. Through the Accelerator Orbital transforms the historical Consulting Services segment into a technology incubator targeted at attracting new investment opportunities.

Consumer
The Consumer segment includes royalties and licences from licensees of Orbital technologies. Applications utilising Orbital technologies include outboard engines, auto rickshaws and scooters, representing consumer products. The royalties and licence business was previously reported as a stand-alone operating segment. The Consumer segment also includes the LPG businesses of Orbital Autogas Systems (OAS) and Sprint Gas Australia (Sprint Gas). The LPG businesses have been accounted for as Discontinued Operations and were previously reported in the system sales segment.

**Types of products and services as reported in prior reporting periods**

System Sales (sale of goods)
The system sales businesses provided LPG fuel systems to an Australian automobile manufacturer, LPG retrofit installers and also operated spare parts businesses for LPG fuel systems. The segment also included the supply of Small Unmanned Aerial System (SUAS) engines, component parts and engine management systems.

Consulting services (consultancy)
The consulting services business provided consultancy services to original equipment manufacturers, engine manufacturers and government departments. The engineering services provided include research, design, development, calibration, improvement, production support, performance testing, emissions testing and certification.

Royalties and licences (intellectual property rights)
The royalties and licences business received revenue from licensees of Orbital technologies. Applications utilising Orbital technologies include outboard engines, auto rickshaws and scooters.

**Accounting policies**

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:
- Corporate management and finance and administration overhead expenses.
- Share of profit from equity accounted investment.
- Finance costs - including adjustments on provisions due to discounting.
- Cash and cash equivalents.
- Borrowings.

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

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

**Geographical information**

The Aerospace segment is managed on an American basis. The Mining & Industrial and Accelerator segments are managed on a worldwide basis. Royalties and licences within the Consumer segment is managed on a worldwide basis and the LPG businesses on an Australian basis. In presenting geographical information revenue is based on the geographical location of customers and non-current assets are based on the geographical location of the assets.

Revenue is derived predominantly from the sale of UAV engines and propulsion systems, the design, development and installation of REMSAFE systems, the sale of intellectual property rights to Orbital's OCP technology, and innovation and

**5. OPERATING SEGMENTS (CONTINUED)**

commercialisation consulting fees. The consolidated entity operates predominantly in the aviation, mining, automotive, marine, and motorcycle markets.

**Major customers**

The Group has a number of customers to which it provides both products and services. The Aerospace supply is to one major customer that accounted for 35% (2014: one customer 10%) of external revenue. The Mining and Industrial segment supplies to Australian mining companies of which one customer accounted for 19% of external revenue (2014: nil%). No other customer accounts for more than 10% of revenue.

**(a) Operating Segments**

| | Aerospace | | Mining & Industrial | | Consumer | | Accelerator | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Segment revenue - external customers | 3,560 | 2,750 | 2,281 | - | 777 | 1,124 | 2,936 | 2,898 | 9,554 | 6,772 |
| Unallocated other revenue | | | | | | | | | 106 | 157 |
| Total revenue | | | | | | | | | 9,660 | 6,929 |
| Segment result | 492 | 193 | 257 | - | 904 | 884 | (375) | (842) | 1,278 | 235 |
| Research & development costs – (net) (i) | | | | | | | | | (2,564) | (1,244) |
| Unallocated expenses - (net) (ii) | | | | | | | | | (823) | (989) |
| Finance costs | | | | | | | | | (964) | (533) |
| Share of profit from associate | | | | | | | | | 2,860 | 3,256 |
| Net (loss)/profit before related income tax | | | | | | | | | (213) | 725 |
| Income tax (expense)/benefit | | | | | | | | | (448) | 479 |
| (Loss)/profit after tax from continuing operations | | | | | | | | | (661) | 1,204 |

| | Aerospace | | Mining & Industrial | | Consumer | | Accelerator | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Non-cash (revenue) and expenses | | | | | | | | | | |
| Depreciation and amortisation | 119 | 96 | 290 | - | 152 | 378 | 404 | 434 | 965 | 908 |
| Equity settled employee compensation | 87 | 43 | - | - | 9 | 25 | 15 | 8 | 111 | 76 |
| Other non-cash (income)/expenses | - | (502) | - | - | 1,780 | (386) | (541) | (225) | 1,239 | (1,113) |
| Segment non-cash expenses | 206 | (363) | 290 | - | 1,941 | 17 | (122) | 217 | 2,315 | (129) |
| Equity settled employee compensation | | | | | | | | | 255 | 57 |
| Amortisation of non-interest bearing loans | | | | | | | | | 541 | 533 |
| Finance costs | | | | | | | | | 165 | - |
| Share of profit from associate | | | | | | | | | (2,860) | (3,256) |
| Movement in provision for surplus lease space | | | | | | | | | 38 | (135) |
| Foreign exchange translation gain | | | | | | | | | (124) | (72) |
| Movement in fair value of financial instruments | | | | | | | | | 233 | (136) |
| Total non-cash expenses and (revenue) | | | | | | | | | 563 | (3,138) |

(i) Research & development costs are net of research and development grants recorded as other income.
(ii) Unallocated expenses (net) include corporate management, finance and administration overhead expenses net of unallocated other income.

## 5. OPERATING SEGMENTS (CONTINUED)

### (a) Operating Segments

| | Aerospace | | Mining & Industrial | | Consumer | | Accelerator | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | **2015** | 2014 | **2015** | 2014 | **2015** |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | **$'000** | $'000 | **$'000** | $'000 | **$'000** |
| **Segment assets** | **2,030** | 1,459 | **8,491** | - | **1,783** | 6,952 | **3,775** | 3,517 | **16,079** | 11,928 |
| Unallocated assets | | | | | | | | | | |
| Cash | | | | | | | | | **6,649** | 5,416 |
| Other financial assets | | | | | | | | | **1,369** | 1,341 |
| Investment in associate | | | | | | | | | **17,826** | 13,980 |
| Deferred tax assets | | | | | | | | | **5,621** | 5,001 |
| **Consolidated Total Assets** | | | | | | | | | **47,544** | 37,666 |
| **Segment liabilities** | **2,433** | 3,618 | **2,824** | - | **1,286** | 2,423 | **1,858** | 2,290 | **8,401** | 8,331 |
| *Unallocated liabilities* | | | | | | | | | | |
| Long term borrowings | | | | | | | | | **17,201** | 8,290 |
| **Consolidated Total Liabilities** | | | | | | | | | **25,602** | 16,621 |
| **Consolidated Net Assets** | | | | | | | | | **21,942** | 21,045 |
| **Segment acquisitions of non-current assets** | **70** | 164 | **67** | - | **56** | 99 | **56** | 114 | **249** | 377 |

### (b) Geographic information

| | Americas | | Europe | | Asia | | Australia | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **Revenue – external customers** | **4,535** | 3,935 | **103** | 170 | **1,638** | 1,159 | **3,278** | 1,508 | **9,554** | 6,772 |
| **Non-current assets** | **23,447** | 18,981 | - | - | - | - | **7,789** | 2,845 | **31,236** | 21,826 |

| | | CONSOLIDATED | |
|---|---|---|---|
| | | 2015 | 2014 |
| | | $'000 | $'000 |
| **6.** | **OTHER REVENUE** | | |
| | Interest revenue | **106** | 157 |
| **7.** | **OTHER INCOME** | | |
| | Automotive grant income (a) | **90** | 171 |
| | Net foreign exchange gains | **196** | 281 |
| | Grant income | **1,623** | 891 |
| | Fair value movement in contingent consideration (note 12) | **638** | 248 |
| | Fair value movement in financial instruments (note 12) | **-** | 136 |
| | Movement in provision for constructive obligations | **-** | 148 |
| | Rental income from sub-lease | **449** | 108 |
| | Research and development grant (b) | **2,265** | 2,224 |
| | Other | **30** | 14 |
| | | **5,291** | 4,221 |

(a) The Group received Automotive Transformation Scheme (ATS) credits from the Federal Government for qualifying research and development activities and accounts for these as government grants.

(b) In accordance with research and development tax legislation the Group is entitled to a refundable research and development tax offset accounted for as a government grant.

| | | | |
|---|---|---|---|
| **8.** | **EXPENSES** | | |
| **(a)** | **Employee benefits expenses** | | |
| | Salaries and wages | **7,194** | 5,760 |
| | Contributions to defined contributions superannuation funds | **690** | 613 |
| | Share based payments | **358** | 107 |
| | Increase/(Decrease) in liability for annual leave | **61** | (21) |
| | Increase in liability for long service leave | **121** | 88 |
| | Other associated personnel expenses | **501** | 473 |
| | | **8,925** | 7,020 |
| **(b)** | **Finance costs** | | |
| | Non-cash interest expense WA Government Loan | **541** | 533 |
| | Convertible Note interest expense | **423** | - |
| | | **964** | 533 |
| **(c)** | **Other expenses** | | |
| | Administration | **127** | 113 |
| | Marketing | **17** | 20 |
| | Investor Relations | **4** | 21 |
| | Freight & courier | **8** | 13 |
| | Fair value movement in financial instruments | **233** | - |
| | Loss on disposal of plant and equipment | **-** | 90 |
| | Other | **77** | 47 |
| | | **466** | 304 |
| **(d)** | **Materials and consumables expenses** | | |
| | Raw materials and consumables purchased | **223** | 709 |
| | Write back inventory impairment | **(14)** | (4) |
| | Change in inventories | **309** | 170 |
| | | **518** | 875 |

| | | CONSOLIDATED | |
|---|---|---|---|
| | | 2015 | 2014 |
| | | $'000 | $'000 |
| **8.** | **EXPENSES (CONTINUED)** | | |
| **(e)** | **Lease payments included in statement of profit or loss** | | |
| | Minimum lease payments – operating lease | **1,150** | 1,109 |
| **(f)** | **Research and development costs** | | |
| | Research and development costs charged directly to the statement of profit or loss | **3,646** | 1,910 |
| **9.** | **INCOME TAX** | | |
| **(a)** | **Recognised in the statement of profit or loss** | | |
| | **Current income tax** | | |
| | Current year expense | **(1,010)** | (2,048) |
| | Benefits arising from previously unrecognised tax losses | **1,070** | 2,098 |
| | Relating to originating and reversing temporary differences | **(508)** | 429 |
| | **Total income tax benefit/(expense) in statement of profit or loss** | **(448)** | 479 |
| **(b)** | **Numerical reconciliation between tax benefit and pre-tax net profit/(loss)** | | |
| | (Loss)/profit before tax from continuing operations | **(213)** | 725 |
| | (Loss)/profit before tax from discontinued operations | **(4,068)** | 472 |
| | (Loss)/profit before income tax | **(4,281)** | 1,197 |
| | Income tax using the statutory tax rates | **1,284** | (359) |
| | - Effect of higher tax rates in the United States of America | **(111)** | (130) |
| | - Non-deductible expenditure | **(2,187)** | (1,816) |
| | - Non assessable income | **721** | 667 |
| | - Deferred tax asset not recognised | **(562)** | - |
| | - Current year deferred tax assets not recognised | **(62)** | (31) |
| | - Previous year deferred tax assets derecognised | **(598)** | - |
| | - Benefits arising from previously unrecognised tax losses | **1,070** | 2,098 |
| | - Net withholding tax (paid)/recouped | **(5)** | 12 |
| | - Other | **102** | - |
| | - United States of America Federal and State taxes | **(100)** | 38 |
| | Income tax (expense)/benefit on pre-tax net profit | **(448)** | 479 |

**(c) Tax consolidation**

Members of the tax consolidated group and the tax sharing arrangement:

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

### 10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2015 was based on loss attributable to ordinary shareholders of $4,542,000 (2014: profit $1,676,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2015 of 46,212,805 shares (2014: 49,502,395 shares), calculated as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $ | $ |
| Profit attributable to ordinary equity holders of the Parent: | | |
| Continuing operations | **(474,000)** | 1,204,000 |
| Discontinued operations | **(4,068,000)** | 472,000 |
| **Profit attributable to ordinary equity holders of the Parent for basic earnings** | **(4,542,000)** | 1,676,000 |
| | | |
| Weighted average number of ordinary shares | Number | Number |
| Weighted average number of ordinary shares at 30 June | **46,212,805** | 49,502,395 |
| Effect of potential dilutive ordinary shares | **-** | - |
| Weighted average number of potential dilutive ordinary shares at 30 June | **46,212,805** | 49,502,395 |
| | | |
| Earnings per share | Cents | Cents |
| Basic earnings per share | **(9.83)** | 3.39 |
| Diluted earnings per share | **(9.83)** | 3.39 |

Rights granted to employees (including Key Management Personnel) as described in note 35 are considered to be contingently issuable potential ordinary shares. These potential ordinary shares have not been included in the determination of basic earnings per share. The 1,800,000 performance rights (2014: 5,220,500 rights granted under the ELTSP and the 1,150,000 performance rights) have not been included in the diluted earnings per share calculation as they were contingent on future events.

In order for the convertible notes to be considered dilutive they are required to be dilutive to the continuing operations of the Group. There are 24,000,000 anti-dilutive potential shares outstanding at 30 June 2015. The convertible notes are considered anti-dilutive in the current period as the interest per ordinary share obtainable on conversion exceeds basic earnings per share.

### 11. CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash at bank | **1,851** | 575 |
| Cash at bank – US dollars | **37** | 8 |
| Cash at bank – European currency units | **2** | 2 |
| At call deposits – financial institutions* | **4,759** | 4,831 |
| | **6,649** | 5,416 |

* The deposits are at call with an Australian Bank, earning an interest rate of 2.75%

### 12. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### (a) Other financial assets

**Financial instruments at fair value through profit or loss**

| | | |
|---|---|---|
| Derivatives not designated as hedges | | |
| Foreign exchange forward contracts | **-** | 136 |
| **Short term deposits at amortised cost** | | |
| Short term deposits | **1,369** | 1,205 |
| **Total other financial assets** | **1,369** | 1,341 |

## 12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

### (a) Other financial assets (continued)

**Financial assets at fair value through profit and loss**

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

**Short term deposits at amortised cost**

Short term deposits represents term deposits with financial institutions for periods greater than 90 days and less than 365 days earning interest at the respective term deposit rates at time of lodgement.

Due to the short term nature of the deposits carrying value approximates fair value. Short term deposits are only invested with a major financial institution to minimise the risk of default of counterparties.

Short term deposits are held as collateral for the financial arrangements provided by Westpac Banking Corporation, refer note 21 for further details.

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **(b) Other financial liabilities** | | |
| (i) Financial liabilities and borrowings | | |
| **Current** | | |
| Obligations under hire purchase contracts | **-** | 23 |
| Current portion of loans and advances - secured | **597** | 498 |
| **Total current borrowings** | **597** | 521 |
| **Non-current** | | |
| Obligations under hire purchase contracts | **-** | 19 |
| Convertible note issuance | **8,868** | - |
| Loans and advances - secured | **7,736** | 7,792 |
| **Total non-current borrowings** | **16,604** | 7,811 |

**Convertible note issuance**

During the period the Group issued 200 unlisted Convertible Notes with a face value of $50,000 to raise $10,000,000. The Convertible Note issue funded Orbital’s acquisition of 50% of REMSAFE Pty Ltd (“REMSAFE”) and the associated working capital requirements of integrating REMSAFE into Orbital, building the order book and expanding the business. Orbital shareholders approved the issue of the Notes at the Extraordinary General Meeting held on 21 January 2015.

The Convertible Notes mature two years from the date of issue. The coupon interest rate is 10% per annum accruing daily and paid quarterly in arrears, payable in Orbital Shares or cash, at the election of the Note Holder. The Convertible Notes are fully secured pursuant to a general security deed and ranks in priority to any existing security.

Each Convertible Note represents 125,000 ordinary shares at a conversion price of $0.40 per share. Note Holders may elect to convert the Notes into Orbital Shares at any time prior to the maturity date. The Notes will be redeemed at face value plus outstanding interest on the maturity date if not redeemed or converted beforehand. The Notes are redeemable after six months at the election of the Company by paying the face value, outstanding interest and an early redemption fee. Pursuant to the terms of the Notes the prevailing conversion price is subject to adjustment in the case of a bonus issue of shares, a capital reconstruction or a pro-rata share issue.

On issuance of the Convertible Notes the fair value of the liability component was determined using a market interest rate for an equivalent loan without conversion rights. This amount was classified as a financial liability and subsequently measured at amortised cost (net of transaction costs) until extinguished on conversion or redemption. The remainder of the proceeds was allocated to the conversion option that is recognised and included in equity. The portion of the transaction costs attributable to the conversion right were deducted from equity. Interest is recognised using the effective interest rate method over the terms of the notes. The effective interest rate is 13.72%.

The financial liability reclassified to issued capital on conversion for the period amounted to $366,000 representing the conversion of eight convertible notes during the reporting period. The face value of the notes outstanding at 30 June 2015 $9,600,000.

## 12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

### (b) Other financial liabilities (continued)

**Loans and advances - secured**

The Government of Western Australia had previously provided the company with a fully utilised loan facility of $19,000,000 under the terms of a "Development Agreement". During the 2010 year Orbital reached agreement with the WA Government through the Department of Commerce for the restructure of the Non-Interest Bearing Loan.

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

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

The restructured loan's net fair value utilising a market interest rate of 6.52% was $7,558,000 on initial recognition.

Subsequent to initial recognition the loan is carried at amortised cost. Amortisation for the year ended 30 June 2015 was $540,000 (2013: $533,000).

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

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **(ii) Financial instruments at fair value through profit or loss** | | |
| Contingent consideration for business acquisition | - | 638 |
| **Total financial liabilities at fair value through profit or loss** | - | 638 |
| **Total current other financial liabilities** | - | 638 |

**Contingent Consideration for business acquisition**

On 27 May 2011, Orbital Autogas Systems Pty Ltd acquired 55% of the voting shares of Sprint Gas (Aust) Pty Ltd, a company incorporated to acquire the operating business of Sprint Gas, an Australian business specialising in the importation and wholesaling of LPG Fuel systems.

Concurrently with the entering into of the Business Acquisition Agreement, the Group entered into a Subscription and Shareholders Agreement with the owners of the 45% non-controlling interest in Sprint Gas (Aust) Pty Ltd. As part of the Subscription and Shareholders Agreement Put and Call options were issued over the remaining 45% non-controlling interest. The Put and Call options, exercisable after 30 months, are in nature a forward contract and therefore a present ownership interest is granted. The calculation of the exercise price is based on EBITDA multiples and the call option is subject to a floor price which is net asset value. The Group has accounted for the business combination as though it acquired a 100% interest and has recognised a financial liability to the non-controlling shareholders equal to the fair value of the underlying obligations under the Put and Call options (contingent consideration liability).

The underlying obligation under the Put and Call options that gives rise to the contingent consideration liability was initially recognised at fair value and subsequently carried at fair value through the profit and loss.

A gain of $638,000 (2014: $248,000) was recognised in the statement of profit and loss during the current year due to a change in the fair value of the contingent consideration, included in the line item "Other income".

The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. The undiscounted value is discounted at the present value using a market discount rate. The fair value as at 30 June 2015 is $nil due to the loss making position of Sprint Gas.

### (c) Hedging activities and derivatives

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

At 30 June 2015 the contractual undiscounted payments related to foreign exchange forward contracts totalled $nil (2014: $2,330,000). The Group pledged $500,000 of its short-term deposits in order to fulfil the collateral requirements for the foreign exchange forward contracts that were in place.

**12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

**(d) Financial risk management objectives and policies**

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

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

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

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

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

**Risk Exposures and Responses**

*Interest rate risk*

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

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

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

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **Financial Assets** | | |
| Cash and cash equivalents | **6,649** | 5,416 |
| Short term deposits | **1,369** | 1,205 |
| | **8,018** | 6,621 |
| | | |
| **Financial Liabilities** | | |
| Contingent consideration | **-** | 638 |

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

***At 30 June 2015, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:***

| | **Post tax profit/(loss) Higher/(Lower)** | | **Other comprehensive income Higher/(Lower)** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Consolidated | | | | |
| +1% (100 basis points) | **81** | 78 | - | - |
| - 1% (100 basis points) | **(80)** | (79) | - | - |

**12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

**(d) Financial risk management objectives and policies (continued)**

*Foreign currency risk*

As a result of the investment in Synerject LLC, an associate, the Group's statement of profit or loss and statement of financial position can be affected significantly by movements in the US$/A$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Approximately 29% (FY2014: 29%) of the Group's sales from continuing operations are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 9% (FY2014: 8%) of costs from continuing operations are denominated in currencies other than the functional currency of the operating entity making the expenditure.

With respect to assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling forward foreign currency contracts at spot rates when incurred. The Group does not hold foreign currency positions for trading purposes.

***At 30 June 2015, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:***

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **Financial Assets** | | |
| Cash and cash equivalents | **37** | 8 |
| Trade and other receivables | **690** | 92 |
| Foreign exchange forward contract | **-** | 136 |
| | **727** | 236 |
| **Financial Liabilities** | | |
| Trade and other payables | **20** | 101 |

***At 30 June 2015, the Group had the following exposure to European currency units that is not designated in cash flow hedges:***

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **Financial Assets** | | |
| Cash and cash equivalents | **2** | 2 |
| Trade and other receivables | **27** | - |
| | **29** | 2 |
| **Financial Liabilities** | | |
| Trade and other payables | **-** | 10 |

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

***At 30 June 2015, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:***

| | **Post tax profit/(loss) Higher/(Lower)** | | **Other comprehensive income Higher/(Lower)** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Consolidated | | | | |
| AUD/USD/EURO +5% | **35** | 105 | **-** | - |
| AUD/USD/EURO -5% | **(39)** | (115) | **-** | - |

The movements in profit in 2015 are less sensitive than in 2014 due to the foreign exchange forward contract in 2014.

## 12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

### (d) Financial risk management objectives and policies (continued)

*Credit risk*

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

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

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

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

There are no significant concentrations of credit risk within the Group, other than the research and development grant receivable from the Australian Government. Financial instruments are only invested with a major financial institution to minimise the risk of default of counterparties. An ageing of receivables is included in Note 14.

*Liquidity risk*

The external borrowings of the Group consist of :

- Convertible Note with 10% interest coupons payable quarterly and capital repayable in February 2017. Coupon interest is payable in Orbital shares or cash at the election of the Note Holders. Coupon interest payments and capital repayments reduce when the notes are converted to ordinary shares.
- Interest free Western Australian Government loan of $14,346,000 repayable in yearly instalments from May 2010 to May 2025.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2015. For all obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2015. The Group’s approach to managing liquidity is to ensure, as far as is possible, that it will always have sufficient liquidity to meet its liabilities when due and payable without incurring unacceptable losses or risks.

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

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| 6 months or less | **4,755** | 3,708 |
| 6-12 months | **842** | 1,148 |
| 1-5 years | **13,815** | 3,225 |
| Over 5 years | **7,715** | 8,953 |
| | **27,127** | 17,034 |

## 13. FAIR VALUES

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

| | Carrying Amounts | | Fair Value | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $’000 | $’000 | $’000 | $’000 |
| **Financial Assets** | | | | |
| Foreign exchange forward contracts | **-** | 136 | **-** | 136 |
| Total | **-** | 136 | **-** | 136 |
| **Financial Liabilities** | | | | |
| Loans and advances - secured | **8,333** | 8,290 | **6,355** | 6,118 |
| Convertible Note issuance | **8,868** | - | **9,032** | - |
| Contingent Consideration | **-** | 638 | **-** | 638 |
| Total | **17,201** | 8,928 | **15,387** | 6,756 |

**13. FAIR VALUES (CONTINUED)**

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

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

- Foreign exchange forward contracts are valued using a discounted cash flow valuation technique with market observable inputs such as foreign exchange forward rates and interest rates.
- The fair value of the Group's secured loan is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2015: 12% (2014: 12%).
- The fair value of the debt component of the convertible note issuance is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2015: 12%.
- The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. As at 30 June 2014 the undiscounted value was discounted at the present value using a market discount rate of 6.31%. The fair value as at 30 June 2015 is $nil due to the loss making position of the Sprint Gas business.
- The fair value of the Disposal Group' assets were classified as held for sale and measured at the lower of its carrying amount and fair value less costs to sell. The fair value was based on the terms of the sale agreement to be executed within the next 12 months. Refer to note 31.

**Fair value measurement**

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

| **As at 30 June 2015:** | | Fair value measurement using | | |
|---|---|---|---|---|
| | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | $'000 | $'000 | $'000 | $'000 |
| **Financial assets measured at fair value:** | | | | |
| Foreign exchange forward contracts – US dollar | **-** | - | - | - |
| **Financial liabilities measured at fair value:** | | | | |
| Contingent consideration | **-** | - | - | - |
| **Financial liabilities for which fair values are disclosed:** | | | | |
| Loans and advances - secured | **6,355** | - | 6,355 | - |
| Debt component of convertible notes | **9,032** | - | 9,032 | - |
| **Other assets - Disposal Group at fair value less costs to sell:** | | | | |
| Assets held for sale – refer to Note 31 | **527** | - | - | 527 |
| | **15,914** | - | 15,387 | 527 |

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

| **As at 30 June 2014:** | | Fair value measurement using | | |
|---|---|---|---|---|
| | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | $'000 | $'000 | $'000 | $'000 |
| **Assets measured at fair value:** | | | | |
| Foreign exchange forward contracts – US dollar | 136 | - | 136 | - |
| **Liabilities measured at fair value:** | | | | |
| Contingent consideration | 638 | - | - | 638 |
| **Liabilities for which fair values are disclosed:** | | | | |
| Loans and advances - secured | 6,118 | - | 6,118 | - |
| | 6,892 | - | 6,254 | 638 |

## 13. FAIR VALUES (CONTINUED)

### Fair value measurement (continued)

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

| | Consolidated | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| At 1 July | **638** | 886 |
| Contingent consideration released to the statement of profit or loss | **(638)** | (248) |
| Disposal group assets classified as held for sale - Refer to Note 31 | **527** | - |
| At 30 June | **527** | 638 |

**Significant unobservable inputs to the valuation of the contingent consideration:**

The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which was based on an estimated average EBITDA multiple. The undiscounted value was discounted to its present value using a market discount rate. Management estimated average EBITDA by reference to the actual results of the business since acquisition and the latest forecasts of future results for the business. This reduced the fair value of the contingent consideration and resulted in a fair value gain of $638,000 (2014: $248,000), which has been reflected in the profit and loss account. The fair value as at 30 June 2015 is $nil due to the loss making position of Sprint Gas.

## 14. TRADE AND OTHER RECEIVABLES

| | | |
|---|---|---|
| **Current** | | |
| Trade receivables | **4,164** | 2,601 |
| Allowance for impairment loss (a) | **(1)** | (21) |
| | **4,163** | 2,580 |
| | | |
| Accrued royalties | **168** | 211 |
| Other receivables | **2,393** | 2,564 |
| Prepayments | **267** | 400 |
| | **6,991** | 5,755 |

### (a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment allowance account of $1,000 (2014: $21,000) has been recognised by the Group at balance date. Movement in this allowance account has been included in the other income item.

Movements in the allowance for impairment loss were as follows:

| | | |
|---|---|---|
| At 1 July | **(21)** | (180) |
| Write-back for the year | **3** | 130 |
| Amounts written off | **17** | 29 |
| At 30 June | **(1)** | (21) |

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

| | | Total | 0-30 days | 31-60 days | 61-90 days PDNI* | +91 days PDNI* | +91 days CI* |
|---|---|---|---|---|---|---|---|
| 2015 | Consolidated | **4,164** | **3,154** | **952** | **30** | **27** | **1** |
| 2014 | Consolidated | 2,601 | 1,276 | 176 | 153 | 975 | 21 |

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

#### (a) Allowance for impairment loss (continued)

Receivables past due but not considered impaired are $57,000 (2014:$1,128,000). Management has been in contact with each relevant debtor and is satisfied that payments will be received in full.

Included with the not considered impaired category for the prior period is a balance of $1,043,000 receivable from Textron. The Group subsequently recovered the overdue invoices in accordance with the payment plan that had been agreed with the customer.

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

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

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

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **15. INVENTORIES** | | |
| Materials and production supplies – at lower of cost and net realisable value | **390** | 3,328 |

#### (a) Inventory expense

Inventories recognised as an expense from continued operations for the year ended 30 June 2015 totalled $518,000 (2014: $875,000) for the Group (Refer to Note 8(d)).

### 16. INVESTMENT IN ASSOCIATE

#### (a) Interest in Synerject LLC

The Group holds a 30% (2014: 30%) share of Synerject LLC. The investment is recognised and disclosed as an investment in an associate.

The principal activities of Synerject LLC are the marketing, sale and manufacture, including research and development in the area of engine management systems and components in the marine, recreational, motorcycle and utility markets. Synerject is a key supplier of engine management systems to the non-automotive market. Original equipment products using Synerject's engine management systems range from the high performance motorcycle/recreational vehicles to the high volume scooter and small engine applications. Application centres in Europe, China, Taiwan and the United States provide on-site support of customer development and production programs.

The Group accounts for the investment in Synerject using the equity method.

Other information for Synerject is as follows:

| | |
|---|---|
| **Country of incorporation:** | USA |
| **Financial Year end:** | 31 December |
| **30 June Ownership:** | 2015: 30%; 2014: 30%. |

**16. INVESTMENT IN ASSOCIATE (CONTINUED)**

**(a) Interest in Synerject LLC (continued)**

The following is summarised financial information for Synerject at 30 June 2015 based on its consolidated financial statements modified for fair value adjustments on acquisition and differences in the Group's accounting policies:

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Revenue (100%) | **141,054** | 141,746 |
| Profit (100%) | **8,300** | 9,970 |
| Other comprehensive income | **(1,153)** | 253 |
| Total comprehensive income | **7,147** | 10,223 |
| Current assets | **59,196** | 56,597 |
| Non-current assets | **9,521** | 9,605 |
| Current liabilities | **30,483** | 29,709 |
| Net assets | **38,234** | 36,493 |

| | 2015<br>A$'000 | 2014<br>A$'000 |
|---|---|---|
| Revenue (100%) | **168,543** | 154,323 |
| Profit (100%) | **9,534** | 10,855 |
| Other comprehensive income | **(1,378)** | 275 |
| Total comprehensive income | **8,156** | 11,130 |
| Current assets | **77,078** | 60,082 |
| Non-current assets | **12,397** | 10,196 |
| Current liabilities | **39,691** | 31,538 |
| Net assets | **49,784** | 38,740 |
| Orbital's interest in the net assets of Synerject | **14,935** | 11,622 |
| Share of goodwill | **2,891** | 2,358 |
| Share of Synerject's net assets equity accounted | **17,826** | 13,980 |

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

| | CONSOLIDATED<br>2015<br>$'000 | <br>2014<br>$'000 |
|---|---|---|
| Beginning of year | **13,980** | 12,468 |
| Share of profits after tax | **2,860** | 3,256 |
| Share of reserves | **(421)** | 80 |
| Dividends received | **(2,060)** | (1,634) |
| Unrealised foreign exchange movements | **3,467** | (190) |
| End of year | **17,826** | 13,980 |

| | | CONSOLIDATED | |
|---|---|---|---|
| | | 2015 | 2014 |
| | | $'000 | $'000 |
| **16.** | **INVESTMENT IN ASSOCIATE (CONTINUED)** | | |
| **(c)** | **Results of Synerject** | | |
| | Share of Synerject's net profit | **2,860** | 3,256 |
| **(d)** | **Commitments** | | |
| | Share of Synerject's capital commitments contracted but not provided for or payable: | | |
| | Within one year | **366** | 283 |
| | One year or later and no later than five years | **711** | 667 |
| | | **1,077** | 950 |

**17. DEFERRED TAX ASSETS AND LIABILITIES**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| Consolidated | Deferred Tax Assets | | Deferred Tax Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Tax value of loss carry-forwards recognised | **5,621** | 5,001 | **-** | - | **5,621** | 5,001 |
| Other net temporary differences (a) | **807** | 1,014 | **(807)** | (1,014) | **-** | - |
| Net deferred tax assets | **6,428** | 6,015 | **(807)** | (1,014) | **5,621** | 5,001 |

Under the tax laws of the United States, tax losses that cannot be fully utilised for tax purposes during the current year may be carried forward, subject to some statutory limitations, to reduce taxable income in future years. At 30 June 2015, the available tax carry forward losses of US$16,714,637 (2014: US$18,835,062) expire between the years 2016 and 2024.

**Movement in temporary differences during the comparative year**

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

**Movement in temporary differences during the current year**

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Balance 1 Jul 14 | Acquired during the year | Recognised in income | Recognised in equity (b) | Balance 30 June 15 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Tax value of loss carry-forwards recognised | **5,001** | **(116)** | **(392)** | **1,128** | **5,621** |
| Other net temporary differences | **-** | **-** | **-** | **-** | **-** |
| Net tax assets | **5,001** | **(116)** | **(392)** | **1,128** | **5,621** |

| | CONSOLIDATED 2015 $'000 | CONSOLIDATED 2014 $'000 |
|---|---|---|

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

**(a) Other net temporary differences**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| ***Deferred tax assets*** | | |
| Annual leave | **196** | 197 |
| Long service leave | **342** | 338 |
| Staff bonus | **4** | 22 |
| Revenue in advance | **171** | 393 |
| Other | **94** | 64 |
| | **807** | 1,014 |
| ***Deferred tax liabilities*** | | |
| Unrealised foreign exchange gain on inter-company loan | **(727)** | (1,003) |
| Other | **(80)** | (11) |
| | **(807)** | (1,014) |
| **Net temporary differences** | **-** | - |

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

**(c) Unrecognised deferred tax assets**

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Australia (net at 30%) | | |
| Tax losses | **20,658** | 20,027 |
| Capital loss on investment | **1,934** | 1,934 |
| Other net temporary differences | **346** | 317 |
| | **22,938** | 22,278 |
| United States of America (net 34%) | | |
| Tax losses | **1,789** | 1,796 |
| Other net temporary differences | **132** | 132 |
| | **1,921** | 1,928 |

### 18. PLANT AND EQUIPMENT

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| *Plant and equipment* | | |
| At cost | **18,193** | 18,121 |
| Less: accumulated depreciation | **(15,934)** | (15,276) |
| Total plant and equipment – net book value | **2,259** | 2,845 |

| | CONSOLIDATED 2015 $'000 | 2014 $'000 |
|---|---|---|

## 18. PLANT AND EQUIPMENT

**Reconciliations**

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| *Plant and equipment* | | |
| Carrying amount at beginning of year | **2,845** | 3,383 |
| Additions | **249** | 377 |
| Acquired in a business combination | **36** | - |
| Disposals | **-** | (153) |
| Depreciation | **(658)** | (762) |
| Reclassified as held for sale – note 31 | **(213)** | - |
| Carrying amount at end of year | **2,259** | 2,845 |
| *Total* | | |
| Carrying amount at beginning of year | **2,845** | 3,383 |
| Carrying amount at end of year | **2,259** | 2,845 |

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

**Finance Leases**

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2015 was $nil (2014: $33,000). No additions to plant and equipment under finance leases were made during the year (2014: $nil). Leased assets and assets under hire purchase contracts were pledged as security for the related finance lease and hire purchase liabilities.

## 19. INTANGIBLES AND GOODWILL

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Goodwill acquired in business combinations | **5,218** | - |
| Customer contracts acquired in business combinations | **312** | - |
| Total intangibles and goodwill – net book value | **5,530** | - |
| **Net carrying value** | | |
| *Goodwill acquired in business combinations* | | |
| At cost | **5,218** | - |
| Less: allowance for impairment | **-** | - |
| Carrying amount at end of year | **5,218** | - |
| *Customer contracts acquired in business combinations* | | |
| At cost | **597** | - |
| Less: accumulated amortisation | **(285)** | - |
| Carrying amount at end of year | **312** | - |
| *Capitalised development expenditure* | | |
| At cost | **826** | 826 |
| Less: accumulated amortisation and impairment | **(826)** | (826) |
| | - | - |

| | CONSOLIDATED 2015 $'000 | 2014 $'000 |
|---|---|---|

### 19. INTANGIBLES AND GOODWILL (CONTINUED)

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Reconciliations of the carrying amounts for goodwill: | | |
| Carrying amount at beginning of year | **-** | - |
| Acquired in business combinations | **5,218** | - |
| Impairment charge | **-** | - |
| Carrying amount at end of year | **5,218** | - |
| Reconciliations of the carrying amounts for customer contracts: | | |
| Carrying amount at beginning of year | **-** | - |
| Acquired in business combinations | **597** | - |
| Amortisation | **(285)** | - |
| Carrying amount at end of year | **312** | - |
| Reconciliations of the carrying amounts for capitalised development expenditure: | | |
| Carrying amount at beginning of year | **-** | 146 |
| Amortisation | **-** | (146) |
| Carrying amount at end of year | **-** | - |

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

**Goodwill**
The goodwill arose on the acquisition of REMSAFE Pty Ltd on 4 February 2015 ($5,218,000). As at 30 June 2015 the value of goodwill recognised is based on a provisional assessment of the fair value of identifiable assets and liabilities acquired. Due to the time period between the acquisition and the end of the reporting period the fair values were not yet finalised as at 30 June 2015. The Group has left the acquisition accounting open pending further adjustment to the fair values of net assets acquired. The initial accounting for the business combination will be finalised within the next financial year.

As the acquisition accounting is not finalised, the provisional goodwill recognised has not been tested for impairment as no indicators of impairment exist.

**Customer contracts**
Customer contracts were acquired as part of the REMSAFE acquisition and recognised separately from goodwill. The customer contracts are carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Following initial recognition, customer contracts are amortised based on the estimated timing of when the benefits are expected to be received from such contracts.

**Capitalised development expenditure**
Expenditure on development activities relating to next generation LPG fuel systems for the Ford EcoLPI Falcon were capitalised. The EcoLPI range of Falcon vehicles were launched by Ford Australia in July 2011.

### 20. TRADE PAYABLES AND OTHER LIABILITIES

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Current** | | |
| Trade creditors and accruals | **4,510** | 3,696 |

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

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

| | CONSOLIDATED 2015 $'000 | 2014 $'000 |
|---|---|---|

## 21. FINANCING ARRANGEMENTS

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Total facilities available** | | |
| Corporate credit card facility | **200** | 228 |
| Bank guarantee | **1,169** | 505 |
| Dividends received | **1,369** | 733 |
| **Facilities utilised at balance date** | | |
| Corporate credit card facility | **78** | 49 |
| Bank guarantee | **1,169** | 505 |
| | **1,247** | 554 |
| **Facilities not utilised at balance date** | | |
| Corporate credit card facility | **122** | 179 |
| Bank guarantee | **-** | - |
| | **122** | 179 |

The Group has pledged short term deposits of $697,000 (2014: $705,000) held as collateral for the financing facilities.

A bank guarantee has been provided for the benefit of the landlords of the Balcatta and Sydney premises.

The Group has pledged short term deposit of $672,000 (2014: $nil) held as collateral for performance guarantees under contractual arrangements related to customer agreements.

## 22. EMPLOYEE BENEFITS

| | | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| (a) | **Current** | | |
| | Annual leave | **782** | 747 |
| | Long service leave | **1,244** | 1,191 |
| | | **2,026** | 1,938 |
| (b) | **Non-Current** | | |
| | Long service leave | **35** | 32 |
| (c) | **Aggregate liability for employee entitlements** | **2,061** | 1,970 |

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

| | 2015 | 2014 |
|---|---|---|
| Assumed rate of increase in wage and salary rates | **4.0%** | 4.0% |
| Discount rate at 30 June | **3.6%** | 3.0% |
| Settlement term (years) | **10** | 10 |

**Number of employees**

| | 2015 | 2014 |
|---|---|---|
| Number of employees at year end | **96** | 89 |

| | | CONSOLIDATED | |
|---|---|---|---|
| | | 2015 | 2014 |
| | | $'000 | $'000 |

### 23. DEFERRED REVENUE

**(a) Current**

| | | |
|---|---|---|
| Deferred revenue for operation of heavy duty engine testing facility | **-** | 316 |

**(b) Movement in deferred revenue**

| | | |
|---|---|---|
| At 1 July | **316** | 316 |
| Released to income | **(316)** | - |
| At 30 June | **-** | 316 |

In June 2008 the Group received funding of $2,760,000 from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. The terms of the Grant included providing the Commonwealth with preferential access to the facility at a discount to the commercial rate for a period of five years from the date of commissioning of the facility.

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

### 24. GOVERNMENT GRANTS

| | | |
|---|---|---|
| **Current liabilities** | | |
| Investment grant for construction of heavy duty engine testing facility | **225** | 225 |
| | | |
| **Non-current liabilities** | | |
| Investment grant for construction of heavy duty engine testing facility | **749** | 974 |
| **Total government grants deferred** | **974** | 1,199 |
| | | |
| **Movement in government grants** | | |
| At 1 July | **1,199** | 1,424 |
| Released to the statement of profit or loss | **(225)** | (225) |
| At 30 June | **974** | 1,199 |

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

The terms of the Grant included providing the Commonwealth with preferential access to the facility at a discount to the commercial rate. This discount to commercial rates of $512,000 was transferred to deferred revenue (see note 23) and recorded as deferred revenue.

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

### 25. OTHER PROVISIONS

**(a) Current**

| | | |
|---|---|---|
| Warranties | **100** | 134 |
| Surplus lease space | **141** | 58 |
| | **241** | 192 |

**(b) Non-Current**

| | | |
|---|---|---|
| Surplus lease space | **233** | 278 |

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |

## 25. OTHER PROVISIONS

### (c) Reconciliations

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| *Warranties – current* | | |
| Carrying amount at beginning of year | **134** | 111 |
| Arising during the year | **19** | 227 |
| Utilised | **(53)** | (204) |
| Carrying amount at end of year | **100** | 134 |
| *Surplus lease space – current* | | |
| Carrying amount at beginning of year | **58** | 182 |
| Utilised | **(86)** | (259) |
| Reclassified from non-current | **169** | 135 |
| Carrying amount at end of year | **141** | 58 |
| *Other provisions - current* | | |
| Carrying amount at beginning of year | **-** | 502 |
| Arising during the year | **-** | - |
| Utilised | **-** | (354) |
| Released to the statement of profit or loss | **-** | (148) |
| Carrying amount at end of year | **-** | - |
| *Surplus lease space – non-current* | | |
| Carrying amount at beginning of year | **278** | 289 |
| Arising during the year | **124** | 124 |
| Reclassified to current | **(169)** | (135) |
| Carrying amount at end of year | **233** | 278 |

The product warranty provision relates to sales of LPG fuel systems. In determining the level of provision required for product warranties the Group has made judgements in respect of the expected performance of the product, number of customers who will actually use the product warranty and how often, and the costs of fulfilling the performance of the product warranty. Historical experience and current knowledge of the performance of products has been used in determining this provision. The movement in the provision is recognised in the statement of profit or loss in the line item “loss after tax for the year from discontinued operations”.

Surplus lease space provision relates to certain unutilised office space. The provision takes account of rental income the Group would recover by sub-letting the space. In the prior period a sub-lease agreement was entered into and rental from the sub-lease agreement is recognised in the statement of profit or loss in the line item “other income”. Surplus lease space provision attributable to the LPG business is recognised in the statement of profit or loss in the line item “loss after tax for the year from discontinued operations”.

The other provisions account included a provision for restoration obligations relating to SUAS engines sold during the 2013 financial year. In determining the level of provision required for restoration obligations the Group has made judgements in respect of the expected expenditures required to fulfil the obligation. The restoration obligation was completed during the 2014 financial year and the provision balance not utilised was released to the statement of profit or loss in the line item “other income”.

| | CONSOLIDATED 2015 $'000 | 2014 $'000 |
|---|---|---|
| **26. SHARE CAPITAL** | | |
| Ordinary shares | **20,021** | 19,590 |

| Movement in ordinary shares on issue | **Number** | **$'000** |
|---|---|---|
| At 1 July 2013 | 49,334,591 | 19,518 |
| Shares issued pursuant to employee share plan | 422,403 | 72 |
| At 30 June 2014 | 49,756,994 | 19,590 |
| At 1 July 2014 | **49,756,994** | **19,590** |
| Shares issued pursuant to employee share plan | **146,039** | **57** |
| Shares issued under performance rights plan | **900,000** | **208** |
| Convertible Note offer fee paid in shares | **2,000,000** | **500** |
| Convertible Note interest elected to be paid in shares | **151,765** | **73** |
| Convertible Notes converted during the period | **1,000,000** | **366** |
| On market share buy-back | **(4,975,699)** | **(773)** |
| At 30 June 2015 | **48,979,099** | **20,021** |

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.

The Company undertook an on market share buy-back of 10% of its issued capital reflecting the Board's goal of returning value to shareholders. The buy-back commenced 15 July 2014 and was completed on 20 July 2014. During this period the Company bought back 4,975,699 shares for a total consideration of $773,000. On 24 July 2014 the 4,975,699 shares were cancelled.

**Capital management**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital, provides a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as contributed shareholder equity.

**27. (ACCUMULATED LOSSES)/RETAINED PROFITS AND RESERVES**

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

| | 2015 | 2014 |
|---|---|---|
| Balance 1 July | **2,042** | 366 |
| Net (loss)/profit attributable to Equity holders of the Parent | **(4,542)** | 1,676 |
| Balance 30 June | **(2,500)** | 2,042 |

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |

## 27. (ACCUMULATED LOSSES)/RETAINED PROFITS AND RESERVES (CONTINUED)

### (b) Other reserves

| Consolidated | Employee Equity Benefits Reserve $'000 | Foreign Currency Translation Reserve $'000 | Consolidation Reserve $'000 | Convertible Note Reserve $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance 1 July 2013 | 1,645 | (2,032) | - | - | (387) |
| Equity-settled transaction-employee shares | 60 | - | - | - | 60 |
| Other comprehensive income | - | (260) | - | - | (260) |
| Balance at 30 June 2014 | 1,705 | (2,292) | - | - | (587) |
| Balance 1 July 2014 | 1,705 | (2,292) | - | - | (587) |
| Equity-settled transaction-employee shares | 102 | - | - | - | 102 |
| Other comprehensive income | | 4,192 | - | - | 4,192 |
| Convertible Note issuance | | | - | 248 | 248 |
| Increase in subsidiary equity | | | (670) | - | (670) |
| Balance at 30 June 2015 | 1,807 | 1,900 | (670) | 248 | 3,285 |

### (c) Nature and purpose of reserves

**Employee equity benefits reserve**
The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP's, as part of their remuneration. Refer to note 33 for further details of these plans.

**Foreign currency translation reserve**
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**Consolidation reserve**
On 17 June 2015 the Group acquired an additional 7% interest in the voting shares of REMSAFE Pty Ltd increasing its ownership to 61.5%. Cash consideration of $2,000,000 was paid for the additional shares issued by REMSAFE. The adjustment to the non-controlling interest is treated as an equity transaction.

**Convertible Note reserve**
Convertible Note reserve represents the equity component of the $10,000,000 convertible notes issued in the current year net of transaction costs (refer to note 12).

## 28. INFORMATION ABOUT SUBSIDIARIES

### (a) Consolidated entity

| | Note | Class of Shares | Consolidated Entity Interest 2015 % | Consolidated Entity Interest 2014 % |
|---|---|---|---|---|
| **Ultimate Parent Entity** | | | | |
| - Orbital Corporation Limited | | | | |
| *Controlled Entities, incorporated and carrying on business in:* | | | | |
| **Australia** | | | | |
| - Orbital Australia Pty Ltd | | Ord | 100 | 100 |
| - Orbital Australia Manufacturing Pty Ltd | | Ord | 100 | 100 |
| - OEC Pty Ltd | (a) | Ord | 100 | 100 |
| - S T Management Pty Ltd | (a) | Ord | 100 | 100 |
| - OFT Australia Pty Ltd | (a) | Ord | 100 | 100 |
| - Investment Development Funding Pty Ltd | (a) | Ord | 100 | 100 |
| - Power Investment Funding Pty Ltd | (a) | Ord | 100 | 100 |
| - Kala Technologies Pty Ltd | (a) | Ord | 100 | 100 |
| - Orbital Share Plan Pty Ltd | (b) | Ord | 100 | 100 |
| - Orbital Autogas Systems Pty Ltd | | Ord | 100 | 100 |
| - Sprint Gas (Aust) Pty Ltd | | Ord | 100 | 100 |
| - REMSAFE Pty Ltd | | Ord | 61.5 | - |
| **United States of America** | | | | |
| - Orbital Holdings (USA) Inc. | (a) | Ord | 100 | 100 |
| - Orbital Fluid Technologies Inc. | | Ord | 100 | 100 |
| - Orbital Engine Company (USA) Inc. | (a) | Ord | 100 | 100 |
| **United Kingdom** | | | | |
| - Orbital Engine Company (UK) Ltd | (a) | Ord | 100 | 100 |

(a) Dormant for the years ended 30 June 2015 and 30 June 2014.
(b) Orbital Share Plan Pty Ltd was established on 22 September 2008 and acts as the trustee of the Orbital Executive Long Term Share Plans.

### (b) Material partly-owned subsidiary: REMSAFE Pty Ltd

Financial information of the subsidiary that have material non-controlling interest is provided below:

| | **2015** |
|---|---|
| Proportion of equity interest held by non-controlling interest | **38.5%** |
| | **$'000** |
| Accumulated balance of material non-controlling interest | **1,136** |
| Loss for the period allocated to material non-controlling interest | **(187)** |

Summarised financial information for REMSAFE is provided below:

| **Summarised statement of profit or loss for the period** | |
|---|---|
| Revenue | **2,281** |
| Expenses | **(2,931)** |
| Loss before tax | **(650)** |
| Income tax | **164** |
| Profit for the year from continuing operations | **(486)** |
| Total Comprehensive loss | **(486)** |
| Attributable to non-controlling interests | **(187)** |
| Dividends paid to non-controlling interests | **-** |

**28. INFORMATION ABOUT SUBSIDIARIES (CONTINUED)**

**(b) Material partly-owned subsidiary: REMSAFE Pty Ltd (continued)**

| | 2015 |
|---|---|
| | $'000 |
| **Summarised statement of financial position as at 30 June** | |
| **Assets** | |
| Cash | **2,436** |
| Other financial assets | **672** |
| Trade and other receivables | **2,042** |
| Inventories | **35** |
| Deferred taxation asset | **10** |
| Plant and equipment | **75** |
| Intangible assets – customer contracts | **312** |
| | **5,582** |
| **Liabilities** | |
| Trade payables and other liabilities | **2,365** |
| Employee benefits | **267** |
| | **2,632** |
| **Total Equity** | **2,950** |
| Attributable to: | |
| Equity holders of the Parent | **1,814** |
| Non-controlling interest | **1,136** |

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **29. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED** | | |
| Current assets | **2** | 3 |
| Total assets | **47,544** | 37,666 |
| Current liabilities | **-** | - |
| Total liabilities | **43,561** | 27,155 |
| Issued capital | **20,021** | 19,590 |
| Accumulated losses | **(17,844)** | (10,768) |
| Employee equity benefits reserve | **1,806** | 1,689 |
| Total shareholders' equity | **3,983** | 10,511 |
| Profit/(loss) of the parent entity | **(7,076)** | 1,596 |
| Total comprehensive profit /(loss) of the parent entity | **(7,076)** | 1,596 |

**Guarantee**

Orbital Corporation Limited has provided a guarantee to Westpac Banking Corporation for all liabilities and obligations of Orbital Australia Pty Ltd. See note 21 for details of Orbital Australia Pty Ltd's outstanding liabilities to Westpac Banking Corporation.

## 30. BUSINESS COMBINATIONS

### Acquisitions in 2015

### Acquisition of REMSAFE Pty Ltd

On 4 February 2015 Orbital acquired 50% of the voting shares of REMSAFE Pty Ltd ("REMSAFE") for $5,000,000 cash payment. On 10 February 2015 Orbital provided REMSAFE with $1,000,000 of working capital required to integrate REMSAFE into Orbital, build the order book and expand the business. As a result of the working capital investment Orbital's equity share in REMSAFE increased from 50% to a majority share of 54.5% with Mr Michael Lane, the founding inventor of REMSAFE, holding the minority 45.5% share.

REMSAFE has developed a valuable high voltage electrical isolation system which Orbital believes has the potential to grow into a significant global business. REMSAFE provides a safety solution which also delivers direct cost savings and increases productivity. REMSAFE's unique technology is protected by strong patents.

The REMSAFE acquisition is a key component of the Group's growth strategy which is focused on identifying and delivering unique innovative business opportunities to generate outstanding returns to shareholders. Orbital's engineering and commercial strength, and international market presence provides a springboard for REMSAFE to grow in the Australian and International markets.

The acquisition has been accounted for using the acquisition method. The Group elected to measure the non-controlling interest in REMSAFE at the proportionate share of its interest in REMSAFE's identifiable net assets.

After initially acquiring 54.5% of the business in February 2015, Orbital increased its interest in REMSAFE to 61.5%. Cash consideration of $2,000,000 was paid for the additional shares issued by REMSAFE Pty Ltd.

As at 30 June 2015 the fair values at acquisition were based on provisional assessments of the identifiable assets and liabilities. Due to the time period between acquisition and the end of the reporting period the fair values of customer contracts and patents were not yet finalised as at 30 June 2015. The Group has left the acquisition accounting open pending further adjustment to the fair values of net assets acquired. The initial accounting for the business combination will be finalised within the next financial year.

The provisional fair value of the identifiable assets and liabilities of REMSAFE as at the date of acquisition were:

| | Provisional fair values recognised on acquisition $'000 |
|---|---|
| **Assets** | |
| Cash | 1,259 |
| Trade and other receivables | 446 |
| Inventories | 36 |
| Plant and equipment | 36 |
| Intangible assets - customer contracts | 597 |
| | 2,374 |
| **Liabilities** | |
| Trade payables and other liabilities | 611 |
| Employee benefits | 211 |
| Deferred tax liability | 116 |
| | 938 |
| **Total identifiable net assets at provisional fair value** | **1,436** |
| Non-controlling interest (44.5% of net assets) | (654) |
| Provisional goodwill arising on acquisition | 5,218 |
| **Purchase consideration transferred** | **6,000** |

| | Cash flow on acquisition |
|---|---|
| Net cash acquired with the subsidiary | 1,259 |
| Cash paid | (6,000) |
| **Net cash flow on acquisition** | (4,741) |

**30. BUSINESS COMBINATIONS (CONTINUED)**

**Acquisitions in 2015 (Continued)**

**Acquisition of REMSAFE Pty Ltd (Continued)**

The fair value of the trade receivables amounts to $446,000. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From the date of acquisition REMSAFE has contributed $2,281,000 of revenue and a loss of $485,000 to the net profit from continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been $12,101,000 and the loss from continuing operations for the period would have been $576,000.

Customer contracts in progress at the acquisition have been recognised as identifiable assets.

Provisional goodwill of $5,218,000 recorded in connection with the acquisition is primarily attributable to unrecognised intangibles relating to the REMSAFE product, combined with the pipeline of customer orders. The Group has left the acquisition accounting open pending further adjustment to the fair values of net assets acquired. The initial accounting for the business combination will be finalised within the next financial year.

Transaction costs of $188,000 have been expensed and are included in administrative expenses in the statement of profit or loss and are part of operating cash flows in the statement of cash flows (2014:$47,000).

**31. DISCONTINUED OPERATIONS**

On 30 June 2015, the Group publicly announced the decision of its Board of Directors to exit the LPG businesses due to the decline in the LPG market, the resulting lack of sustainable profitability and the recent changes in Orbital's business focus.

The Group will exit both the Sprint Gas Australia ("Sprint Gas") business and the Orbital Autogas Systems ("OAS") business. The sale of the net assets of Sprint Gas and the sale of the OAS inventory assets have been combined to form a single co-ordinated plan to exit the loss-making LPG businesses with minimal cost of closure to the Group. The Sprint Gas business exit will be through the sale of the net assets of Sprint Gas to the non-controlling shareholder for no consideration. The OAS business exit will be through the closure of the OAS operations and the transfer of the inventory of the OAS business to Sprint Gas at an agreed value of $527,000. The net assets of Sprint Gas and the OAS inventory have been classified as a disposal group held for sale as at 30 June 2015. The results of both the Sprint Gas business and the OAS business were reported as discontinued operations in the statement of profit or loss.

The net assets of Sprint Gas were measured at the lower of its carrying amount and fair value less costs to sell and as a result the net assets were impaired in full. The carrying value of the net assets impaired was $1,854,000. The OAS inventory write-down to fair value less costs to sell was $618,000. The fair value was based on the terms of the sale agreement to be executed within the next 12 months. The total impairment charge of $2,472,000 was recognised in the statement of profit or loss as part of the line item "Loss after tax for the year from discontinued operations". The LPG businesses were included in the Consumer operating segment until 30 June 2014.

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **(a) The results of the LPG businesses for the year are presented below:** | | |
| Revenue | **6,801** | 11,591 |
| Expenses | **8,396** | 11,116 |
| Operating (loss)/income | **(1,595)** | 475 |
| Finance costs | **(1)** | (3) |
| Impairment loss recognised on the remeasurement to fair value less cost to sell | **(2,472)** | - |
| (Loss)/profit before tax from discontinued operations | **(4,068)** | 472 |
| Tax | **-** | - |
| **(Loss)/profit for the year from discontinued operations** | **(4,068)** | 472 |

| | CONSOLIDATED 2015 $'000 | 2014 $'000 |
|---|---|---|

**31. DISCONTINUED OPERATIONS (CONTINUED)**

**(b) The major classes of assets and liabilities of the LPG businesses classified as held for sale and fully written down as at 30 June are as follows:**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Assets** | | |
| Plant and equipment | **191** | - |
| Inventories | **1,896** | - |
| Trade and other receivables | **444** | - |
| Cash and cash equivalents | **850** | - |
| | **3,381** | - |
| Impairment | **(2,472)** | - |
| | **909** | - |
| **Liabilities** | | |
| Employee benefits | **164** | - |
| Borrowings | **19** | - |
| Trade and other creditors | **199** | - |
| | **382** | - |
| Fair value of disposal group | **527** | - |

The net cash flows incurred by the LPG businesses are as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Operating | **920** | 477 |
| Investing | **(10)** | (78) |
| Financing | **6** | 1 |
| **Net cash (outflow)/inflow** | **916** | 400 |

| | 2015 | 2014 |
|---|---|---|
| Earnings per share: | | |
| Basic, loss for the year from discontinued operations (in cents) | **(8.80)** | 0.95 |
| Diluted, loss for the year from discontinued operations (in cents) | **(8.80)** | 0.95 |

**Write-down of OAS inventory**

With the inclusion of OAS inventory in the disposal group held for sale a write-down of $618,000 was recognised at 30 June 2015 to reduce the carrying amount of the inventory to its fair value less costs to distribute. The fair value was based on the terms of the sale agreement to be executed within the next 12 months.

**Write-down of Sprint Gas net assets**

The Group will exit the Sprint Gas subsidiary through a sale to the non-controlling shareholder of Sprint Gas. The net assets of Sprint Gas were impaired in full based on the fair value of the net assets in terms of the sale agreement to be executed within the next 12 months.

**32. RELATED PARTY DISCLOSURES**

**(a) Identity of related parties**

The Group has a relationship with its subsidiaries (see note 28), with its investment accounted for using the equity method (see note 16), and with its key management personnel (refer to disclosures for key management personnel, see note 33).

## 32. RELATED PARTY DISCLOSURES (CONTINUED)

### (b) Controlled Entities

Details of interest in controlled entities are set out in Note 28.

### (c) Other Related Parties

Details of dealings with other related parties, being joint venture entity Synerject LLC, are set out below:

(i) Receivables and Payables
The aggregate amounts receivable from/payable to Synerject LLC by the Group at balance date are:

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **Receivables** | | |
| Current | **-** | 1 |
| **Payables** | | |
| Current | **-** | - |

(ii) Transactions
During the year the Group purchased goods and services to the value of $24,000 (2014: $110,000) from Synerject LLC. All transactions are in the ordinary course of business and on normal commercial terms and conditions. The Group received dividends of $2,059,719 (2014:$1,634,122) from Synerject LLC.

## 33. KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Non-executive directors**

Mr JP Welborn (appointed as Chairman 17 March 2015)
Mr JH Poynton (appointed as Director 17 March 2015)
Dr MT Jones (resigned as Chairman and Director 17 March 2015)
Dr V Braach-Maksvytis (resigned as Director 17 March 2015)

**Executive directors**

Mr TD Stinson (Managing Director & Chief Executive Officer)

**Executives**

Dr GP Cathcart (Chief Technical Officer)
Mr MC Lane (Chief Executive Officer - REMSAFE) (commenced 4 February 2015)
Mr IG Veitch (Chief Financial Officer)

**Key management personnel compensation**

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

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $ | $ |
| Short-term employee benefits | **1,146,160** | 1,074,183 |
| Post-employment benefits | **108,852** | 96,933 |
| Long-term employee benefits | **35,880** | 24,412 |
| Equity compensation benefits | **331,259** | 62,061 |
| | **1,622,150** | 1,257,589 |

**Individual directors and executives compensation disclosures**

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

### 33. KEY MANAGEMENT PERSONNEL (CONTINUED)

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

The Group has not made any loans to key management personnel or their related parties since the end of the previous financial year and there were no loans to any key management personnel or their related parties at year-end.

#### Key management personnel participation in Convertible Note issuance

Some key management personnel participated in the Convertible Note issuance on the same terms as other Convertible Note holders. The Convertible Notes issued to key management personnel were not issued in their capacity as key management personnel. The terms and potential financial benefit of the Convertible Notes issued to the Directors have been determined on an arms-length basis.

The issue of Convertible Notes to Mr TD Stinson and Mr JP Welborn was approved by shareholders at the Extraordinary General Meeting on 21 January 2015. Mr JH Poynton joined the Group as a Director subsequent to the Convertible Notes issuance. Mr MC Lane joined the Group as a KMP subsequent to the Convertible Notes issuance.

| | Number of Convertible Notes | Amounts owed to KMP | | Interest Paid to KMP | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| **Executive Director** | | $ | $ | $ | $ |
| Mr TD Stinson | 1 | 51,250 | - | 783 | - |
| **Non-Executive Directors** | | | | | |
| Mr JP Welborn | 5 | 256,250 | - | 3,915 | - |
| Mr JH Poynton | 1 | 51,250 | - | 783 | - |
| **Other KMP** | | | | | |
| Mr MC Lane (Managing Director of REMSAFE) | 4 | 205,000 | - | 3,132 | - |
| **Total** | 11 | 563,750 | - | 8,613 | - |

#### Individual directors and executives compensation disclosures

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

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

The Group has not made any loans to key management personnel or their related parties since the end of the previous financial year and there were no loans to any key management personnel or their related parties at year-end.

#### Movement in shares

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

| | Held at | | Granted as compensation | | | | Held at |
|---|---|---|---|---|---|---|---|
| | 1-Jul-14 | Purchases | ESP #1 | PRP | Sales | Other (a) | 30-Jun-15 |
| **Non-executive directors** | | | | | | | |
| Mr JP Welborn | - | 8,195 | - | - | - | - | 8,195 |
| Mr JH Poynton | - | - | - | - | - | 2,665,688 | 2,665,688 |
| Dr MT Jones | 70,000 | - | - | - | - | (70,000) | - |
| Dr V Braach-Maksvytis | - | - | - | - | - | - | - |
| **Executive director** | | | | | | | |
| Mr TD Stinson | 392,690 | 1,639 | - | 500,000 | (355,888) | - | 538,441 |
| **Executives** | | | | | | | |
| Dr GP Cathcart | 67,407 | - | 2,550 | 200,000 | (200,000) | - | 69,957 |
| Mr IG Veitch | 26,287 | - | 2,550 | 200,000 | (200,000) | - | 28,837 |
| Mr MC Lane | - | - | - | - | - | - | - |

## 33. KEY MANAGEMENT PERSONNEL (CONTINUED)

### Movement in shares (continued)

| | Held at 1-Jul-13 | Purchases | Granted as compensation ESP #1 | Granted as compensation PRP | Sales | Other (a) | Held at 30-Jun-14 |
|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | |
| Mr JP Welborn | - | - | - | - | - | - | - |
| Dr MT Jones | 18,000 | 52,000 | - | - | - | - | 70,000 |
| Dr V Braach-Maksvytis | - | - | - | - | - | - | - |
| Mr WP Day | 10,000 | - | - | - | - | (10,000) | - |
| **Executive director** | | | | | | | |
| Mr TD Stinson | 392,690 | - | - | - | - | - | 392,690 |
| **Executives** | | | | | | | |
| Dr GP Cathcart | 61,563 | - | 5,844 | - | - | - | 67,407 |
| Mr IG Veitch | 20,443 | - | 5,844 | - | - | - | 26,287 |

(a) Represents shareholdings at the time that Mr MT Jones and Mr WP Day ceased to be a KMP and Mr JH Poynton became a KMP.

### Movement in LTI equity rights

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

| | Held at 1-Jul14 | Offered | Forfeited | Expired | Cancelled | Vested | Held at 30-Jun-15 | Not Exercisable |
|---|---|---|---|---|---|---|---|---|
| **Executive director** | | | | | | | | |
| Mr TD Stinson | 4,185,000 | 1,500,000 | - | (770,000) | (3,415,000) | 500,000 | 1,000,000 | 1,000,000 |
| **Executives** | | | | | | | | |
| Dr GP Cathcart | 1,297,000 | 600,000 | - | (310,000) | (987,000) | 200,000 | 400,000 | 400,000 |
| Mr IG Veitch | 888,500 | 600,000 | - | (92,500) | (796,000) | 200,000 | 400,000 | 400,000 |

| | Held at 1-Jul13 | Offered | Forfeited | Expired | Cancelled | Vested | Held at 30-Jun-14 | Not Exercisable |
|---|---|---|---|---|---|---|---|---|
| **Executive director** | | | | | | | | |
| Mr TD Stinson | 3,685,000 | 1,165,000 | - | (665,000) | - | - | 4,185,000 | 4,185,000 |
| **Executives** | | | | | | | | |
| Dr GP Cathcart | 1,012,700 | 537,000 | - | (252,700) | - | - | 1,297,000 | 1,297,000 |
| Mr IG Veitch | 498,500 | 466,000 | - | (76,000) | - | - | 888,500 | 888,500 |

| | NOTE | CONSOLIDATED 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **34. NOTES TO THE STATEMENT OF CASH FLOWS** | | | |
| **Reconciliation of cash and cash equivalents** | | | |
| Cash and cash equivalents per statement of cash flows | | **7,499** | 5,416 |
| Cash associated with disposal group – refer note 31 | | **(850)** | - |
| Cash and cash equivalents per statement of financial position | | **6,649** | 5,416 |
| **Reconciliation of cash flows from operating activities** | | | |
| (Loss)/profit after income tax from continuing operations | | **(661)** | 956 |
| (Loss)/profit after income tax from discontinued operations | | **(4,068)** | 720 |
| **(Loss)/profit after income tax** | | **(4,729)** | 1,676 |
| *Adjustments for:* | | | |
| (Profit)/loss on sale of plant and equipment | | **(36)** | 90 |
| Depreciation | 18 | **680** | 762 |
| Amortisation | 19 | **285** | 146 |
| Amortisation of deferred revenue and government grants | | **(541)** | (225) |
| Impairment, write-off of trade receivables | | **(20)** | (160) |
| Movement in fair value of financial assets | 12 | **233** | (136) |
| Movement in fair value of financial liabilities | 12 | **(638)** | (248) |
| Impairment of disposal group | 31 | **2,472** | - |
| Amortisation of non-interest bearing loans | 12(b) | **541** | 533 |
| Amounts set aside to warranty and other provisions | | **4** | (615) |
| Share of net profit of equity accounted investment | 16 | **(2,860)** | (3,256) |
| Convertible note finance costs | | **165** | - |
| Employee compensation expense | 35(a) | **366** | 132 |
| Net foreign exchange gains | | **(124)** | (72) |
| Net cash used in operating activities before changes in assets and liabilities | | **(4,202)** | (1,373) |
| *Changes in assets and liabilities during the year:* | | | |
| (Increase) in receivables | | **(1,193)** | (842) |
| Decrease/(Increase) in inventories | | **1,065** | (170) |
| (Increase)/decrease in deferred tax assets | | **398** | (417) |
| Increase in payables | | **507** | 808 |
| (Decrease)/increase in employee provisions | | **43** | 79 |
| | | **820** | (542) |
| Net cash used in operating activities | | **(3,382)** | (1,915) |

**35. SHARE BASED PAYMENTS**

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

| | | 2015 | 2014 |
|---|---|---|---|
| Continuing operations | | **358** | 107 |
| Discontinued operations | | **8** | 25 |
| Expense arising from equity-settled share-based payment transactions | | **366** | 132 |

The share-based payments are described below.

**(b) Employee Share Plan No.1**

Under Employee Share Plan No. 1 each eligible employee is offered fully paid ordinary shares to the value of $1,000 per annum.

During the year there were 146,039 (2014: 422,403) shares issued under Plan No. 1 to eligible employees at a market value on the day of issue of $57,000 (2014: $72,000).

**35. SHARE BASED PAYMENTS (CONTINUED)**

**(c) Executive Long Term Incentive – Performance Rights Plan based on market capitalisation**

The Company introduced a new Performance Rights Plan as part of its long term incentive arrangements for senior executives, which was approved by shareholders on 21 October 2014.

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

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

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

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

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

The performance conditions are 100% based on market capitalisation with the following performance timeframes and targets:

| Tranche | Market Capitalisation | Fair Value per right | Expiry Date | Allocation | | |
|---|---|---|---|---|---|---|
| | | | | Mr T D Stinson | Dr GP Cathcart | Mr IG Veitch |
| 1 | $20 million | 23.1 cents | 18 months from the date of issue of the Performance Rights | 500,000 | 200,000 | 200,000 |
| 2 | $35 million | 17.5 cents | 24 months from the date of issue of the Performance Rights | 500,000 | 200,000 | 200,000 |
| 3 | $60 million | 15.3 cents | 36 months from the date of issue of the Performance Rights | 500,000 | 200,000 | 200,000 |
| | **Total** | | | 1,500,00 | 600,000 | 600,000 |

During the year a total of 900,000 rights under the plan vested for 3 executives (2014: nil).

The performance rights granted were measured at fair value at the grant date 21 October 2014 using the "Hoadley Barrier 1" trinomial option valuation model.

**(d) Executive Long Term Incentive - EPS tested Long Term Incentive awarded for the performance year 2014**

Executives were previously offered shares in the Company's Long Term Incentive plan under which offered shares were granted subject to the satisfaction of performance conditions over a 3 year period or subject to Board discretion for other qualifying reasons.

The performance conditions for the LTI plan approved at the Company's Annual General Meeting in October 2013 were based 100% on earnings per share.

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

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

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

## 35. SHARE BASED PAYMENTS (CONTINUED)

### (d) Executive Long Term Incentive - EPS tested Long Term Incentive awarded for the performance year 2014 (continued)

During 2014, a total of 2,168,000 rights under the plan were offered to 3 executives (2013: 2,480,000 rights offered to 4 executives).

This plan was cancelled in 2015 with the introduction of a new Performance Rights plan referred to in note 35 (c).

### (e) Executive Long Term Incentive - Performance Rights Plan based on share price

The Company introduced a Performance Rights Plan as part of its long-term incentive arrangements for senior executives, which was approved by shareholders in October 2008.

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

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

| Tranche | Number of performance rights | Share price target $ | Fair value at grant date $ |
|---|---|---|---|
| 1 | 200,000 | $2.50 | 94,000 |
| 2 | 200,000 | $5.00 | 70,000 |
| 3 | 200,000 | $7.50 | 56,000 |
| 4 | 200,000 | $10.00 | 46,000 |
| 5 | 125,000 | $20.00 | 16,250 |
| 6 | 125,000 | $30.00 | 11,250 |
| 7 | 100,000 | $50.00 | 5,000 |

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

(e) if the specified share price target is either not achieved within eight years from the date of grant, or if so achieved, not also achieved at the end of the Vesting Date, the performance right will lapse.

No performance rights were granted during the years ended 30 June 2015 or 30 June 2014.

This Performance Rights Plan was cancelled with the introduction of the new Performance Rights plan referred to in note 35 (c).

### (f) Convertible Note Issuance Fee

During the reporting period the Group issued Convertible Notes of $10 million (refer to Note 12). Two million shares were issued to the corporate advisors in lieu of cash payment for services provided as lead manager for the Convertible Note offer. The cost of the share-based payment was measured with reference to the fair value of the services provided at $500,000. The service fee was determined as a percentage of the Convertible Note Issuance. The shares issued in lieu of cash payment vested immediately. These transaction costs were allocated to the liability and equity components of the Convertible Note Issuance in proportion to the allocation of the proceeds.

## 36. DEFINED CONTRIBUTION SUPERANNUATION FUND

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

| | CONSOLIDATED | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |

## 37. COMMITMENTS

### (a) Operating leases

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| - Not later than one year | **1,108** | 1,012 |
| - Later than one year but not later than five years | **3,847** | 3,769 |
| - Later than five years | **621** | 1,575 |
| | **5,576** | 6,356 |

The Group leases premises and plant & equipment under operating leases. The lease for the engineering premises is for a period of 10 years with options to extend for two further periods of five years each. Leases for warehousing premises typically run for a period of 5 years. None of the leases include contingent rentals.

During the financial year ended 30 June 2015, $1,150,000 was recognised as an expense in the statement of profit and loss in respect of operating leases (2014:$1,109,100).

### (b) Finance leases and hire purchase commitments

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

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| - Not later than one year | **-** | 24 |
| - Later than one year but not later than five years | **-** | 19 |
| | **-** | 43 |

## 38. CONTINGENCIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are not aware of any circumstance or information that would lead them to believe that these liabilities will crystallise.

In the event of the Company terminating the employment of the Chief Executive Officer (other than by reason of serious misconduct or material breach of his service agreement), an equivalent of 12 months remuneration is payable to the CEO. In the event of the Company terminating the employment of a KMP (other than by reason of serious misconduct or material breach of their service agreement), an equivalent of 3 months pay, plus 2 weeks pay for each completed year of service, plus for each completed year of service beyond 10, an additional 1/2 weeks pay, plus a pro-rata payment for each completed month of service in the final year is payable to the KMP. The maximum entitlement to termination pay is limited to 65 weeks pay. There are no other contingent liabilities for termination benefits under the service agreements with Directors or other persons who take part in the management of any entity within the Group.

## 39. 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.

| | CONSOLIDATED 2015 $ | 2014 $ |
|---|---|---|
| **40. REMUNERATION OF AUDITORS** | | |
| The Auditors of the Group in 2015 and 2014 were Ernst & Young. | | |
| Amounts received or due and receivable by Ernst & Young for: | | |
| Audit services: | | |
| - Audit and review of financial reports – Australian reporting | **153,550** | 238,900 |
| - Audit and review of financial reports – USA reporting | **-** | 115,900 |
| Other services: | | |
| - R & D tax concession return preparation and review | **40,000** | 14,850 |
| Total received or due and receivable by Ernst & Young | **193,550** | 369,650 |
| Amounts received or due and receivable by non Ernst & Young audit firms for: | | |
| - Audit and review of financial reports of Associate | **121,621** | 101,413 |

# DIRECTOR'S 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 2015 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) Complying with Accounting Standards in Australia and the Corporations Regulations 2001.

(b) The financial statements and notes also comply with International Financial reporting Standards as disclosed in note 2(a).

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving he 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 2015.

On behalf of the Board,

JP Welborn
Chairman

TD Stinson
Managing Director

Dated at Perth, Western Australia this 25th day of September 2015.

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
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# Independent auditor's report to the members of Orbital Corporation Limited

## Report on the financial report

We have audited the accompanying financial report of Orbital Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' responsibility for the financial report

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

## Auditor's responsibility

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

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

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

## Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:

a. the financial report of Orbital Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a)

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Orbital Corporation Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
25 September 2015

TD:MW:Orbital:067

# SHAREHOLDING DETAILS

### Class of Shares and Voting Rights

As at 31 August 2015 there were 4,466 shareholders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 8 of the Company's Constitution, subject to any rights or restrictions for the time being attached to any class or classes of shares, are:

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

### Substantial Shareholders and Holdings as at 31 August 2015

| | | |
|---|---|---|
| Utilico Investments Limited<br>*(as notified 08 July 2015)* | 4,593,525 | 9.38% |
| Mulloway Pty Ltd<br>*(as notified 18 February 2014)* | 2,580,688 | 5.76% |

### Distribution of Shareholdings as at 31 August 2015

| | |
|---|---|
| 1-1,000 | 2,761 |
| 1,001-5,000 | 986 |
| 5,001-10,000 | 271 |
| 10,001-100,000 | 390 |
| 100,001 and over | 58 |
| **Number of shareholders** | **4,466** |
| **Total Shares on Issue** | **49,990,517** |
| **Number of shareholders holding less than a marketable parcel** | **2,426** |

### Top 20 Shareholders as at 31 August 2015

| | NAME | NUMBER OF SHARES HELD | % OF SHARES |
|---|---|---|---|
| 1 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 6,810,422 | 13.62% |
| 2 | MULLOWAY PTY LTD | 2,665,688 | 5.33% |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 2,286,279 | 4.57% |
| 4 | ANNAPURNA PTY LTD | 2,017,331 | 4.04% |
| 5 | CITICORP NOMINEES PTY LIMITED | 1,636,438 | 3.27% |
| 6 | DEBUSCEY PTY LTD | 1,100,000 | 2.20% |
| 7 | BOND STREET CUSTODIANS LIMITED | 1,044,350 | 2.09% |
| 8 | MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD | 1,000,122 | 2.00% |
| 9 | BIRKETU PTY LTD | 1,000,000 | 2.00% |
| 10 | MR CHRISTOPHER IAN WALLIN & MS FIONA KAY WALLIN | 689,200 | 1.38% |
| 11 | MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED | 661,860 | 1.32% |
| 12 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 650,441 | 1.30% |
| 13 | TWOKIND PTY LTD | 630,000 | 1.26% |
| 14 | PERSHING AUSTRALIA NOMINEES PTY LTD | 589,977 | 1.18% |
| 15 | MR SEAMUS CORNELIUS | 571,885 | 1.14% |
| 16 | MR JOSHUA LEIGH SWEETMAN | 561,662 | 1.12% |
| 17 | MR TERRY STINSON | 541,134 | 1.08% |
| 18 | NATIONAL NOMINEES LIMITED | 425,629 | 0.85% |
| 19 | EFFECTIVE HOLDINGS PTY LTD | 406,150 | 0.81% |
| 20 | MR JOHN AYRES | 356,667 | 0.71% |
| **Top 20 Shareholders Total** | | **25,645,235** | **51.30%** |

The twenty largest shareholders hold 51.30% of the ordinary shares of the Company.

### On-market share buy-back

There is no current on-market buy-back.

# CORPORATE INFORMATION

ABN 32 009 344 058

## REGISTERED AND PRINCIPAL OFFICE

4 Whipple Street
Balcatta, Western Australia 6021
Australia

## CONTACT DETAILS

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

## INTERNET ADDRESS

http://www.orbitalcorp.com.au
Email: AskUs@orbitalcorp.com.au

## DIRECTORS

J.P. Welborn, Chairman
T.D. Stinson, Managing Director and Chief Executive Officer
J.H. Poynton

## COMPANY SECRETARY

I.G. Veitch

## 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

**ORBITAL CORPORATION LIMITED** **ASX:OEC** | ABN 32 009 344 058 *(Incorporated in Western Australia)*
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