

# ORBITAL CORPORATION LIMITED

## APPENDIX 4E

### Preliminary Final Report

#### Company Details

Name of Entity: Orbital Corporation Limited  
ABN: 32 009 344 058  
Year Ended (Current Year): 30 June 2016  
Year Ended (Prior Year): 30 June 2015

#### Results for announcement to the market

		A\$'000			A\$'000
Total revenue from continuing operations	UP	2,091	22%	to	11,751
Profit from continuing operations after tax attributable to members	UP	1,944	294%	to	1,283
Net profit for the period attributable to members	UP	6,075	134%	to	1,533
<hr/>					
		2016		2015	
Net tangible assets per share (cents)		34.57		33.51	
<hr/>					
<b>Dividends</b>					
There is no proposal to pay dividends for the year ended 30 June 2016					

#### Commentary on results for the period

The Commentary on the results for the period is contained in the press release dated 30 August 2016 accompanying this statement.

#### Annual Meeting

The annual meeting is expected to be held as follows:

Place: Conference Room  
BGC Centre  
28 The Esplanade  
Perth, Western Australia

Date: Wednesday 26 October 2016

Time: 10:00am

Approximate date the annual report will be available: 19 September 2016

#### Audit

This report is based on accounts which have been audited. (see attached Annual Report)



**ORBITAL<sup>®</sup>**

**ORBITAL CORPORATION LIMITED**

**ABN 32 009 344 058**

**ANNUAL REPORT**

**30 JUNE 2016**

# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

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 2016 and the auditors' report thereon.

<b>Reference</b>	<b>Contents of Directors' Report</b>	<b>Page</b>
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# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

## 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 unmanned aerial vehicle, safety & productivity 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:

- Unmanned Aerial Vehicles;
- Safety & Productivity;
- Accelerator; and
- Consumer.

### FINANCIAL REVIEW

Total revenue and profit after tax for the year ended 30 June 2016 from continuing operations was \$11,751,000 and \$1,283,000 respectively (2015: total revenue \$9,660,000 and loss \$661,000).

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.

	2016 \$'000	2015 \$'000
<b>Statutory profit/ (loss) after tax</b>	1,215	(4,729)
Deduct income items		
Gain on sale of interest in Synerject	(3,872)	-
Change in fair value of contingent consideration	-	(638)
Research and development grants	(2,324)	(2,265)
Foreign currency translation reserve released on sale of interest in Synerject	(3,607)	-
Add-back expense items		
Loss from discontinued operations	68	4,068
Research and development expenditure (Orbital funded)	1,781	2,564
<b>Underlying loss after tax</b>	<b>(6,739)</b>	<b>(1,000)</b>

*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 improved from a loss of \$4,729,000 last year to a profit of \$1,215,000 this year. The increase in profitability was primarily due to the reduced loss from discontinued operations, the gain on sale of interest in Synerject and the release of the Foreign Currency Translation Reserve to the profit and loss on the sale of interest in Synerject, offset by an increased investment in the capabilities to deliver on the company's growth strategy.

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 42%, compared with the previous year. This increase is largely attributable to the conversion of notes to equity, contributing \$9,136,000 to share capital. Cash and cash equivalents have increased by \$17,374,000 due to the proceeds of sale of the interest in Synerject for US\$17,800,000. Trade receivables have decreased by \$982,000 and trade payables have increased by \$1,944,000. Other receivables of \$2,324,000 for Research and Development Tax Incentives are outstanding at the end of the period. Inventories have increased by \$3,858,000 reflecting the commencement of production of propulsion units for Insitu Inc.

Net cash used in operating activities was \$5,081,000 (2015: \$3,382,000) reflecting an excess of operational expenditures of \$5,632,000 (2015: \$4,202,000) and a decrease in working capital of \$551,000 (2015: \$820,000).

To assist in making appropriate comparisons of the relative size of each of the Group's income streams and graphical representations of sales, a Segment review has been included as follows.

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

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

**SEGMENT REVIEW**

**UNMANNED AERIAL VEHICLES**

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

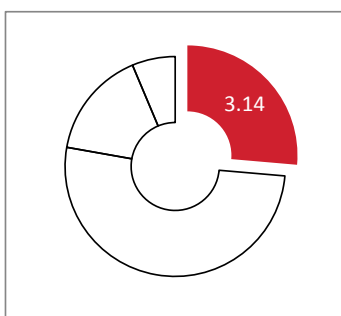
**2016 KEY PERFORMANCE HIGHLIGHTS**

- ▶ Commencement of production of the new propulsion system 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 unmanned helicopter applications.

**SIGNIFICANT CHANGES**

- ▶ Commencement of production of the new propulsion system for Insitu-Boeing, the world's largest SUAS operator.
- ▶ ORBITAL UAVE establishing as a major growth business for Orbital.

**SALES \$m**



**METRICS**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Segment Revenue	<b>3,139</b>	3,560
Segment Result	<b>277</b>	2,757

**FUTURE OBJECTIVES**

- ▶ Secure long- term production supply agreement 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 supplying 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. Low volume production of UAV engines commenced at the end of FY2016 and will ramp-up in FY2017. 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 finalisation of the development and the commencement of production of the new generation propulsion system 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 is replacing 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)**

**SAFETY & PRODUCTIVITY**

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

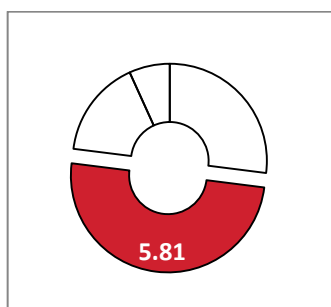
**2016 KEY PERFORMANCE HIGHLIGHTS**

- ▶ Commissioning of eight REMSAFE Remote Isolation systems for Pilbara-based customers
- ▶ Commissioning of the first international REMSAFE Remote Isolation System for a South African-based customer.

**SIGNIFICANT CHANGES**

- ▶ Expansion of customer base with first international orders.
- ▶ Commissioning of nine REMSAFE Remote Isolation Systems during the year.

**SALES \$m**



**METRICS**

	2016 \$'000	2015 \$'000
Segment Revenue	5,814	2,281
Segment Result	(248)	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 at the first international installation, an Anglo American coal mine in South Africa. The REMSAFE product is delivering on safety and productivity expectations and this is driving more sales. The recent pilot installations are delivering significant productivity improvements to REMSAFE's customers and are projected to lead to a proliferation of REMSAFE systems.

**Highlights**

The REMSAFE team completed the development and commissioning of eight REMSAFE Remote Isolation Systems for Pilbara-based iron ore mine and port operations and also completed the development and commissioning of the first international REMSAFE Remote Isolation System for a South African colliery. The REMSAFE team has continued with the development of the engineering process that enables the REMSAFE Remote Isolation System to obtain its safety integrity level (SIL) certifications. These SIL certifications allow REMSAFE's customers to combine the benefits of safety and productivity. The REMSAFE team has also continued with the development of the latest product, the GEN 4. The GEN 4 is the most refined, highest featured, and lowest cost product offered by REMSAFE 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 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. 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 order book is forecast to grow with Orbital targeting rapid sales growth to annual sales in excess of A\$100,000,000 over the coming years.

**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

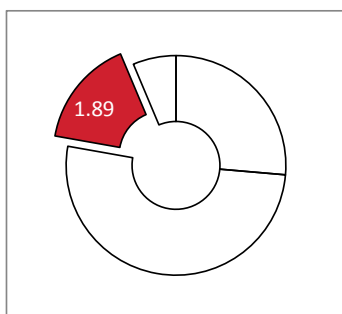
**2016 KEY PERFORMANCE HIGHLIGHTS**

- ▶ 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**

- ▶ Accelerator team returned focus to Engineering Consulting services.
- ▶ Focused on engineering services sales from domestic customers, particularly in fuel and additive testing.

**SALES \$m**



**METRICS**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Segment Revenue	<b>1,891</b>	2,936
Segment Result	<b>6</b>	(375)

**FUTURE OBJECTIVES**

- ▶ Reduce but maintain Perth-based development, testing and certification facilities.
- ▶ Continue as the incubator for new product development and commercialisation.

**Summary of Segment**

Orbital created the Accelerator initiative to identify early stage innovation opportunities. Accelerator's scope has been refined to include the Company's mergers and acquisitions function. Accelerator will focus on identifying high-growth, mid-stage, industrial technology acquisition opportunities to capitalise on Orbital's proven commercialisation and engineering experience. Through Accelerator, Orbital will identify and evaluate bolt-on and adjacent acquisitions to expand and complement Orbital UAVE and REMSAFE, as well as opportunities in new industrial technology sectors to diversify Orbital's business portfolio. Orbital's strategy is to build and diversify its business portfolio and transform the Company into a worldwide leader in innovative industrial technology.

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 2016, the OCS order book stood at approximately \$600,000 (30 June 2015 \$1,752,000).

**Highlights**

Consulting revenue for the year was \$1,891,000. Several new potential opportunities for products were identified through the consulting business. The process of identifying, filtering and investigating investment opportunities has been transferred to a corporate function within Orbital.

**Business Model**

The consulting services group provides contract engineering aimed at utilising the Group's world-class engine and engine-component development and testing facilities. The focus of activities is on applications for Orbital's patented technologies and in the specialist field of fuels and additives testing.

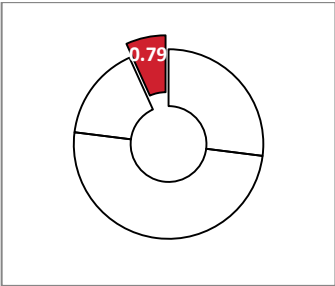
**Outlook**

The consulting 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)**

**CONSUMER**

<p><b>The Consumer segment includes Royalties on Consumer products</b></p>	<p><b>2016 KEY PERFORMANCE HIGHLIGHTS</b></p> <ul style="list-style-type: none"> <li>Royalty revenue similar year over year, high horsepower outboards retaining popularity.</li> </ul>	<p><b>SIGNIFICANT CHANGES</b></p> <ul style="list-style-type: none"> <li>LPG-based businesses exited during the first half of the year.</li> </ul>									
<p><b>SALES \$m (pro-rata share)</b></p> 	<p><b>METRICS</b></p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;"><b>2016 \$'000</b></th> <th style="text-align: right;"><b>2015 \$'000</b></th> </tr> </thead> <tbody> <tr> <td>Segment Revenue</td> <td style="text-align: right;"><b>788</b></td> <td style="text-align: right;">777</td> </tr> <tr> <td>Segment Result</td> <td style="text-align: right;"><b>399</b></td> <td style="text-align: right;">904</td> </tr> </tbody> </table>		<b>2016 \$'000</b>	<b>2015 \$'000</b>	Segment Revenue	<b>788</b>	777	Segment Result	<b>399</b>	904	<p><b>FUTURE OBJECTIVES</b></p> <ul style="list-style-type: none"> <li>Identify new consumer product markets that fit Orbital's criteria for strategic growth.</li> <li>Technical support for expansion of low end 2 &amp; 3 wheeler EMS markets targeting India, China &amp; Asia to increase royalty revenues.</li> </ul>
	<b>2016 \$'000</b>	<b>2015 \$'000</b>									
Segment Revenue	<b>788</b>	777									
Segment Result	<b>399</b>	904									

**Summary of Segment**

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**

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**

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.

**SYNERJECT**

**Summary of Segment**

Synerject, Orbital's former 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**

Orbital sold its 30% interest in Synerject to Continental AG in October 2015 for US\$17,800,000. The Sale agreement transferred full ownership of Synerject to Continental and preserved the existing cross licensing of intellectual property ensuring the continuity of commercial supply of key services and components between Orbital and Synerject. The transaction does not impact on Orbital's existing royalty revenues from other license holders or prevent future licensing arrangements.

Orbital, as part of the Company's new growth strategy, had been actively exploring opportunities to unlock the significant value represented by the Company's 30% joint venture interest in Synerject. The sale allows Orbital to focus on its high growth business opportunities.



# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

## 2. DIRECTORS

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

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

*Chairman*

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

Mr Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and holds memberships of the Institute of Chartered Accountants in Australia, 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; resigned September 2015) 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 AO**, BCOM, Hon D. Com, S F Fin, FAICD, FAIM

*Non-Executive Director*

Joined the Board in March 2015. Mr Poynton is a former 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).

## 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
J P Welborn	679,103	-
T D Stinson	1,172,621	500,000
J H Poynton	2,790,688	-
Total	4,642,412	500,000

# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

## 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.

Director	Directors' Meetings	
	No. of meetings attended	No. of meetings held*
J P Welborn	7	7
T D Stinson	7	7
J H Poynton	7	7

\* 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 unmanned aerial vehicle, safety and productivity and consumer sectors.

Orbital's innovation and technology leadership is exemplified by the patented REMSAFE remote isolation system for global safety and productivity 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

The UAVE business is undergoing a transition as it moves from the development phase into the production phase for its UAV propulsion systems.

The Company's interest in Synerject was sold to our joint venture partner, Continental AG, in October 2015. The Company completed the divestment of its interests in LPG related businesses in November 2015.

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

## 7. CONSOLIDATED RESULT

The consolidated profit after income tax for the year attributable to the members of Orbital was \$1,533,000 (2015: loss of \$4,542,000).

## 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.

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

### 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.

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

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for audit and non-audit services provided during the year are shown in note 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](http://www.orbitalcorp.com.au) under the About Us/Corporate Governance section.

### 16. ROUNDING OFF

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

**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

As lead auditor for the audit of Orbital Corporation Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'T G Dachs'.

T G Dachs  
Partner  
Perth  
29 August 2016

# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

## 18. REMUNERATION REPORT - AUDITED

### Principles of compensation

This Remuneration Report for the year ended 30 June 2016 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.

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
<b>(i) Directors</b>	
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)
<b>(ii) Executives</b>	
Charis Law	Chief Commercial Officer (commenced 26 April 2016)
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 \$130,000 were paid during the 2016 financial year (2015: \$nil).

Long-term incentive (LTI) awards consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives. The Company did not award any new performance rights during the 2016 financial year. During the 2016 financial year, the performance hurdle set in October 2014 of increasing the market capitalisation of the Company to over \$35 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. Director fees were not reviewed or adjusted during the 2016 financial year.

#### **Remuneration report at FY2015 AGM**

The FY2015 remuneration report received positive shareholder support at the FY2015 AGM with a vote of 99% 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.

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

### 18.2. REMUNERATION OVERVIEW (CONTINUED)

#### *Key changes to remuneration structure in 2016*

There were no changes to the remuneration structure of Executives or Directors during the 2016 financial year.

### 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.

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Did a remuneration consultant provide a remuneration recommendation in relation to any of the KMP for the financial year?
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No remuneration recommendation was provided by a remuneration consultant for the 2016 financial year.
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### 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 2016 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 (2015: \$120,000). Each non-executive director receives a base fee of \$120,000 (2015: \$120,000) for being a director of the Group.

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

### 18.4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS (CONTINUED)

The remuneration of non-executive directors for the year ended 30 June 2016 and 30 June 2015 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 FY2017?	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 FY2016 comprised 70% fixed remuneration, 17% STI and 13% 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 FY2016 ranged from 70-100% fixed remuneration and 0-20% LTI opportunity.

In the 2016 financial year, the executive remuneration framework consisted of the following components:

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

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

**Table 1 – Structure of remuneration arrangements**

Remuneration component	Vehicle	Purpose	Link to company performance
Fixed compensation	<ul style="list-style-type: none"> <li>◆ Represented by total fixed remuneration (TFR).</li> <li>◆ Comprises base salary, Superannuation contributions and other benefits.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Set with reference to role, market and experience.</li> <li>◆ Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.</li> </ul>	<ul style="list-style-type: none"> <li>◆ No direct link to company performance.</li> </ul>
STI component (discretionary)	<ul style="list-style-type: none"> <li>◆ Paid in cash</li> </ul>	<ul style="list-style-type: none"> <li>◆ Rewards executives for their contribution to achievement of Group outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Discretionary award by the Board to reward executives for exceptional performance in a specific area of importance.</li> </ul>
LTI component	<ul style="list-style-type: none"> <li>◆ Awards are made in the form of performance rights.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Rewards executives for their contribution to the creation of shareholder value over the longer term through growth in the Company's market capitalisation.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Vesting of awards is dependent on Orbital Corporation Limited's market capitalisation.</li> </ul>

#### Fixed compensation

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

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

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?	Discretionary STI cash bonuses of \$130,000 were paid during the 2016 financial year. No discretionary STI cash bonuses were awarded during the 2015 financial year.
Is a portion of STI deferred?	No discretionary STI cash bonuses relating to the 2016 or 2015 financial years will become payable in future financial years.

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

LTI awards are made 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. The Company's market capitalisation on the date of calling the AGM to approve the PRP was \$9.4 million. Vesting of shares only occurs if Orbital increases its market capitalisation to \$20 million, \$35 million and \$60 million respectively.
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.



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

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

What are the principal terms of the issue made under the LTI in 2015?	<ul style="list-style-type: none"> <li>• Grant date: 22 October 2014 (following the AGM at which the Terms of the plan were approved by shareholders).</li> <li>• Life: 3 years.</li> <li>• Expiry date: 22 October 2017.</li> <li>• Market capitalisation on grant date: \$14.8 million.</li> <li>• Performance timeframes and targets: <ul style="list-style-type: none"> <li>○ Tranche 1 \$20 million within 18 months</li> <li>○ Tranche 2 \$35 million within 24 months</li> <li>○ Tranche 3 \$60 million within 36 months</li> </ul> </li> <li>• Exercise Price: nil.</li> <li>• Fair value per right: <ul style="list-style-type: none"> <li>○ Tranche 1 23.1 cents</li> <li>○ Tranche 2 17.5 cents</li> <li>○ Tranche 3 15.3 cents</li> </ul> </li> </ul>
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.
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.
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 FY2016.
Is a portion of LTI deferred?	No. Vested Performance Rights are issued to KMP without restriction.

**LTI awards for 2016 financial year**

Shares were granted under the Employee Share Plan No.1 to a number of executives on 30 November 2015.

The Board did not grant any new Performance Rights during the 2016 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 2016.

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

**Table 2 – Orbital five year performance linked to long-term incentives**

	2012	2013	2014	2015	2016
Closing share price (\$)	0.22	0.15	0.16	0.49	0.695
Market capitalisation (\$m)	10.7	7.4	7.9	24.0	52.4
Earnings per share (cents)	(6.28)	0.74	3.39	(9.83)	2.73

The Performance Target for the second tranche of the new PRP was met during FY2016 and as a result 900,000 shares were issued.

**18.7. EXECUTIVE CONTRACTUAL ARRANGEMENTS**

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

Chief Executive Officer

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 \$400,000 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 3 – 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 4 – Summary of KMP termination provisions**

	<b>Notice Period</b>	<b>Payment in lieu of notice</b>	<b>Treatment of LTI on termination</b>	<b>Termination payments</b>
Employer initiated termination	3 months	3 months	Board discretion	<p><i>Pre-31 December 2014 KMP</i>                      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.</p> <p><i>Post 31 December 2014 KMP</i>                      In accordance with Section 119 of the Fair Work Act 2009 (Cwth)</p>
Termination for serious misconduct	None	None	Unvested awards forfeited	None
Employee-initiated termination	3 months	3 months	Unvested awards forfeited	None

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

### 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 5 – Compensation of KMP for the years ended 30 June 2016 and 2015**

	Year	Short Term Benefits			Total	Post-Employment	Long-term Benefits	Share Based Payments		Total	Proportion of remuneration performance related
		Salary & Director's Fees	Cash Bonuses	Non-monetary		Employer Superannuation Contributions	Long Service Leave	Employee Share Plans	Performance Rights Plan		
		\$	\$	\$		\$	\$	\$ (a)(b)	\$ (c)		
<b><u>Non-executive Directors</u></b>											
John P Welborn	<b>2016</b>	<b>109,589</b>	-	-	<b>109,589</b>	<b>10,411</b>	-	-	-	<b>120,000</b>	-
<i>Chairman and Director (Non-executive)</i>	2015	78,364	-	-	78,364	7,445	-	-	-	85,809	-
John H Poynton (d)	<b>2016</b>	<b>109,589</b>	-	-	<b>109,589</b>	<b>10,411</b>	-	-	-	<b>120,000</b>	-
<i>Director (Non-executive)</i>	2015	31,526	-	-	31,526	2,995	-	-	-	34,521	-
Mervyn T Jones (e)	<b>2016</b>	-	-	-	-	-	-	-	-	-	-
<i>Chairman and Director (Non-executive)</i>	2015	66,679	-	-	66,679	6,335	-	-	-	73,014	-
Vijoleta Braach-Maksvytis (f)	<b>2016</b>	-	-	-	-	-	-	-	-	-	-
<i>Director (Non-executive)</i>	2015	46,838	-	-	46,838	4,450	-	-	-	51,288	-
<i>Total Consolidated, all non-executive directors</i>	<b>2016</b>	<b>219,178</b>	-	-	<b>219,178</b>	<b>20,822</b>	-	-	-	<b>240,000</b>	-
	2015	223,407	-	-	223,407	21,225	-	-	-	244,632	-
<b><u>Executive Director</u></b>											
Terry D Stinson	<b>2016</b>	<b>349,147</b>	<b>100,000</b>	<b>17,349</b>	<b>466,496</b>	<b>33,169</b>	<b>9,605</b>	-	<b>77,184</b>	<b>586,454</b>	<b>30.2%</b>
<i>Director and Chief Executive Officer</i>	2015	338,516	-	17,349	355,865	32,918	16,321	(19,805)	208,827	594,126	31.8%
<b><u>Other Key Management Personnel</u></b>											
Charis Law (g)	<b>2016</b>	<b>41,284</b>	-	-	<b>41,284</b>	<b>3,922</b>	<b>87</b>	-	-	<b>45,293</b>	-
<i>Chief Commercial Officer</i>	2015	-	-	-	-	-	-	-	-	-	-
Geoff P Cathcart	<b>2016</b>	<b>222,332</b>	-	<b>35,630</b>	<b>257,962</b>	<b>26,885</b>	<b>7,768</b>	<b>1,000</b>	<b>30,874</b>	<b>324,489</b>	<b>9.5%</b>
<i>Chief Technical Officer</i>	2015	214,908	-	35,630	250,538	26,112	7,635	(9,472)	69,996	344,809	17.6%
Michael C Lane (h)	<b>2016</b>	<b>253,001</b>	-	-	<b>253,001</b>	<b>21,749</b>	<b>4,510</b>	<b>1,000</b>	-	<b>280,260</b>	-
<i>Chief Executive Officer - REMSAFE</i>	2015	101,615	-	-	101,615	8,735	7,026	-	-	117,376	-
Ian G Veitch	<b>2016</b>	<b>221,177</b>	<b>30,000</b>	-	<b>251,177</b>	<b>21,012</b>	<b>4,855</b>	<b>1,000</b>	<b>30,874</b>	<b>308,918</b>	<b>19.7%</b>
<i>Chief Financial Officer</i>	2015	214,735	-	-	214,735	19,863	4,898	(8,088)	69,996	301,404	20.5%
<i>Total Consolidated, Executive Director and Key Management Personnel</i>	<b>2016</b>	<b>1,087,647</b>	<b>130,000</b>	<b>52,979</b>	<b>1,270,626</b>	<b>106,795</b>	<b>26,825</b>	<b>3,000</b>	<b>138,932</b>	<b>1,546,178</b>	<b>17.4%</b>
	2015	869,774	-	52,979	922,753	87,628	35,880	(37,365)	348,819	1,357,715	19.4%

**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) Unvested Executive Long Term Share Plan rights were forfeited in the 2015 financial year when the Executive Long Term Share Plan was cancelled. The fair values of the Executive Long Term Share Plan rights were calculated at the respective dates 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.
- (c) The fair value of the Performance Rights was 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 8 – 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	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%

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

- (d) Mr Poynton became a KMP on 17 March 2015
- (e) Dr Jones ceased to be a KMP on 17 March 2015
- (f) Dr Braach-Maksvytis ceased to be a KMP on 17 March 2015
- (g) Ms Law became a KMP on 26 April 2016
- (h) Mr Lane became a KMP on 4 February 2015

# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

## 18.9. EQUITY INSTRUMENTS

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

### Analysis of Shares and rights 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 Performance Rights Plan.

**Table 9 – Summary of KMP executives interests in equity instruments**

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 Rights Forfeited	Number of Rights Expired	Number of Rights Cancelled
<b>Executive Director</b>										
Mr TD Stinson	2016	-	-	-	-	-	500,000	-	-	-
<b>Executives</b>										
Ms C Law	2016	-	-	-	-	-	-	-	-	-
Dr GP Cathcart	2016	1,678	\$0.5959	1,000	-	-	200,000	-	-	-
Mr M Lane	2016	1,678	\$0.5959	1,000	-	-	-	-	-	-
Mr IG Veitch	2016	1,678	\$0.5959	1,000	-	-	200,000	-	-	-

- (a) The fair value of the employee share plan No. 1 based upon the market value (at offer date of 31 October 2015) 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 10 – Movement of KMP executives interests in LTI equity rights**

	Number Held at 1-Jul15	Number Offered	Number Forfeited	Number Expired	Number Cancelled	Number Vested	Number Held at 30-Jun-16	Number Not Exercisable
<b>Executive director</b>								
Mr TD Stinson	1,000,000	-	-	-	-	500,000	500,000	500,000
<b>Other KMP</b>								
Ms C Law	-	-	-	-	-	-	-	-
Dr GP Cathcart	400,000	-	-	-	-	200,000	200,000	200,000
Mr MC Lane	-	-	-	-	-	-	-	-
Mr IG Veitch	400,000	-	-	-	-	200,000	200,000	200,000

# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016

## 18.9. EQUITY INSTRUMENTS (CONTINUED)

**Table 11 – Movement of KMP interests in shares**

	Number Held at 1-Jul-15	Number of Purchases	Number Granted as compensation		Number of Sales	Number of Other	Number Held at 30-Jun-16
			ESP #1	Vested PRP			
<b>Non-executive directors</b>							
Mr JP Welborn	8,195	670,908	-	-	-	-	679,103
Mr JH Poynton	2,665,688	125,000	-	-	-	-	2,790,688
<b>Executive director</b>							
Mr TD Stinson	538,441	134,180	-	500,000	-	-	1,172,621
<b>Other KMP</b>							
Ms C Law (a)	-	-	-	-	-	-	-
Dr GP Cathcart	69,957	-	1,678	200,000	(200,000)	-	71,635
Mr MC Lane	-	125,000	1,678	-	-	-	126,678
Mr IG Veitch	28,837	-	1,678	200,000	(200,000)	-	30,515

(a) Ms Law was appointed a KMP on 26 April 2016.

### 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		
		2016	2015	2016	2015	
		\$	\$	\$	\$	
<b>Non-Executive Directors</b>						
Mr JP Welborn	5	-	256,250	22,871	3,915	
Mr JH Poynton	1	-	51,250	4,574	783	
<b>Executive Director</b>						
Mr TD Stinson	1	-	51,250	4,574	783	
<b>Other KMP</b>						
Mr MC Lane (Chief Executive Officer of REMSAFE)	4	-	205,000	17,266	3,132	
<b>Total</b>	<b>11</b>	<b>-</b>	<b>563,750</b>	<b>49,285</b>	<b>8,613</b>	

### 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 29<sup>th</sup> day of August 2016.

# STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED	
	Note	2016 \$'000	2015 \$'000
<b>Continuing operations</b>			
Sale of goods		3,139	3,560
Engineering services income		7,704	5,217
Royalty and licence income		789	777
Other revenue	6	119	106
<b>Total Revenue</b>		<b>11,751</b>	<b>9,660</b>
Other income	7	11,452	5,291
Materials and consumables expenses	8(d)	(1,143)	(518)
Employee benefits expenses	8(a)	(9,770)	(8,925)
Depreciation and amortisation expenses		(560)	(504)
Engineering consumables and contractors expenses		(4,627)	(3,413)
Occupancy expenses		(1,321)	(1,296)
Travel and accommodation expenses		(224)	(333)
Communications and computing expenses		(473)	(371)
Patent expenses		(360)	(212)
Insurance expenses		(564)	(401)
Audit, compliance and listing expenses		(621)	(621)
Finance costs	8(b)	(1,419)	(964)
Other expenses	8(c)	(951)	(466)
Share of profit from associate	16(c)	1,529	2,860
<b>Profit/(loss) before income tax from continuing operations</b>		<b>2,699</b>	<b>(213)</b>
Income tax expense	9(a)	(1,416)	(448)
<b>Profit/(loss) for the year from continuing operations</b>		<b>1,283</b>	<b>(661)</b>
<b>Discontinued operations</b>			
Loss after tax for the year from discontinued operations	31	(68)	(4,068)
<b>Profit/(loss) for the year</b>		<b>1,215</b>	<b>(4,729)</b>
Attributable to:			
Equity holders of the Parent		1,533	(4,542)
Non-controlling interests		(318)	(187)
		<b>1,215</b>	<b>(4,729)</b>
Earnings per share	10	cents	cents
Basic, profit/(loss) for the year attributable to ordinary equity holders of the Parent		2.73	(9.83)
Diluted, profit/(loss) for the year attributable to ordinary equity holders of the Parent		2.73	(9.83)
Earnings per share from continuing operations			
Basic, profit/(loss) for the year attributable to ordinary equity holders of the Parent		2.85	(1.03)
Diluted, profit/(loss) for the year attributable to ordinary equity holders of the Parent		2.85	(1.03)

The statement of profit or loss is to be read in conjunction with the notes to the financial statements set out on pages 28 to 80.



## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>Net profit/(loss) for the year</b>	<b>1,215</b>	<b>(4,729)</b>
Other Comprehensive income		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Share of foreign currency reserve of equity accounted investment	<b>290</b>	(421)
Foreign currency translation	<b>1,417</b>	4,613
Foreign currency translation reserve released on sale of investment in associate	<b>(3,607)</b>	-
<b>Other comprehensive (loss)/income for the period, net of tax</b>	<b>(1,900)</b>	4,192
<b>Total comprehensive loss for the year</b>	<b>(685)</b>	<b>(537)</b>
Attributable to:		
Equity holders of the Parent	<b>(367)</b>	(350)
Non-controlling interests	<b>(318)</b>	(187)
<b>Total comprehensive loss for the year</b>	<b>(685)</b>	<b>(537)</b>

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 28 to 80.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	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
<b>At 1 July 2014</b>	19,590	2,042	1,705	(2,292)	-	-	21,045	-	21,045
Loss 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
<b>Balance at 30 June 2015</b>	<b>20,021</b>	<b>(2,500)</b>	<b>1,807</b>	<b>1,900</b>	<b>(670)</b>	<b>248</b>	<b>20,806</b>	<b>1,136</b>	<b>21,942</b>
<b>At 1 July 2015</b>	<b>20,021</b>	<b>(2,500)</b>	<b>1,807</b>	<b>1,900</b>	<b>(670)</b>	<b>248</b>	<b>20,806</b>	<b>1,136</b>	<b>21,942</b>
Profit/ (loss) for period	-	1,533	-	-	-	-	1,533	(318)	1,215
Foreign currency translation	-	-	-	1,707	-	-	1,707	-	1,707
Foreign currency translation reserve released on sale of investment in associate	-	-	-	(3,607)	-	-	(3,607)	-	(3,607)
Other comprehensive (loss)/income	-	-	-	(1,900)	-	-	(1,900)	-	(1,900)
Total comprehensive income/(loss) for the period	-	1,533	-	(1,900)	-	-	(367)	(318)	(685)
Convertible Note conversions	9,136	-	-	-	-	-	9,136	-	9,136
Convertible Note interest paid in shares	679	-	-	-	-	-	679	-	679
Share based payments	215	-	(19)	-	-	-	196	-	196
<b>Balance at 30 June 2016</b>	<b>30,051</b>	<b>(967)</b>	<b>1,788</b>	<b>-</b>	<b>(670)</b>	<b>248</b>	<b>30,450</b>	<b>818</b>	<b>31,268</b>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 28 to 80.

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	CONSOLIDATED	
		2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	11	24,872	6,649
Other financial assets	12(a)	1,434	1,369
Trade and other receivables	14	6,009	6,991
Inventories	15	4,248	390
		<u>36,563</u>	<u>15,399</u>
Disposal group held for sale	31	-	909
<b>Total current assets</b>		<u>36,563</u>	<u>16,308</u>
<b>Non-current assets</b>			
Investment in associate	16(b)	-	17,826
Deferred taxation asset	17	5,482	5,621
Plant and equipment	18	1,925	2,259
Intangibles and goodwill	19	5,218	5,530
		<u>12,625</u>	<u>31,236</u>
<b>TOTAL ASSETS</b>		<u>49,188</u>	<u>47,544</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	20	6,454	4,510
Borrowings	12(b)	717	597
Employee benefits	22	2,154	2,026
Government grants	24	225	225
Other provisions	25	57	241
		<u>9,607</u>	<u>7,599</u>
Liabilities associated with disposal group held for sale	31	-	382
<b>Total current liabilities</b>		<u>9,607</u>	<u>7,981</u>
<b>Non-current liabilities</b>			
Long term borrowings	12(b)	7,562	16,604
Employee benefits	22	42	35
Government grants	24	524	749
Other provisions	25	185	233
		<u>8,313</u>	<u>17,621</u>
<b>TOTAL LIABILITIES</b>		<u>17,920</u>	<u>25,602</u>
<b>NET ASSETS</b>			
		<u>31,268</u>	<u>21,942</u>
<b>EQUITY</b>			
Share capital	26	30,051	20,021
Reserves	27	1,366	3,285
Accumulated Losses	27	(967)	(2,500)
		<u>30,450</u>	<u>20,806</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
		<u>30,450</u>	<u>20,806</u>
Non-controlling interests		818	1,136
		<u>818</u>	<u>1,136</u>
<b>TOTAL EQUITY</b>		<u>31,268</u>	<u>21,942</u>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 28 to 80.

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED	
	Note	2016	2015
		\$'000	\$'000
<b>Cash Flows from Operating Activities</b>			
Cash receipts from customers		22,689	19,042
Cash paid to suppliers and employees		(27,618)	(22,417)
Cash used by operations		<u>(4,929)</u>	<u>(3,375)</u>
Interest received		124	132
Interest paid		(188)	(80)
Income taxes paid		<u>(88)</u>	<u>(59)</u>
<b>Net cash used in operating activities</b>	34	<u>(5,081)</u>	<u>(3,382)</u>
<b>Cash Flows from Investing Activities</b>			
Dividends received from associate		-	2,060
Acquisition of subsidiary, net of cash acquired	30	-	(4,741)
Net proceeds from sale of share in investment		24,185	-
Net Proceeds from sale of plant and equipment		67	36
Acquisition of plant and equipment		(284)	(249)
Investment in short term deposit		(66)	(260)
Cash associated with sale of disposal group	31	<u>(850)</u>	<u>-</u>
<b>Net cash from/(used in) investing activities</b>		<u>23,052</u>	<u>(3,154)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from borrowings		-	9,890
Repayment of borrowings		(597)	(498)
On market share buy-back		<u>-</u>	<u>(773)</u>
<b>Net cash (used in)/from financing activities</b>		<u>(597)</u>	<u>8,619</u>
<b>Net increase in cash and cash equivalents</b>		<b>17,374</b>	<b>2,083</b>
Cash and cash equivalents at 1 July		7,499	5,416
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(1)	-
<b>Cash and cash equivalents at 30 June</b>	34	<u><u>24,872</u></u>	<u><u>7,499</u></u>

## Non-Cash Investing and Financing Activities

During the year ended 30 June 2016, there were non-cash financing activities of \$9,136,000 (2015: \$nil) from the early redemption of Convertible Notes outstanding as at 29 February 2016 (refer to note 12(b)). There were no non-cash investing activities for the year ended 30 June 2016 (2015: \$nil).

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 28 to 80.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## 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 2016 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 29 August 2016.

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

### (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 2015, the Group has adopted all the standards and interpretations effective from 1 July 2015. 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.

### (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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of Consolidation (continued)

#### (i) Subsidiaries (continued)

- 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 accounts for investments in associates using the equity method of accounting in the consolidated financial statements. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement.

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 associates reduce the carrying amount of the investment.

When the Group's share of losses in an 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 accounting policies of associates are adjusted to conform to those used by the Group for like transactions and events in similar circumstances. Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### (iii) Transactions Eliminated on Consolidation

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Foreign Currency

##### (i) Foreign currency transactions

Transactions in foreign currencies are converted to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date (except those representing the Group's net investment in subsidiaries and its associate see below) are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the 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.

##### *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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### (d) Financial Instruments (continued)

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

##### *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).

### (e) Inventories – refer note 15

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

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

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

#### (i) Recognition and measurement

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

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

#### (ii) Subsequent costs

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

#### (iii) Depreciation and Amortisation

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

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

#### (iv) Asset Sales

The net profit or loss from asset sales 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (i) Research and Development (continued)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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.

(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.

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

#### (h) **Impairment (continued)**

(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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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.

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Employee Benefits (continued)

##### (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.

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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.

##### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area 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 new and amended Standards and Interpretations which have been issued but are not yet effective have been identified as those which may impact the entity in the period of initial application. The impact of these standards has not been fully assessed. Whilst these new and amended Standards and Interpretations are available for early adoption at 30 June 2016, they have not been applied in preparing this financial report.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	<p>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.</p> <p>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.</p> <p>Classification and measurement</p> <p>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.</p> <p>The main changes are described below.</p> <p><b>Financial assets</b></p> <p>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>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.</p> <p>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.</p> <p><b>Financial liabilities</b></p> <p>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. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul>	1 January 2018	1 July 2018

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 9	Financial Instruments	<p>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.</p> <p><b>Impairment</b></p> <p>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.</p> <p><b>Hedge accounting</b></p> <p>Amendments to AASB 9 (December 2009 &amp; 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.</p> <p>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.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>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.</p>	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)	<p>AASB 2014-3 amends AASB 11 <i>Joint Arrangements</i> to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, 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</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations</p> <p>This Standard also makes an editorial correction to AASB 11.</p>	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to AASB 116 and AASB 138	<p>AASB 116 <i>Property Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The 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.</p>	1 January 2016	1 July 2016



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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	Revenue from Contracts with Customers	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations (Interpretation 13 <i>Customer Loyalty Programmes</i>, Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, Interpretation 18 <i>Transfers of Assets from Customers</i>, Interpretation 131 <i>Revenue—Barter Transactions Involving Advertising Services</i> and Interpretation 1042 <i>Subscriber Acquisition Costs in the Telecommunications Industry</i>). AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>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:</p> <ol style="list-style-type: none"> <li>Step 1: Identify the contract(s) with a customer</li> <li>Step 2: Identify the performance obligations in the contract</li> <li>Step 3: Determine the transaction price</li> <li>Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ol> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p>AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.</p>	1 January 2018	1 July 2018
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 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:</p> <ol style="list-style-type: none"> <li>A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</li> <li>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.</li> </ol> <p>AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.</p>	1 January 2018	1 July 2018

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i></p> <ul style="list-style-type: none"> <li>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 vice versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p><i>AASB 7 Financial Instruments: Disclosures:</i></p> <ul style="list-style-type: none"> <li>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.</li> <li>Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> 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 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</li> </ul> <p><i>AASB 119 Employee Benefits:</i></p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p><i>AASB 134 Interim Financial Reporting:</i></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	<p>The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> 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.</p>	1 January 2016	1 July 2016

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p><b>Lessee accounting</b></p> <ul style="list-style-type: none"> <li>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</li> <li>Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>AASB 16 contains disclosure requirements for lessees.</li> </ul> <p><b>Lessor accounting</b></p> <ul style="list-style-type: none"> <li>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>AASB 16 supersedes:</p> <ol style="list-style-type: none"> <li>AASB 117 Leases</li> <li>Interpretation 4 Determining whether an Arrangement contains a Lease</li> <li>SIC-15 Operating Leases—Incentives</li> <li>SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</li> </ol> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019	1 July 2019
2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)	This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 <i>Statement of Cash Flows</i> (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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.

#### Significant accounting judgements

##### *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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

#### *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.

#### *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.

### 5. OPERATING SEGMENTS

#### **Identification of reportable segments**

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

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

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

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. During the 2016 financial reporting period the Group changed the names of two reportable segments as disclosed below.

#### **Types of products and services as reported in 2016**

##### **Unmanned Aerial Vehicles (previously Aerospace)**

The Unmanned Aerial Vehicles 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.

##### **Safety & Productivity (previously Mining & Industrial)**

REMSAFE has developed an electrical isolation system that provides a safety solution which delivers cost savings and increases productivity. The patented isolation system enables plant operators to safely and promptly isolate fixed equipment from its energy source, thereby optimising production, increasing safety and delivering immediate cost savings. REMSAFE products provide for the highest level of safety for high and low voltage electrical isolations. The Group acquired the REMSAFE business during the prior reporting period.

### 5. OPERATING SEGMENTS (CONTINUED)

#### 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 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.
- Research and development costs.

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

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.

#### Major customers

The Group has a number of customers to which it provides both products and services. The Unmanned Aerial Vehicle supply is to one major customer that accounted for 16% (2015: one customer 35%) of total external revenue. The Safety & Productivity segment supplies to Australian and South African mining companies of which one customer accounted for 26% of total external revenue (2015: 19%). No other customer accounts for more than 10% of revenue.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## 5. OPERATING SEGMENTS (CONTINUED)

### (a) Operating Segments

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Accelerator		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Segment revenue - external customers	3,139	3,560	5,814	2,281	788	777	1,891	2,936	11,632	9,554
Unallocated other interest revenue									119	106
<b>Total revenue</b>									<b>11,751</b>	<b>9,660</b>
<b>Segment result</b>	<b>277</b>	<b>2,757</b>	<b>(248)</b>	<b>257</b>	<b>399</b>	<b>904</b>	<b>6</b>	<b>(375)</b>	<b>434</b>	<b>3,543</b>
Research & development costs – (net) (i)									(1,781)	(2,564)
Unallocated expenses - (net) (ii)									(3,532)	(3,088)
Finance costs									(1,419)	(964)
Share of profit from associate									1,529	2,860
Gain on sale of share in equity accounted investment									3,861	-
Foreign currency translation reserve released on sale of share in equity accounted investment									3,607	-
<b>Net profit/ (loss) before related income tax</b>									<b>2,699</b>	<b>(213)</b>
Income tax expense									(1,416)	(448)
Profit/ (loss) after tax from continuing operations									<b>1,283</b>	<b>(661)</b>

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Accelerator		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Non-cash (income) and expenses</b>										
Depreciation and amortisation	31	119	312	290	227	152	349	404	919	965
Equity settled employee compensation	61	87	11	-	-	9	3	15	75	111
Other non-cash (income)/ expenses	-	-	-	-	(78)	1,780	(225)	(541)	(303)	1,239
<b>Segment non-cash expenses</b>	<b>92</b>	<b>206</b>	<b>323</b>	<b>290</b>	<b>149</b>	<b>1,941</b>	<b>127</b>	<b>(122)</b>	<b>691</b>	<b>2,315</b>
Equity settled employee compensation									121	255
Amortisation of non-interest bearing loans									543	541
Finance costs									948	165
Share of profit from associate									(1,529)	(2,860)
Foreign currency translation reserve released on sale of share in equity accounted investment									(3,607)	-
Movement in provision for surplus lease space									(132)	38
Foreign exchange translation gain									(2)	(124)
Movement in fair value of financial instruments									-	233
<b>Total non-cash (income) and expenses</b>									<b>(2,967)</b>	<b>563</b>

(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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## 5. OPERATING SEGMENTS (CONTINUED)

### (a) Operating Segments

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Accelerator		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Segment assets</b>	<b>8,259</b>	4,113	<b>7,236</b>	7,846	<b>290</b>	1,497	<b>1,615</b>	2,623	<b>17,400</b>	16,079
Unallocated assets										
Cash									<b>24,872</b>	6,649
Other financial assets									<b>1,434</b>	1,369
Investment in associate									-	17,826
Deferred tax assets									<b>5,482</b>	5,621
<b>Consolidated Total Assets</b>									<b>49,188</b>	47,544
<b>Segment liabilities</b>	<b>6,614</b>	2,433	<b>1,093</b>	2,824	<b>124</b>	1,286	<b>1,810</b>	1,858	<b>9,641</b>	8,401
Unallocated liabilities										
Long term borrowings									<b>8,279</b>	17,201
<b>Consolidated Total Liabilities</b>									<b>17,920</b>	25,602
<b>Consolidated Net Assets</b>									<b>31,268</b>	21,942

<b>Segment acquisitions of non-current assets</b>	<b>161</b>	70	<b>123</b>	67	-	56	-	56	<b>284</b>	249
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### (b) Geographic information

	Americas		Europe		Asia		Australia		Africa		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Revenue – external customers</b>	<b>3,829</b>	4,535	<b>57</b>	103	<b>1,486</b>	1,638	<b>4,294</b>	3,278	<b>1,966</b>	-	<b>11,632</b>	9,554
<b>Non-current assets</b>	-	23,447	-	-	-	-	<b>12,625</b>	7,789			<b>12,625</b>	31,236



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>6. OTHER REVENUE</b>		
Interest revenue	<u>119</u>	<u>106</u>
<b>7. OTHER INCOME</b>		
Automotive grant income (a)	12	90
Net foreign exchange gains	-	196
Grant income	430	1,623
Fair value movement in contingent consideration (note 12)	-	638
Rental income from sub-lease	460	449
Research and development grant (b)	3,071	2,265
Other (c)	7,479	30
	<u>11,452</u>	<u>5,291</u>
<p>(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.</p> <p>(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.</p> <p>(c) The other income relates to profit on sale of the Synerject investment and realisation of the foreign currency translation reserve.</p>		
<b>8. EXPENSES</b>		
<b>(a) Employee benefits expenses</b>		
Salaries and wages	7,616	7,194
Contributions to defined contributions superannuation funds	913	690
Share based payments	196	358
Increase in liability for annual leave	87	61
Increase in liability for long service leave	189	121
Other associated personnel expenses	769	501
	<u>9,770</u>	<u>8,925</u>
<b>(b) Finance costs</b>		
Non-cash interest expense WA Government Loan	543	541
Convertible Note interest expense	876	423
	<u>1,419</u>	<u>964</u>
<b>(c) Other expenses</b>		
Administration	116	127
Marketing	125	17
Investor Relations	57	4
Freight & courier	20	8
Fair value movement in financial instruments	-	233
Net foreign exchange losses	542	-
Other	91	77
	<u>951</u>	<u>466</u>
<b>(d) Materials and consumables expenses</b>		
Raw materials and consumables purchased	5,001	223
Write back inventory impairment	-	(14)
Change in inventories	(3,858)	309
	<u>1,143</u>	<u>518</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>8. EXPENSES (CONTINUED)</b>		
<b>(e) Lease payments included in statement of profit or loss</b>		
Minimum lease payments – operating lease	<b>768</b>	1,150
<b>(f) Research and development costs</b>		
Research and development costs charged directly to the statement of profit or loss	<b>1,986</b>	3,646
<b>9. INCOME TAX</b>		
<b>(a) Recognised in the statement of profit or loss</b>		
<b>Current income tax</b>		
Current year expense	<b>(563)</b>	(1,010)
Adjustments in respect of current income tax of previous year	<b>(468)</b>	-
<b>Deferred tax</b>		
Benefits arising from previously unrecognised tax losses	-	1,070
Relating to originating and reversing temporary differences	<b>(385)</b>	(508)
<b>Total income tax expense in statement of profit or loss</b>	<b>(1,416)</b>	(448)
<b>(b) Numerical reconciliation between tax benefit and pre-tax net profit/(loss)</b>		
Profit/ (loss) before tax from continuing operations	<b>2,699</b>	(213)
Loss before tax from discontinued operations	<b>(68)</b>	(4,068)
Profit/ (loss) before income tax	<b>2,631</b>	(4,281)
Income tax using the statutory tax rates	<b>(789)</b>	1,284
- Effect of higher tax rates in the United States of America	<b>(217)</b>	(111)
- Non-deductible expenditure	<b>(2,340)</b>	(2,187)
- Non assessable income	<b>2,394</b>	721
- Deferred tax asset not recognised	<b>(1,076)</b>	(624)
- Prior year Research and Development non-deductible expenditure	<b>(468)</b>	-
- De-recognition of US tax losses	<b>(4,804)</b>	(598)
- Recognition of previously unrecognised Australian tax losses	<b>5,376</b>	1,070
- Net withholding tax (paid)/recouped	<b>1</b>	(5)
- Other	<b>697</b>	102
- United States of America Federal and State taxes	<b>(190)</b>	(100)
Income tax expense on pre-tax net profit/ (loss)	<b>(1,416)</b>	(448)
<b>(c) Tax consolidation</b>		

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

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

Orbital and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

In addition to its own current and deferred tax amounts, Orbital also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have entered into a tax funding arrangement under which the controlled entities fully compensate Orbital for any current tax payable assumed and are compensated by Orbital for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Orbital under the tax consolidation regime. The funding amounts are determined by reference to the amounts recognised in the controlled entities' financial statements. The funding amounts are recognised as current intercompany receivables or payables.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2016 was based on profit attributable to ordinary shareholders of \$1,533,000 (2015: loss of \$4,542,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2016 of 56,198,664 shares (2015: 46,212,805 shares), calculated as follows:

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
Profit/ (loss) attributable to ordinary equity holders of the Parent:		
Continuing operations	1,601,000	(474,000)
Discontinued operations	(68,000)	(4,068,000)
<b>Profit/ (loss) attributable to ordinary equity holders of the Parent for basic earnings</b>	<b>1,533,000</b>	<b>(4,542,000)</b>
Weighted average number of ordinary shares	Number	Number
Weighted average number of ordinary shares at 30 June	56,198,664	46,212,805
Effect of potential dilutive ordinary shares	-	-
Weighted average number of potential dilutive ordinary shares at 30 June	<b>56,198,664</b>	<b>46,212,805</b>
Earnings per share	Cents	Cents
Basic earnings per share	<b>2.73</b>	(9.83)
Diluted earnings per share	<b>2.73</b>	(9.83)

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 900,000 performance rights (2015: 1,800,000 performance rights) have not been included in the diluted earnings per share calculation as they were contingent on future events.

### 11. CASH AND CASH EQUIVALENTS

	2016 \$'000	2015 \$'000
Cash at bank	10,398	1,851
Cash at bank – US dollars	13,705	37
Cash at bank – European currency units	3	2
At call deposits – financial institutions*	766	4,759
	<b>24,872</b>	<b>6,649</b>

\* 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

##### Short term deposits at amortised cost

Short term deposits	1,434	1,369
<b>Total other financial assets</b>	<b>1,434</b>	<b>1,369</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

##### 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	
2016	2015
\$'000	\$'000

#### (b) Other financial liabilities

##### (i) Financial liabilities and borrowings

##### Current

Current portion of loans and advances - secured

717

597

**Total current borrowings**

**717**

**597**

##### Non-current

Convertible note issuance

-

8,868

Loans and advances - secured

7,562

7,736

**Total non-current borrowings**

**7,562**

**16,604**

##### Convertible note issuance

During the 2015 financial year 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 had a maturity date of two years from the date of issue. The coupon interest rate was 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 were fully secured pursuant to a general security deed and ranked in priority to any existing security.

Each Convertible Note represented 125,000 ordinary shares at a conversion price of \$0.40 per share. Note Holders could elect to convert the Notes into Orbital Shares at any time prior to the maturity date. The Notes would have redeemed at face value plus outstanding interest on the maturity date if not redeemed or converted beforehand. The Notes were 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 was 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). The remainder of the proceeds were allocated to the conversion option that was recognised and included in equity. The portion of the transaction costs attributable to the conversion right were deducted from equity. Interest was recognised using the effective interest rate method over the terms of the notes. The effective interest rate was 13.72%.

On 1 March 2016, the Company gave notice to redeem all Convertible Notes outstanding as at 29 February 2016. As a result, note holders exercised their right to convert and all 153 Notes outstanding at that date (with a \$50,000 face value) were converted to ordinary shares resulting in the issue of 22,250,000 new ordinary shares in Orbital. Prior to the early redemption at 29 February 2016, 39 Notes were converted in the current financial year and 8 Notes were converted in the 2015 financial year. The face value of Notes outstanding at 30 June 2015 was \$9,600,000.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 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 2016 was \$543,000 (2015: \$541,000). The carrying value as at 30 June 2016 is \$8,279,000 (2015: \$8,333,000), of which \$717,000 relates to short term borrowings (2015: \$597,000) and \$7,562,000 relates to long term borrowings (2015: \$7,736,000).

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

#### (c) 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:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	24,872	6,649
Short term deposits	1,434	1,369
	26,306	8,018

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

*At 30 June 2016, 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)	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Consolidated				
+1% (100 basis points)	263	81	-	-
- 1% (100 basis points)	(263)	(80)	-	-

#### Foreign currency risk

As a result of the large USD cash balance resulting from the sale of investment in Synerject LLC, 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 27% (FY2015: 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 17% (FY2015: 9%) 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 2016, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:*

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	13,705	37
Trade and other receivables	1,274	690
	14,979	727
<b>Financial Liabilities</b>		
Trade and other payables	106	20

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

At 30 June 2016, the Group had the following exposure to European currency units that is not designated in cash flow hedges:

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	3	2
Trade and other receivables	-	27
	<u>3</u>	<u>29</u>

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

At 30 June 2016, 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)	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Consolidated				
AUD/USD/EURO +5%	(708)	(35)	-	-
AUD/USD/EURO -5%	<u>783</u>	<u>39</u>	<u>-</u>	<u>-</u>

The movements in profit in 2016 are more sensitive than in 2015 due to the large USD cash balance subsequent to the sale of investment in Synerject.

#### 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 at 30 June 2016 consist of an 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 2016. 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 2016. The Group's approach to managing liquidity is to ensure, as far as is possible, that it will always have sufficient liquidity to meet its liabilities when due and payable without incurring unacceptable losses or risks.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
6 months or less	<b>6,456</b>	4,755
6-12 months	<b>717</b>	842
1-5 years	<b>4,616</b>	13,815
Over 5 years	<b>6,230</b>	7,715
	<b>18,019</b>	27,127

### 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Financial Liabilities</b>				
Loans and advances - secured	<b>8,279</b>	8,333	<b>6,520</b>	6,355
Convertible Note issuance	-	8,868	-	9,032
Total	<b>8,279</b>	17,201	<b>6,520</b>	15,387

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 and the disposal group held for sale:

- 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 2016: 12% (2015: 12%).
- The fair value of the debt component of the convertible notes issued in the prior year were calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 2015: 12%.
- The fair value of the Disposal Group' held for sale at 30 June 2015 was 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 at the end of the 2015 financial year. Refer to note 31.

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

As at 30 June 2016:	Fair value measurement using			
	Total \$'000	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
<b>Financial liabilities for which fair values are disclosed:</b>				
Loans and advances - secured	<b>6,520</b>	-	6,520	-
Debt component of convertible notes	-	-	-	-
Other assets – disposal group held for sale	-	-	-	-
	<b>6,520</b>	-	6,520	-



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 13. FAIR VALUES (CONTINUED)

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
<b>Financial liabilities for which fair values are disclosed:</b>				
Loans and advances - secured	6,355	-	6,355	-
Debt component of convertible notes	9,032	-	9,032	-
<b>Other assets - Disposal Group at fair value less costs to sell:</b>				
Assets held for sale – refer to Note 31	527	-	-	527
	<b>15,914</b>	<b>-</b>	<b>15,387</b>	<b>527</b>

The following table shows a reconciliation of Level 3 between the beginning and the end of the reporting period:

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
At 1 July	<b>527</b>	<b>638</b>
Contingent consideration released to the statement of profit or loss	-	<b>(638)</b>
Disposal group assets classified as held for sale - Refer to Note 31	<b>(527)</b>	<b>527</b>
At 30 June	<b>-</b>	<b>527</b>

#### 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 at 30 June 2015 of \$638,000, which was reflected in the profit and loss account for the prior year. The fair value as at 30 June 2016 was \$nil due to the performance of the Sprint Gas business.

### 14. TRADE AND OTHER RECEIVABLES

#### Current

Trade receivables	<b>3,174</b>	4,164
Allowance for impairment loss (a)	-	(1)
	<b>3,174</b>	4,163
Accrued royalties	<b>199</b>	168
Other receivables	<b>2,305</b>	2,393
Prepayments	<b>331</b>	267
	<b>6,009</b>	6,991

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

#### CONSOLIDATED

	2016 \$'000	2015 \$'000
<b>(a) Allowance for impairment loss</b>		

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 \$nil (2015: \$1,000) 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	(1)	(21)
Write-back for the year	1	3
Amounts written off		17
At 30 June	<u>-</u>	<u>(1)</u>

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*
2016 Consolidated	<b>3,174</b>	<b>2,630</b>	<b>22</b>	<b>84</b>	<b>438</b>	-
2015 Consolidated	4,164	3,154	952	30	27	1

Receivables past due but not considered impaired are \$522,000 (2015:\$57,000). Payment terms on these amounts have not been re-negotiated. Management has been in contact with each relevant debtor and is satisfied that payments will be received in full.

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

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

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

### 15. INVENTORIES

Materials and production supplies – at lower of cost and net realisable value

**4,248**

390

#### Inventory expense

Inventories recognised as an expense from continued operations for the year ended 30 June 2016 totalled \$1,143,000 (2015: \$518,000) for the Group (Refer to Note 8(d)).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 16. INVESTMENT IN ASSOCIATE

#### (a) Interest in Synerject LLC

The Group sold its 30% share in Synerject on 31 October 2015 for US\$17.8 million. At 30 June 2015, the consolidated entity held a 30% interest in Synerject LLC, a company incorporated in the United States.

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 accounted 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:** 2016: 0%; 2015: 30%.

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 US\$'000
Revenue (100%)	141,054
Profit (100%)	8,300
Other comprehensive income	(1,153)
Total comprehensive income	<u>7,147</u>
Current assets	59,196
Non-current assets	9,521
Current liabilities	30,483
Net assets	<u>38,234</u>
	2015 A\$'000
Revenue (100%)	168,543
Profit (100%)	9,534
Other comprehensive income	(1,378)
Total comprehensive income	<u>8,156</u>
Current assets	77,078
Non-current assets	12,397
Current liabilities	39,691
Net assets	<u>49,784</u>
Orbital's interest in the net assets of Synerject	14,935
Share of goodwill	2,891
Share of Synerject's net assets equity accounted	<u>17,826</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>16. INVESTMENT IN ASSOCIATE (CONTINUED)</b>		
<b>(b) Movement in the carrying amount of the Group's interest in Synerject</b>		
Beginning of year	17,826	13,980
Share of profits after tax	1,529	2,860
Share of reserves	(119)	(421)
Dividends received	-	(2,060)
Unrealised foreign exchange movements	1,051	3,467
Sale of interest	(20,287)	
End of year	-	17,826
<b>(c) Results of Synerject</b>		
Share of Synerject's net profit	1,529	2,860
<b>(d) Commitments</b>		
Share of Synerject's capital commitments contracted but not provided for or payable:		
Within one year		366
One year or later and no later than five years		711
		1,077

## 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Tax value of loss carry-forwards recognised	5,376	5,621	-	-	5,376	5,621
Other net temporary differences (a)	106	807	-	(807)	106	-
Net deferred tax assets	5,482	6,428	-	(807)	5,482	5,621

As a result of the sale of interest in Synerject during the period the Group derecognised deferred tax assets of US\$4,308,720 (A\$5,802,208). The Group recognised A\$5,376,000 of deferred tax assets after assessing the likelihood of offsetting the carried forward tax losses against future taxable profits. Management has assessed the deferred tax asset as recoverable based on forecasted future taxable profits in the Group's business plan. The Group's business plan has been developed using existing customer contracts for Unmanned Aerial Vehicles as the basis for forecasting future revenues and taxable profits from the supply of high-value UAV Propulsion systems.

The Group has tax losses that arose in Australia of A\$70,256,783 (2015: A\$ 68,885,677) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

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 2016, the available tax carry forward losses of US\$11,286,304 (2015: US\$16,160,381) expire between the years 2017 and 2024.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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

### Movement in temporary differences during the comparative 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	-	-	-	-	-
<b>Net tax assets</b>	<b>5,001</b>	<b>(116)</b>	<b>(392)</b>	<b>1,128</b>	<b>5,621</b>

### Movement in temporary differences during the current year

	Consolidated				
	Balance 1 Jul 15	Acquired during the year	Recognised in income	Recognised in equity (b)	Balance 30 June 16
	\$'000	\$'000	\$'000	\$'000	\$'000
Tax value of loss carry-forwards recognised	<b>5,621</b>	-	<b>(139)</b>	-	<b>5,482</b>
Other net temporary differences	-	-	-	-	-
<b>Net tax assets</b>	<b>5,621</b>	<b>-</b>	<b>(139)</b>	<b>-</b>	<b>5,482</b>

### CONSOLIDATED

2016	2015
\$'000	\$'000

#### (a) Other net temporary differences

##### Deferred tax assets

Annual leave	50	196
Long service leave	40	342
Staff bonus	-	4
Revenue in advance	16	171
Other	-	94
	<b>106</b>	<b>807</b>

##### Deferred tax liabilities

Unrealised foreign exchange gain on inter-company loan	-	(727)
Other	-	(80)
	<b>-</b>	<b>(807)</b>

##### Net temporary differences

	<b>106</b>	<b>-</b>
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#### (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:

##### Australia (net at 30%)

Tax losses	15,701	20,658
Capital loss on investment	1,934	1,934
Other net temporary differences	2,186	346
	<b>19,821</b>	<b>22,938</b>

##### United States of America (net 34%)

Tax losses	5,167	1,789
Other net temporary differences	-	132
	<b>5,167</b>	<b>1,921</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>18. PLANT AND EQUIPMENT</b>		
<i>Plant and equipment</i>		
Gross carrying amount at cost	18,190	18,193
Less: accumulated depreciation	(16,265)	(15,934)
	<u>1,925</u>	<u>2,259</u>
Total plant and equipment – net book value	<u>1,925</u>	<u>2,259</u>

### Reconciliations

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

<i>Plant and equipment</i>		
Carrying amount at beginning of year	2,259	2,845
Additions	284	249
Acquired in a business combination	-	36
Disposals	(48)	-
Depreciation	(570)	(658)
Reclassified as held for sale – note 31	-	(213)
Carrying amount at end of year	<u>1,925</u>	<u>2,259</u>

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

### 19. INTANGIBLES AND GOODWILL

Goodwill acquired in business combinations	5,218	5,218
Customer contracts acquired in business combinations	-	312
Total intangibles and goodwill – net book value	<u>5,218</u>	<u>5,530</u>

### Net carrying value

<i>Goodwill acquired in business combinations</i>		
At cost	5,218	5,218
Less: allowance for impairment	-	-
Carrying amount at end of year	<u>5,218</u>	<u>5,218</u>
<i>Customer contracts acquired in business combinations</i>		
At cost	597	597
Less: accumulated amortisation	(597)	(285)
Carrying amount at end of year	<u>-</u>	<u>312</u>
<i>Capitalised development expenditure</i>		
At cost	-	826
Less: accumulated amortisation and impairment	-	(826)
	<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## CONSOLIDATED

2016	2015
\$'000	\$'000

### 19. INTANGIBLES AND GOODWILL (CONTINUED)

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

Reconciliations of the carrying amounts for goodwill:

Carrying amount at beginning of year	5,218	-
Acquired in business combinations	-	5,218
Impairment charge	-	-
Carrying amount at end of year	<u>5,218</u>	<u>5,218</u>

Reconciliations of the carrying amounts for customer contracts:

Carrying amount at beginning of year	312	-
Acquired in business combinations	-	597
Amortisation	(312)	(285)
Carrying amount at end of year	<u>-</u>	<u>312</u>

#### (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 was recognised based on a provisional assessment of the fair value of identifiable assets and liabilities acquired. As at 30 June 2016, management had finalised the fair values for the business combination with no further adjustments (refer to note 30).

##### 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.

#### (c) Assessment of impairment

The Group performed its annual impairment test in June 2016. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2016, the market capitalisation of the Group was significantly higher than the book value of its equity. This excess of market capitalisation over book value is a primary indicator that the assets of the Group are not impaired.

##### Impairment test for Goodwill

##### REMSAFE

The Group also considered the downturn in large-scale capital expenditures within REMSAFE's principle market of Western Australian Iron Ore when reviewing for indicators of impairment. REMSAFE has installed Remote Isolation Systems in a large-scale green fields production expansion project, but the majority of the sales to-date have been in brown fields mine and port locations where the systems have delivered significant productivity improvements.

The recoverable amount for the REMSAFE CGU as at 30 June 2016 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period and a pre-tax discount rate of 15.98% (2015:N/A). The projected cash flows have been based on the expected sales activity for the REMSAFE Remote Isolation System as existing customers expand their implementation of the patent-protected technology from the current pilot installations to a broader uptake across existing sites and throughout the customer's other locations. The projected cash flows also include a provision for sales beyond the existing customer base through the establishment of new sales channels in markets beyond Western Australian Iron Ore, including domestic and international coal. The value in use model has not extrapolated cash flows beyond the four-year period.

As a result of the analysis, there is considerable headroom and management did not identify any impairment for this CGU. Management believes that any reasonably possible change in the key assumptions on which REMSAFE CGU's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 19. INTANGIBLES AND GOODWILL (CONTINUED)

#### Key assumptions used in value in use calculations

(a) The calculation of value in use for the REMSAFE CGU is most sensitive to the following key assumptions:

- Market share assumptions
- Discount rates

(b) Basis for determining values assigned to key assumptions

*Market share assumptions* – The Group has estimated market share of the REMSAFE Remote Isolation System based on known inventories of bulk handling equipment. The value in use model assumes increasing sales volumes as positive trials of the system are undertaken at each of the recently commissioned pilot sites. Market share growth rates used within the model have primarily been restricted to existing customer's requirements and potential customers who have already shown considerable interest in adopting the technology.

Management recognises that the speed of adoption of the REMSAFE technology in new markets may take a number of years. The value assigned to the market share assumption have primarily been based on the potential share of 46% of the addressable market of existing customers' requirements and potential customers in new markets who have already shown considerable interest in adopting the technology.

*Discount rates* – The discount rate is based on the company's weighted average cost of capital (WACC) and is adjusted for risks specific to the cash generating unit to the extent these risks have not been incorporated into the cash flow estimate.

CONSOLIDATED	
2016	2015
\$'000	\$'000

### 20. TRADE PAYABLES AND OTHER LIABILITIES

#### Current

Trade creditors and accruals	<u>6,454</u>	<u>4,510</u>
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#### (a) Interest rate, foreign exchange and liquidity risk

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### CONSOLIDATED

2016	2015
\$'000	\$'000

#### 21. FINANCING ARRANGEMENTS

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

##### Total facilities available

Corporate credit card facility	280	200
Bank guarantee	1,150	1,169
	<u>1,430</u>	<u>1,369</u>

##### Facilities utilised at balance date

Corporate credit card facility	30	78
Bank guarantee	1,150	1,169
	<u>1,180</u>	<u>1,247</u>

##### Facilities not utilised at balance date

Corporate credit card facility	250	122
	<u>250</u>	<u>122</u>

The Group has pledged short term deposits of \$1,430,000 (2015: \$1,369,000) held as collateral for the financing facilities.

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

The Group has pledged short term deposit of \$672,000 (2015: \$672,000) held as collateral for performance guarantees under contractual arrangements related to customer agreements.

#### 22. EMPLOYEE BENEFITS

##### (a) Current

Annual leave	889	782
Long service leave	1,265	1,244
	<u>2,154</u>	<u>2,026</u>

##### (b) Non-Current

Long service leave	42	35
	<u>42</u>	<u>35</u>

##### (c) Aggregate liability for employee entitlements

	<u>2,196</u>	<u>2,061</u>
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The present value of employee entitlements have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	3.5%	4.0%
Discount rate at 30 June	2.98%	3.6%
Settlement term (years)	10	10

##### Number of employees

Number of employees at year end	<u>81</u>	<u>96</u>
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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>23. DEFERRED REVENUE</b>		
<b>Movement in deferred revenue</b>		
At 1 July	-	316
Released to income	-	(316)
At 30 June	<u>-</u>	<u>-</u>

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
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#### Non-current liabilities

Investment grant for construction of heavy duty engine testing facility	524	749
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#### Total government grants deferred

	<u>749</u>	<u>974</u>
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#### Movement in government grants

At 1 July	974	1,199
Released to the statement of profit or loss	(225)	(225)
At 30 June	<u>749</u>	<u>974</u>

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. This discount to commercial rates of \$512,000 was transferred to deferred revenue in prior years (see note 23) and recorded as deferred revenue (2016: \$nil).

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
Surplus lease space	57	141
	<u>57</u>	<u>241</u>

#### (b) Non-Current

Surplus lease space	185	233
	<u>185</u>	<u>233</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## CONSOLIDATED

2016	2015
\$'000	\$'000

### 25. OTHER PROVISIONS

#### (c) Reconciliations

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

##### *Warranties – current*

Carrying amount at beginning of year	<b>100</b>	134
Arising during the year	-	19
Utilised	<b>(100)</b>	(53)
Carrying amount at end of year	<u>-</u>	<u>100</u>

##### *Surplus lease space – current*

Carrying amount at beginning of year	<b>141</b>	58
Utilised	<b>(170)</b>	(86)
Reclassified from non-current	<b>86</b>	169
Carrying amount at end of year	<u>57</u>	<u>141</u>

##### *Surplus lease space – non-current*

Carrying amount at beginning of year	<b>233</b>	278
Arising during the year	<b>38</b>	124
Reclassified to current	<b>(86)</b>	(169)
Carrying amount at end of year	<u>185</u>	<u>233</u>

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".

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>26. SHARE CAPITAL</b>		
Ordinary shares	<b>30,051</b>	20,021
Movement in ordinary shares on issue	<b>Number</b>	<b>\$'000</b>
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	<u>48,979,099</u>	<u>20,021</u>
At 1 July 2015	<b>48,979,099</b>	<b>20,021</b>
Shares issued pursuant to employee share plan	<b>95,646</b>	<b>57</b>
Shares issued under performance rights plan	<b>900,000</b>	<b>158</b>
Convertible Note interest elected to be paid in shares	<b>1,359,352</b>	<b>679</b>
Convertible Notes converted during the period	<b>24,000,000</b>	<b>9,136</b>
At 30 June 2016	<u><b>75,334,097</b></u>	<u><b>30,051</b></u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

On 1 March 2016, the Company gave notice to redeem all Convertible Notes outstanding as at 29 February 2016. As a result, note holders exercised their right to convert and all 153 Notes outstanding at that date were converted to ordinary shares. Prior to the early redemption at 29 February 2016, 39 Notes were converted in the current financial year and 8 Notes were converted in the 2015 financial year.

### 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 AND RESERVES

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

Balance 1 July	<b>(2,500)</b>	2,042
Net profit/(loss) attributable to Equity holders of the Parent	<b>1,533</b>	(4,542)
Balance 30 June	<u><b>(967)</b></u>	<u>(2,500)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 27. ACCUMULATED LOSSES AND RESERVES (CONTINUED)

#### (b) Other reserves

Consolidated	Employee Equity Benefits Reserve \$'000	Foreign Currency Translation Reserve \$'000	Consolida- tion Reserve \$'000	Conver- tible Note Reserve \$'000	Total \$'000
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	<u>1,807</u>	<u>1,900</u>	<u>(670)</u>	<u>248</u>	<u>3,285</u>
Balance 1 July 2015	1,807	1,900	(670)	248	3,285
Equity-settled transaction- employee shares	(19)	-	-	-	(19)
Other comprehensive income/ (loss)	-	(1,900)	-	-	(1,900)
Balance at 30 June 2016	<u>1,788</u>	<u>-</u>	<u>(670)</u>	<u>248</u>	<u>1,366</u>

#### (c) Nature and purpose of reserves

##### Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including 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 was 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 prior year net of transaction costs (refer to note 12).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## 28. INFORMATION ABOUT SUBSIDIARIES

(a) Consolidated entity	Note	Class of Shares	Consolidated Entity Interest	
			2016 %	2015 %
<b>Ultimate Parent Entity</b>				
- Orbital Corporation Limited				
<i>Controlled Entities, incorporated and carrying on business in:</i>				
<b>Australia</b>				
- Orbital Australia Pty Ltd		Ord	100	100
- Orbital Australia Manufacturing Pty Ltd		Ord	100	100
- OEC Pty Ltd	(a)	Ord	100	100
- S T Management Pty Ltd	(a)	Ord	100	100
- OFT Australia Pty Ltd	(a)	Ord	100	100
- Investment Development Funding Pty Ltd	(a)	Ord	100	100
- Power Investment Funding Pty Ltd	(a)	Ord	100	100
- Kala Technologies Pty Ltd	(a)	Ord	100	100
- Orbital Share Plan Pty Ltd	(b)	Ord	100	100
- Orbital Autogas Systems Pty Ltd		Ord	-	100
- Sprint Gas (Aust) Pty Ltd		Ord	-	100
- REMSAFE Pty Ltd		Ord	61.5	61.5
<b>United States of America</b>				
- Orbital Holdings (USA) Inc.	(a)	Ord	100	100
- Orbital Fluid Technologies Inc.		Ord	100	100
- Orbital Engine Company (USA) Inc.	(a)	Ord	100	100
<b>United Kingdom</b>				
- Orbital Engine Company (UK) Ltd	(a)	Ord	100	100

(a) Dormant for the years ended 30 June 2016 and 30 June 2015.

(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:

	2016	2015
Proportion of equity interest held by non-controlling interest	<b>38.5%</b>	38.5%
	<b>\$'000</b>	\$'000
Accumulated balance of material non-controlling interest	<b>818</b>	1,136
Loss for the period allocated to material non-controlling interest	<b>(318)</b>	(187)

Summarised financial information for REMSAFE is provided below:

#### Summarised statement of profit or loss for the period

Revenue	<b>5,814</b>	2,281
Research and development grant	<b>1,432</b>	-
Expenses	<b>(7,325)</b>	(2,931)
Loss before tax	<b>(79)</b>	<b>(650)</b>
Income tax (expense)/benefit	<b>(747)</b>	164
Loss for the year from continuing operations	<b>(826)</b>	(486)
Total Comprehensive loss	<b>(826)</b>	(486)
Attributable to non-controlling interests	<b>(318)</b>	(187)
Dividends paid to non-controlling interests	-	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED  
2016                      2015  
\$'000                      \$'000

### 28. INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

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

##### Summarised statement of financial position as at 30 June

##### Assets

Cash	1,469	2,436
Other financial assets	769	672
Trade and other receivables	1,696	2,042
Inventories	18	35
Deferred taxation asset	106	10
Plant and equipment	131	75
Intangible assets – customer contracts	-	312
	4,189	5,582

##### Liabilities

Trade payables and other liabilities	1,766	2,365
Employee benefits	301	267
	2,067	2,632

##### Total Equity

	2,122	2,950
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##### Attributable to:

Equity holders of the Parent	1,305	1,814
Non-controlling interest	818	1,136

### 29. INFORMATION RELATING TO ORBITAL CORPORATION LIMITED

Current assets	2	2
Total assets	49,188	47,544
Current liabilities	-	-
Total liabilities	8,527	43,561
Issued capital	30,051	20,021
Accumulated earnings/(losses)	9,804	(17,844)
Employee equity benefits reserve	1,788	1,806
Total shareholders' equity	41,643	3,983
Profit/(loss) of the parent entity	27,648	(7,076)
Total comprehensive profit/(loss) of the parent entity	27,648	(7,076)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 30. BUSINESS COMBINATIONS

#### Information on prior year acquisition

#### Acquisition of REMSAFE Pty Ltd in 2015

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 was 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. As at 31 December 2015, management had finalised the fair values for the business combination with no further adjustments.

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

	2015 Fair values recognised on acquisition \$'000
<b>Assets</b>	
Cash	1,259
Trade and other receivables	446
Inventories	36
Plant and equipment	36
Intangible assets - customer contracts	597
	<b>2,374</b>
<b>Liabilities</b>	
Trade payables and other liabilities	611
Employee benefits	211
Deferred tax liability	116
	<b>938</b>
<b>Total identifiable net assets at provisional fair value</b>	<b>1,436</b>
Non-controlling interest (44.5% of net assets)	(654)
Goodwill arising on acquisition	5,218
<b>Purchase consideration transferred</b>	<b>6,000</b>
	Cash flow on acquisition
Net cash acquired with the subsidiary	1,259
Cash paid	(6,000)
<b>Net cash flow on acquisition</b>	<b>(4,741)</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 30. BUSINESS COMBINATIONS (CONTINUED)

#### Acquisitions in 2015 (Continued)

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

From the date of acquisition to 30 June 2015, Remsafe 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 prior financial 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 were recognised as identifiable assets and have since been fully amortised in the current financial year.

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.

### 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 completed the divestment of both the Sprint Gas Australia ("Sprint Gas") business and the Orbital Autogas Systems ("OAS") business by 30 November 2015. The sale of the net assets of Sprint Gas and the sale of the OAS inventory assets were 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 divestment was executed through the sale of the net assets of Sprint Gas to the non-controlling shareholder for no consideration. The OAS business divestment was executed 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 \$468,000, which is being settled through an 18 month payment arrangement. The net assets of Sprint Gas and the OAS inventory were 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 total impairment charge 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

2016	2015
\$'000	\$'000

#### (a) The results of the LPG businesses for the year are presented below:

Revenue	<b>2,538</b>	6,801
Expenses	<b>(2,536)</b>	8,396
Operating income/(loss)	<b>2</b>	(1,595)
Finance costs	-	(1)
Impairment loss recognised on the remeasurement to fair value less cost to sell	<b>(70)</b>	(2,472)
Loss before tax from discontinued operations	<b>(68)</b>	(4,068)
Tax	-	-
<b>Loss for the year from discontinued operations</b>	<b>(68)</b>	(4,068)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

## CONSOLIDATED

2016	2015
\$'000	\$'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 2015 and disposed of on 30 November 2015 were as follows:

#### Assets

Plant and equipment	193	191
Inventories	1,777	1,896
Trade and other receivables	725	444
Cash and cash equivalents	784	850
	<u>3,479</u>	<u>3,381</u>
Impairment	(2,542)	(2,472)
	<u>937</u>	<u>909</u>

#### Liabilities

Employee benefits	174	164
Borrowings	19	19
Trade and other creditors	276	199
	<u>469</u>	<u>382</u>
Fair value of disposal group	<u>468</u>	<u>527</u>

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

Operating	(120)	920
Investing	(35)	(10)
Financing	5	6
<b>Net cash (outflow)/inflow</b>	<u>(150)</u>	<u>916</u>

Earnings per share:

Basic, earnings for the year from discontinued operations (in cents)	(0.12)	(8.80)
Diluted, earnings for the year from discontinued operations (in cents)	(0.12)	(8.80)

### 32. RELATED PARTY DISCLOSURES

#### (a) Controlled Entities

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 32. RELATED PARTY DISCLOSURES (CONTINUED)

#### (b) Other Related Parties

Details of dealings with other related parties, being the associate, 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	
	2016	2015
	\$'000	\$'000
<b>Receivables</b>		
Current	-	-
<b>Payables</b>		
Current	-	-

##### (ii) Transactions

During the year the Group purchased goods and services to the value of \$32,000 (2015: \$24,000) from Synerject LLC. All transactions were in the ordinary course of business and on normal commercial terms and conditions. The Group did not receive any dividends from Synerject LLC in the current financial year (2015:\$2,059,719).

### 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  
Mr JH Poynton

#### Executive directors

Mr TD Stinson (Managing Director & Chief Executive Officer)

#### Executives

Ms C Law (Chief Commercial Officer) (commenced 26 April 2016)  
Dr GP Cathcart (Chief Technical Officer)  
Mr MC Lane (Chief Executive Officer - REMSAFE)  
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	
	2016	2015
	\$	\$
Short-term employee benefits	1,489,804	1,146,160
Post-employment benefits	127,617	108,852
Long-term employee benefits	26,825	35,880
Equity compensation benefits	141,932	331,259
	<u>1,786,178</u>	<u>1,622,151</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 33. KEY MANAGEMENT PERSONNEL (CONTINUED)

#### 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	
		2016	2015	2016	2015
		\$	\$	\$	\$
<b>Executive Director</b>					
Mr TD Stinson	1	-	51,250	4,574	783
<b>Non-Executive Directors</b>					
Mr JP Welborn	5	-	256,250	22,871	3,915
Mr JH Poynton	1	-	51,250	4,574	783
<b>Other KMP</b>					
Mr MC Lane (Managing Director of REMSAFE)	4	-	205,000	17,266	3,132
<b>Total</b>	<b>11</b>	<b>-</b>	<b>563,750</b>	<b>49,285</b>	<b>8,613</b>

#### 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:

	Number Held at 1-Jul-15	Number of Purchases	Number Granted as compensation		Number of Sales	Number of Other	Number Held at 30-Jun-16
			ESP #1	Vested PRP			
<b>Non-executive directors</b>							
Mr JP Welborn	8,195	670,908	-	-	-	-	679,103
Mr JH Poynton	2,665,688	125,000	-	-	-	-	2,790,688
<b>Executive director</b>							
Mr TD Stinson	538,441	134,180	-	500,000	-	-	1,172,621
<b>Other KMP</b>							
Ms C Law (a)	-	-	-	-	-	-	-
Dr GP Cathcart	69,957	-	1,678	200,000	(200,000)	-	71,635
Mr IG Veitch	28,837	-	1,678	200,000	(200,000)	-	30,515
Mr MC Lane	-	125,000	1,678	-	-	-	126,678

(a) Ms Law was appointed a KMP on 26 April 2016

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 33. KEY MANAGEMENT PERSONNEL (CONTINUED)

#### Movement in shares (continued)

	Number Held at	Number of Purchases	Number Granted as compensation		Number of Sales	Number of Other (a)	Number Held at
	1-Jul-14		ESP #1	Vested PRP			30-Jun-15
<b>Non-executive directors</b>							
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	-	-	-	-	-	-	-
<b>Executive director</b>							
Mr TD Stinson	392,690	1,639	-	500,000	(355,888)	-	538,441
<b>Executives</b>							
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	-	-	-	-	-	-	-

(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:

	Number Held at	Number Offered	Number Forfeited	Number Expired	Number Cancelled	Number Vested	Number Held at	Number Not
	1-Jul15						30-Jun-16	Exercisable
<b>Executive director</b>								
Mr TD Stinson	1,000,000	-	-	-	-	500,000	500,000	500,000
<b>Executives</b>								
Ms C Law	-	-	-	-	-	-	-	-
Dr GP Cathcart	400,000	-	-	-	-	200,000	200,000	200,000
Mr IG Veitch	400,000	-	-	-	-	200,000	200,000	200,000
Mr MC Lane	-	-	-	-	-	-	-	-

	Number Held at	Number Offered	Number Forfeited	Number Expired	Number Cancelled	Number Vested	Number Held at	Number Not
	1-Jul14						30-Jun-15	Exercisable
<b>Executive director</b>								
Mr TD Stinson	4,185,000	1,500,000	-	(770,000)	(3,415,000)	500,000	1,000,000	1,000,000
<b>Executives</b>								
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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	CONSOLIDATED	
		2016 \$'000	2015 \$'000
<b>34. NOTES TO THE STATEMENT OF CASH FLOWS</b>			
<b>Reconciliation of cash and cash equivalents</b>			
Cash and cash equivalents per statement of cash flows		24,872	7,499
Cash associated with disposal group – refer note 31		-	(850)
Cash and cash equivalents per statement of financial position		24,872	6,649
<b>Reconciliation of cash flows from operating activities</b>			
Profit/(loss) after income tax from continuing operations		1,283	(661)
Loss after income tax from discontinued operations		(68)	(4,068)
<b>Profit/(loss) after income tax</b>		1,215	(4,729)
<i>Adjustments for:</i>			
loss on sale of plant and equipment		(19)	(36)
Depreciation	18	607	680
Amortisation	19	312	285
Amortisation of deferred revenue and government grants		(225)	(541)
Impairment, write-off of trade receivables		(1)	(20)
Movement in fair value of financial assets	12	-	233
Movement in fair value of financial liabilities	12	-	(638)
Impairment of disposal group	31	23	2,472
Amortisation of non-interest bearing loans	12(b)	543	541
Amounts set aside to warranty and other provisions		(232)	4
Profit on sale of interest in equity accounted investment		(3,861)	-
Share of net profit of equity accounted investment	16	(1,529)	(2,860)
Foreign currency translation reserve released on sale of equity accounted investment		(3,607)	-
Convertible note finance costs		948	165
Employee compensation expense	35(a)	196	366
Net foreign exchange gains		(2)	(124)
Net cash used in operating activities before changes in assets and liabilities		(5,632)	(4,202)
<i>Changes in assets and liabilities during the year:</i>			
Decrease/(Increase) in receivables		1,098	(1,193)
(Increase)/Decrease in inventories		(3,331)	1,065
Decrease in deferred tax assets		330	398
Increase in payables		2,319	507
Increase in employee provisions		135	43
		551	820
Net cash used in operating activities		(5,081)	(3,382)
<b>35. SHARE BASED PAYMENTS</b>			
<b>(a) Recognised share-based payment expenses</b>			
Continuing operations		196	358
Discontinued operations		-	8
Expense arising from equity-settled share-based payment transactions		196	366

The share-based payments are described below.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 35. SHARE BASED PAYMENTS (CONTINUED)

#### (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 95,646 (2015: 146,039) shares issued under Plan No. 1 to eligible employees at a market value on the day of issue of \$57,000 (2015: \$57,000).

#### (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
<b>Total</b>				<b>1,500,00</b>	<b>600,000</b>	<b>600,000</b>

During the year a total of 900,000 rights under the plan vested for 3 executives (2015: 900,000).

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 35. SHARE BASED PAYMENTS (CONTINUED)

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

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

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

During 2014, a total of 2,168,000 rights under the plan were offered to 3 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 2016 or 30 June 2015.

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 prior 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 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	
	2016	2015
	\$'000	\$'000

### 37. COMMITMENTS

#### Operating leases

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

- Not later than one year	<b>873</b>	1,108
- Later than one year but not later than five years	<b>3,397</b>	3,847
- Later than five years	-	621
	<b><u>4,270</u></b>	<b><u>5,576</u></b>

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 2016, \$768,000 was recognised as an expense in the statement of profit or loss in respect of operating leases (2015:\$1,150,000).

### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$	\$
<b>40. REMUNERATION OF AUDITORS</b>		
The Auditors of the Group in 2016 and 2015 were Ernst & Young.		
Amounts received or due and receivable by Ernst & Young for:		
Audit services:		
- Audit and review of financial reports – Australian reporting	<b>97,850</b>	153,550
Other services:		
- R & D tax concession return preparation and review	<b>43,262</b>	40,000
	<hr/>	<hr/>
Total received or due and receivable by Ernst & Young	<b>141,112</b>	193,550
	<hr/>	<hr/>
Amounts received or due and receivable by PB Mares audit firm for:		
- Audit and review of financial reports of Associate	-	121,621
	<hr/>	<hr/>

## Director's Declaration

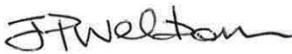
In accordance with a resolution of the directors of Orbital Corporation Limited, I state that:

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 2016 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 the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001, from the Chief Executive Officer and Chief Financial Officer for the financial year 30 June 2016.

On behalf of the Board,



JP Welborn  
Chairman



TD Stinson  
Managing Director

Dated at Perth, Western Australia this 29<sup>th</sup> day of August 2016.

# 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 2016, 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 2016 and of its performance for the year ended on that date;
  - 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 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



T G Dachs  
Partner  
Perth  
29 August 2016

## SHAREHOLDING DETAILS

### Class of Shares and Voting Rights

As at 15 August 2016 there were 4,403 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 15 August 2016

UIL Limited (as notified 03 March 2016)	20,909,028	28.09%
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### Distribution of Shareholdings as at 15 August 2016

1-1,000	2,703
1,001-5,000	996
5,001-10,000	267
10,001-100,000	367
100,001 and over	70
<b>Number of shareholders</b>	<b>4,403</b>
<b>Total Shares on Issue</b>	<b>75,334,097</b>
<b>Number of shareholders holding less than a marketable parcel</b>	<b>2,135</b>

### Top 20 Shareholders as at 15 August 2016

NAME	NUMBER OF SHARES HELD	% OF SHARES
1 J P MORGAN NOMINEES AUSTRALIA LIMITED	23,856,287	31.67
2 NATIONAL NOMINEES LIMITED	2,709,133	3.60
3 MULLOWAY PTY LTD	2,665,688	3.54
4 ANNAPURNA PTY LTD	2,550,000	3.38
5 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	2,300,000	3.05
6 DEBUSCEY PTY LTD	1,850,000	2.46
7 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,710,675	2.27
8 MR JOSHUA LEIGH SWEETMAN	1,562,116	2.07
9 CITICORP NOMINEES PTY LIMITED	1,330,537	1.77
10 MR TERRY DEWAYNE STINSON	1,172,621	1.56
11 BIRKETU PTY LTD	1,100,000	1.46
12 MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD	1,000,122	1.33
13 MR CRAIG GRAEME CHAPMAN	894,064	1.19
14 BOND STREET CUSTODIANS LIMITED	789,419	1.05
15 MR CHRISTOPHER IAN WALLIN & MS FIONA KAY WALLIN	689,200	0.91
16 MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN	679,103	0.90
17 BNP PARIBAS NOMS PTY LTD	642,255	0.85
18 MR SEAMUS CORNELIUS	550,000	0.73
19 BT PORTFOLIO SERVICES LIMITED	500,000	0.66
20 NALLAC NOMINEES PTY LTD	416,443	0.55
<b>Top 20 Shareholders Total</b>	<b>48,967,663</b>	<b>65.00</b>

The twenty largest shareholders hold 65.00% of the ordinary shares of the Company (2015: 51.30%).

### 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](mailto: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