

# ASX ANNOUNCEMENT

30 August 2019

## APPENDIX 4E

For the year ended 30 June 2019

### Reporting Period

The reporting period is for the year ended 30 June 2019 with the corresponding reporting period being for the year ended 30 June 2018.

### Results for announcement to the market

				30 June 2019 A\$'000
<b>Revenue from continuing operations</b>	down	<b>-27%</b>	to	<b>15,253</b>
<b>(Loss)/profit for the year</b>	down	<b>-366%</b>	to	<b>(5,906)</b>
<b>(Loss)/profit after tax attributable to members</b>	down	<b>-366%</b>	to	<b>(5,906)</b>
				<b>30 June 2019</b>
				<b>30 June 2018</b>
<b>Net tangible assets per share (cents)</b>		<b>19.44</b>		<b>28.00</b>
<b>Dividends</b>				
There is no proposal to pay dividends for the year ended 30 June 2019.				

### Audit

This report is based on financial statements which have been audited.

### Commentary on results for the period

Commentary on the results for the period is contained within the Annual Report and ASX announcement accompanying the report.

### Annual Meeting

The annual meeting is expected to be held as follows:

Date: Thursday 14 November 2019

-ENDS-

## CONTACTS

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### Todd Alder

**CEO & Managing Director**

**Tel:** +61 8 9441 2311

**Email:** [contact@orbitalcorp.com.au](mailto:contact@orbitalcorp.com.au)

### Ian Donabie

**Communications Manager**

**Tel:** +61 8 9441 2165

**Email:** [idonabie@orbitalcorp.com.au](mailto:idonabie@orbitalcorp.com.au)

#### About Orbital UAV

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

#### Forward-looking statements

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

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**ORBITAL**<sup>®</sup>  
UAV

2019 ANNUAL REPORT

# CORPORATE PROFILE

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

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# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

The Directors present their report together with the financial report of Orbital Corporation Limited (the Company or Orbital) and of the Group, being the Company and its subsidiaries for the year ended 30 June 2019 and the auditor's report thereon.

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# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## 1. OPERATING AND FINANCIAL REVIEW



**John Welborn**  
Chairman  
Non-Executive Director



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

Dear Shareholders,

On behalf of the Board of Directors ("the Board"), we are pleased to present the annual report of Orbital Corporation ("Orbital" or "the Company") and its subsidiaries ("the Group") for the year ended 30 June 2019.

### Overview

#### FY19 milestones

- Official opening of a world class production facility in Hood River, Oregon, USA;
- Launch of the revolutionary Orbital Modular Propulsion Solution ("MPS");
- Expansion of the Company's Long Term Agreement ("LTA") with Boeing subsidiary Insitu Inc.;
- Start of production of the first propulsion system identified under the Insitu LTA; and
- Delivery of \$15 million revenue target.

These achievements demonstrate Orbital's progress against its unmanned aerial vehicle ("UAV") focused strategy.

#### FY19 preparation for sustainable growth

FY19 represents the first year Orbital has operated under the expanded LTA with Insitu Inc., a wholly owned subsidiary of The Boeing Company. During this period, Orbital designed, developed and commenced production of its first MPS propulsion system for Insitu. In addition, the Company has invested in the pre-production of the first Insitu designed engine identified under the LTA – scheduled to commence production in H1 FY20.

#### Financial results

The Company reported financial results for the year ended 30 June 2019 with revenue from continuing operations of \$15,253,000 (2018: \$21,000,000) and net loss after tax of \$5,906,000 (2018: profit of \$2,218,000).

Net loss after tax was driven by a combination of factors. An adjustment to the Company's production schedule in February 2019 (see ASX Announcement 7 February 2019) and a delay in production ramp-up due to near term volume constraints with a small number of suppliers in May 2019 (see ASX Announcement 16 May 2019), resulted in revenue guidance being revised from \$24 million to \$15 million. These adjustments did not impact customer delivery requirements.

Operating costs to achieve the required internal capacity expansion at Orbital's Hood River production facility, and the impairment of receivables from the divestment of non-core asset Remsafe were also contributing factors to the Company's loss.

The Company reports a strong balance sheet with cash and receivables of \$15,127,000 (2018: \$24,178,000) and net current assets of \$13,453,000 (2018: \$21,054,000). During FY19, the Company funded the development of its proprietary Modular Propulsion Solution and invested capital to facilitate production capacity expansion in the USA. Further investment in capability improvements and working capital were made to enable full production ramp-up in support of the LTA deliverables.

#### Shareholder returns

	2019	2018	2017	2016	2015
Closing share price (\$)¹	0.30	0.36	0.50	0.69	0.49
Market capitalisation (\$m)	23.2	27.9	38.6	52.4	24.0
Basic EPS (cents) from operations	(7.63)	2.87	(15.55)	2.73	(9.83)

¹ as at 30 June

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## Management and Board transition

There were no changes to key management personnel or Board members during the financial year ending 30 June 2019.

During the reporting period, the Board re-established the Audit and Risk Committee. As at 30 June 2019, the Committee comprised of Mr Steve Gallagher and Mr Kyle Abbott, who are Independent Non-Executive Directors.

The Committee is chaired by Mr Gallagher, who is not the Chairman of the Board. Due to the size of the full Board, the Board is satisfied the Audit and Risk Committee is of sufficient size and independence to verify and safeguard the integrity of the Company's corporate reporting.

## Change in operations

Officially opened in September 2018, Orbital's state-of-the-art manufacturing facility in Hood River, Oregon, USA is key to the delivery of the Company's production commitments.

Located in close proximity to the headquarters of key customer Insitu, Hood River will be the primary manufacturing site for the second engine produced under the Long Term Agreement with Insitu, as well as providing ongoing support and overhaul services to the Company's North American customer base.

In July 2019, Orbital announced Keith Hirschman as Vice President of U.S. Operations to oversee all business activities in the region. His appointment will strengthen the Company's relationships with key UAV customers and drive Orbital's growth strategy in the USA.

## Outlook

The expansion of Orbital's Long Term Agreement ("LTA") with key customer Insitu Inc. – announced in October 2018 – demonstrates progress in the Company's growth strategy and provides the foundation for additional revenue opportunities. The expanded LTA has a potential value between A\$120 million (US\$90 million) and A\$350 million (US\$262 million) over a period of five years.

The LTA covers the delivery of multiple propulsion systems and services to be applied across Insitu's entire fleet of UAV platforms.

The scope of the LTA includes:

- The assembly, supply and overhaul of three highly configurable propulsion systems, forming Orbital's Modular Propulsion Solution.
- The assembly, supply and overhaul of two Insitu designed engines.

Orbital's revolutionary Modular Propulsion Solution addresses a growing need within the tactical UAV market for aircraft to have the flexibility and versatility to adapt to varying end customer requirements and for the rapid deployment of those aircraft. Orbital's response to these challenges provides tactical UAV manufacturers with a modular range of propulsion systems, capable of being integrated across multiple UAV platforms with varying payloads and capability.

Orbital begins FY20 in production of the first propulsion system identified under its LTA with Insitu. The second propulsion system under the LTA – an Insitu designed engine – is due to begin production in H1 FY20, as planned.

With multiple engines due to enter production, volumes are expected to increase significantly in FY20 and FY21, in line with the scope of the LTA.

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

## 2. DIRECTORS

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

**Mr John Welborn**, BCom, FCA, FAIM, MAICD, MAusIMM, JP

### *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, an ASX (ASX: RSG) and LSE (LSE: RSG.L) listed gold producer with two operating gold mines in Africa and Australia.

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

Mr Welborn is a former international rugby union player with extensive experience in the resources sector as a senior executive and in corporate management, finance and investment banking. He has served on the Boards of a number of charitable organisations and is a former Commissioner of Tourism Western Australia.

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

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

*Managing Director and Chief Executive Officer*

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

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

**Mr Terry Stinson**, B.Bus Admin (magna cum laude)

*Non-Executive Director*

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

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

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

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

*Non-Executive Director*

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

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

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

Mr Gallagher is also the chairman of the Company's Audit and Risk Committee.

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

*Non-Executive Director*

Joined the Board in May 2018. Mr Abbott is an experienced aerospace and defense industry executive. Mr Abbott was Managing Director of Western Australian Specialty Alloys (WASA) from 1996 to 2015. During this period WASA grew from a Western Australian specialised alloy manufacturer to become a major supplier to the global aerospace industry, with key customers in the United States, the United Kingdom and Japan. In 2000, Mr Abbott managed the successful sale of WASA to United States-based Precision Castparts Corporation (PCC), an S&P 500 company. PCC was subsequently acquired by Berkshire Hathaway in 2015.

Mr Abbott is also a member of the Company's Audit and Risk Committee.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## 3. COMPANY SECRETARY

**Ms Roulé Jones**, B Com, BA, CA, PGDA

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

## 4. DIRECTORS' MEETINGS

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

Director	Directors Meetings		Audit and Risk Committee Meetings	
	No. of meetings attended	No. of meetings held <sup>1</sup>	No. of meetings attended	No. of meetings held <sup>2</sup>
J Welborn	6	6	-	-
T Alder	6	6	-	-
T Stinson	6	6	-	-
S Gallagher	6	6	1	1
K Abbott	6	6	1	1

<sup>1</sup> Number of meetings held during the time the Director held office during the year.

<sup>2</sup> The Audit and Risk Committee was established in March 2019.

## 5. PRINCIPAL ACTIVITIES

Orbital's focus is on the revolutionary design, proven manufacturing processes and rigorous testing to deliver superiority in UAV propulsion systems and flight critical components.

The Company drives its UAV-focused strategy from its dedicated production facilities in WA, Australia and Oregon, USA. Our intellectual property, know-how and industry experience, enable us to meet the long endurance and high reliability requirements of the rapidly evolving UAV market.

Working with our international customers and supply chain, we continue to design, develop and manufacture world-leading propulsion system solutions and associated technologies to meet the changing demands and increasing mission parameters of tactical UAVs.

## 6. DIVIDENDS

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

## 7. 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.

## 8. PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 01.

## 9. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

## 10. ENVIRONMENTAL REGULATION AND PERFORMANCE

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## 11. DIRECTORS' INTERESTS

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

Director	Ordinary Shares	Performance Rights
J Welborn	850,000	-
T Alder	372,333	1,242,250
T Stinson	1,672,621	300,000
S Gallagher	100,000	-
K Abbott	30,000	-
Total	3,024,954	1,742,250

## 12. SHARE OPTIONS

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

## 13. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. For the year ended June 2019, the Group engaged with PricewaterhouseCoopers in non-audit services that included Tax & Research and Development Government grants. The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

## 14. 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, PricewaterhouseCoopers, 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 PricewaterhouseCoopers during or since the financial year.

## 15. CORPORATE GOVERNANCE STATEMENT

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

## 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.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## REMUNERATION REPORT

The Remuneration Report has been audited.

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

### Key management personnel ("KMP")

This Remuneration Report outlines the remuneration in place and outcomes achieved for KMPs during the year ended 30 June 2019.

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

The names and positions of the individuals who were KMP during 2019 are set out in Table 1.

Table 1 – KMP

Executive	Non-Executive Directors
<i>Executive Director</i> Todd Alder (Chief Executive Officer and Managing Director)	John Welborn (Chairman) Terry Stinson Steve Gallagher (Chairman of the Audit & Risk Committee) Kyle Abbott (Member of the Audit & Risk Committee)
<i>Senior Executives</i> Geoff Cathcart (Chief Technical Officer) Roulé Jones (Chief Financial Officer & Company Secretary)	

Table 2 – Five-year performance

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

	2019	2018	2017	2016	2015
Closing share price (\$)	0.30	0.36	0.50	0.69	0.49
Market capitalisation (\$m)	23.2	27.9	38.6	52.4	24.0
Basic EPS (cents) from operations	(7.63)	2.87	(15.55)	2.73	(9.83)

## REMUNERATION OVERVIEW

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

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

Executive members of the KMP may receive a short-term incentive ("STI") approved by the Board as reward for exceptional performance in a specific matter of importance. STI amounts of \$Nil were paid during the year ended 30 June 2019 (2018: \$133,431).

Long-term incentives ("LTI") consisting of performance rights that vest based on attainment of pre-determined performance goals are awarded to selected executives. During 2018 the financial year, the Group introduced new performance milestones under the Performance Rights Plan as part of its long-term incentive arrangements for the Managing Director and CEO, which were approved by shareholders on 27 October 2017 and 23 May 2018. During the 2019 financial year, no rights have vested under the Performance Rights Plan (2018: Nil).

The remuneration of Non-Executive Directors of the Company consists only of Directors' fees. Director fees were not reviewed or adjusted during the 2019 financial year.

### Remuneration Report at 2018 AGM

The 2018 Remuneration Report received positive shareholder support at the 2018 AGM with a vote of 99 per cent of votes cast in favour.

### Remuneration strategy

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

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

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

## Key changes to remuneration structure in 2019

There were no changes to the remuneration structure of executives or Directors during the 2019 financial year.

## REMUNERATION GOVERNANCE

### Board of Directors

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

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

### Remuneration approval process

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

The Board approves, having regard to the recommendations made by the CEO, the STI bonus plan and any discretionary bonus payments.

### Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remuneration is separate and distinct.

### Services from remuneration consultants

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

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

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

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

The fees paid to CJ Ryan Holdings for the remuneration recommendations were \$2,800. No other remuneration recommendations or other advisory services were provided by CJ Ryan Holdings for the year ended 30 June 2019.

## CHIEF EXECUTIVE OFFICER AND EXECUTIVE KMP REMUNERATION

### Objective

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

### Structure

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

The STI is an annual "at risk" component of remuneration for executives. It is payable based on performance against key performance indicators (KPIs) set at the beginning of the financial year. STIs are structured to remunerate executives for achieving annual Company

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

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

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) established for each executive is approved by the Board and for the year ended 30 June 2019 was as follows:

	Fixed Remuneration	Variable Remuneration	
CEO	Fixed Remuneration (50%)	Target STI (20%)	Target LTI (30%)
Other executives	Fixed Remuneration (69%)	Target STI (14%)	Target LTI (17%)

The remuneration structure for the 2019 financial year is explained below:

## Summary of executive KMP remuneration for the 2019 financial year

### Total Fixed Remuneration ("TFR")

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

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

The fixed component of executives' remuneration is detailed in the Statutory Table on page 14.

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

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

#### How is performance measured?

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

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

	Financial	Non-financial
	Revenue	Group KPIs
CEO	70%	30%
Other Executives	75%	25%

Revenue is the measure against which management and the Board assess the short-term performance of the Group. Non-financial performance measures which enter into the calculation of the STI are:

- Individual performance rating in respect of the quality of work performed in all essential areas of responsibility;
- Individual cultural rating in respect of the extent to which demonstrated behavior aligns with the Values of the Group.

#### How much can executives earn?

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

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

#### When is it paid?

The STI award is determined after the end of the financial year following a review of performance over the year against the STI performance measures by the Executive Team. The Board approves the final STI award based on this assessment of performance.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## Changes to the STI plan from 1 July 2018

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

## Actual STI performance for the year ending 30 June 2019

The following table outlines the proportion of the maximum STI earned in relation to the 2019 financial year. Please refer to Table 1 on Page 14 for further details on the actual STI paid to KMPs for the year ended 30 June 2019.

	Maximum STI opportunity (Percentage of fixed remuneration)	Percentage of maximum STI earned
Todd Alder	40%	0%
Geoff Cathcart	20%	0%
Roulé Jones	20%	0%

The proportion of the STI forfeited is derived by subtracting the actual percentage of the maximum received from the maximum STI opportunity. The percentage of the STI forfeited was 100 per cent for the year ended 30 June 2019.

## Long-term incentive ("LTI")

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

### How is it paid?

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

### 2018 Performance Rights Plan – Long-term incentives

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

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

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

The allocation of performance rights to executives was as follows:

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

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

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

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

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

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

### When is performance measured?

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

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

No performance rights vested for the year ended 30 June 2019 (2018: nil).

### How is performance measured?

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

### Actual LTI performance for the year ending 30 June 2019

During the financial year, no rights vested under the 2018 LTI Plan, the SAPR Plan or for any earlier plans issued in previous financial years (2018:nil).

### Performance Rights Plans approved in prior years

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

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

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

\*During the year ended 30 June 2019, the performance conditions related to Tranche 1 were not met, resulting in 200,000 performance rights expiring on 7 November 2018.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## OTHER EQUITY PLANS

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

### Employee Share Plan

Eligible employees are offered shares in the Company, at no cost to the employees, to the value of \$1,000 per annum under the terms of the Company's Employee Share Plan. There are no performance conditions, because the plan is designed to align the interests of participating employees with those of shareholders. No Directors or KMPs participated in the share plan in 2019 (2018: Nil).

## CONTRACTS FOR KMP

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

	Fixed Remuneration	Contract Duration	Termination notice period (Company) <sup>1, 2</sup>	Termination notice period (Executive)
T Alder	\$340,000	Unlimited	3 months	3 months
G Cathcart	\$322,283	Unlimited	3 months	3 months
R Jones <sup>3</sup>	\$250,531	Unlimited	3 months	3 months

1. Termination provisions – Orbital may choose to terminate the contract immediately by making a payment in lieu of notice equal to the fixed remuneration the executive would have received during the 'Company Notice Period'. In the event of termination for serious misconduct or other nominated circumstances, executives are not entitled to this termination payment. Any payments made in the event of a termination of an executive contract will be consistent with the Corporations Act 2001 (Cth).
2. On termination of employment, executives will be entitled to the payment of any fixed remuneration calculated up to the termination date and any leave entitlement accrued up to the termination date. Unvested LTI awards are forfeited upon termination for serious misconduct or employee initiated termination and at Board discretion if termination is initiated by the Company.
3. In the event of the Group terminating the employment of Ms R.Jones (Chief Financial Officer), other than by reason of serious misconduct or material breach of service agreement, an equivalent of three months salaries is payable, in addition to:
  - two weeks' salaries for each completed year of service to ten years of service
  - one half of a week of salaries for each year of service beyond ten years of service

As at 30 June 2019, Ms Jones has completed six years' service for the Company.

## NON-EXECUTIVE DIRECTORS REMUNERATION

### Objective

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

### Structure

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

The Company's constitution and the ASX listing rules specify that the Non-Executive Directors' fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2001 Annual General Meeting (AGM) held on 25 October 2001 when shareholders approved an aggregate fee pool of \$400,000 per year. The Board will not seek any increase for the Non-Executive Director pool at the 2019 AGM.

### Fees

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

The Chairman of the Board receives a fee of \$120,000 (2018: \$120,000) and the Non-Executive Directors receive a base fee of \$60,000 (2018: \$60,000).

The remuneration of Non-Executive Directors for the year ended 30 June 2019 and 30 June 2018 is detailed in Table 1 of this report on page 14.

The maximum annual aggregate fee pool limit is \$300,000 and was approved by shareholders.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

## OTHER TRANSACTIONS WITH KMP AND THEIR RELATED PARTIES

There were no other transactions with KMPs and their related parties, such as purchases, sales and investments, for the year ended 30 June 2019.

## REPORTING NOTES

### Reporting in Australian dollars

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

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# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2019

### Statutory tables

Table 1 - Compensation of Non-Executive Directors and executive KMP's for the year ended 30 June 2019 and 2018

		Short Term Benefits			Total	Post-Employment	Long-term	Share Based Payments		Total	Proportion of remuneration performance related
		Salary & Director's Fees	Cash Bonuses	Non-monetary		Employer Superannuation Contributions	Benefits	Leave Entitlements	Employee Share Plans		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive Directors</b>											
<b>J Welborn</b>	<b>2019</b>	<b>109,589</b>	-	-	<b>109,589</b>	<b>10,411</b>	-	-	-	<b>120,000</b>	-
Chairman and Director (Non-executive)	2018	109,589	-	-	109,589	10,411	-	-	-	120,000	-
<b>T Stinson (1)</b>	<b>2019</b>	<b>54,795</b>	-	-	<b>54,795</b>	<b>5,205</b>	-	-	-	<b>60,000</b>	-
Director (Non-executive)	2018	48,489	-	-	48,489	4,606	-	-	-	53,096	-
<b>S Gallagher (2)</b>	<b>2019</b>	<b>60,000</b>	-	-	<b>60,000</b>	-	-	-	-	<b>60,000</b>	-
Director (Non-executive)	2018	60,000	-	-	60,000	-	-	-	-	60,000	-
<b>K Abbott (3)</b>	<b>2019</b>	<b>60,000</b>	-	-	<b>60,000</b>	-	-	-	-	<b>60,000</b>	-
Director (Non-executive)	2018	10,000	-	-	10,000	-	-	-	-	10,000	-
<b>Total Consolidated, all non-executive directors</b>	<b>2019</b>	<b>284,383</b>	-	-	<b>284,383</b>	<b>15,616</b>	-	-	-	<b>300,000</b>	-
	2018	228,078	-	-	228,078	15,017	-	-	-	243,096	-
<b>Executive Director</b>											
<b>T Alder (5)</b>	<b>2019</b>	<b>318,679</b>	-	-	<b>318,679</b>	<b>21,321</b>	-	<b>9,626</b>	-	<b>133,174</b>	<b>28%</b>
Managing Director and Chief Executive Officer	2018	283,135	102,000	-	385,135	17,742	-	12,696	-	117,850	41%
<b>T Stinson (1)</b>	<b>2019</b>	-	-	-	-	-	-	-	-	<b>59,838</b>	<b>100%</b>
Managing Director and Chief Executive Officer	2018	39,219	-	3,336	42,556	3,726	-	86,493	-	92,030	41%
<b>Executive Key Management Personnel</b>											
<b>G Cathcart</b>	<b>2019</b>	<b>299,662</b>	-	<b>15,101</b>	<b>314,763</b>	<b>22,621</b>	-	<b>35,876</b>	-	<b>16,375</b>	<b>4%</b>
Chief Technical Officer	2018	261,540	20,931	-	282,471	30,009	-	9,632	-	1,705	7%
<b>R Jones (6)</b>	<b>2019</b>	<b>229,128</b>	-	-	<b>229,128</b>	<b>21,403</b>	-	<b>22,771</b>	-	<b>12,322</b>	<b>4.3%</b>
Chief Financial Officer	2018	167,086	10,500	-	177,586	15,873	-	11,988	-	1,283	6%
<b>T Alder (5)</b>	<b>2019</b>	-	-	-	-	-	-	-	-	-	-
Chief Financial Officer	2018	29,749	-	-	29,749	2,826	-	-	-	-	-
<b>T Stinson (1)</b>	<b>2019</b>	-	-	-	-	-	-	-	-	-	-
Corporate Advisor	2018	155,098	-	-	155,098	14,734	-	-	-	-	-
<b>M Lane (7)</b>	<b>2019</b>	-	-	-	-	-	-	-	-	-	-
Chairman - REMSAFE	2018	63,713	-	6,346	70,059	6,053	-	-	-	-	-
<b>Total Consolidated, Executive Key Management Personnel</b>	<b>2019</b>	<b>847,469</b>	-	<b>15,101</b>	<b>862,570</b>	<b>65,345</b>	-	<b>68,273</b>	-	<b>221,708</b>	<b>18%</b>
	2018	1,000,115	133,431	9,683	1,143,228	90,389	-	120,809	-	212,867	22%

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

2. Refer to note F.3 for Mr. Stinson performance rights plan

3. Mr. Cathcart was seconded to the USA facility during the financial year ended June 2019. Non-monetary benefits arose from the secondment

4. Mr. Gallagher became a Director on 12 April 2017

5. Mr. Abbott became a Director on 1 May 2018

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

7. Ms. Jones became a KMP on 16 August 2017

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

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

	Type of equity	Grant date	Expiry date	Awarded but not vested	Vested	% of total vested	Lapsed	Fair value of equity (\$) <sup>1</sup>
<b>T Stinson</b> <sup>2</sup>	Equity rights	8 November 2016	7 November 2018	-	-	-	200,000	0.500
Director (Non-executive)	Equity rights	8 November 2016	7 November 2019	300,000	-	-	-	0.420
<b>T Alder</b>	Equity rights	23 May 2018	10 August 2020	647,250	-	-	-	0.316
Director and Chief Executive Officer	Equity rights	27 October 2017	10 August 2020	340,000	-	-	-	0.365
	Equity rights	27 October 2017	10 August 2020	255,000	-	-	-	0.278
<b>G Cathcart</b>	Equity rights	23 May 2018	10 August 2020	116,284	-	-	-	0.209
Chief Technical Officer	Equity rights	23 May 2018	10 August 2020	87,213	-	-	-	0.138
<b>R Jones</b>	Equity rights	23 May 2018	10 August 2020	87,500	-	-	-	0.209
Chief Financial Officer	Equity rights	23 May 2018	10 August 2020	65,625	-	-	-	0.138

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

2. Mr. Stinson was employed as Managing Director and CEO for part of the 2018 financial year, with Mr. Alder transitioning into this role on 11 August 2017

Table 3 - KMP share and equity holdings

Details of Shares and rights held by KMP including their personally related entities for the 2019 financial year are as follows:

	Type of equity (1)	Opening holding at 1 July 2018	Rights allocated in 2019	Rights vested in 2019	Net Changes other	Closing holding at 30 June 2019 (2)
<b>Non-executive Directors</b>						
<b>John P Welborn</b>	Shares	779,103	-	-	70,897	850,000
<b>Terry D Stinson</b> (3)	Equity Rights	500,000	-	-	(200,000)	300,000
	Shares	1,672,621	-	-	-	1,672,621
<b>Steve Gallagher</b>	Shares	100,000	-	-	-	100,000
<b>Kyle Abbott</b> (4)	Shares	-	-	-	30,000	30,000
<b>Executive Directors</b>						
<b>Todd Alder</b> (5)	Equity Rights	1,242,250	-	-	-	1,242,250
	Shares	372,333	-	-	-	372,333
<b>Executives</b>						
<b>Geoff P Cathcart</b>	Equity Rights	203,497	-	-	-	203,497
	Shares	272,720	-	-	-	272,720
<b>Roule Jones</b> (6)	Equity Rights	153,125	-	-	-	153,125
	Shares	5,313	-	-	-	5,313
<b>Michael C Lane</b> (7)	Equity Rights	-	-	-	-	-
	Shares	127,763	-	-	-	127,763

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

2. Closing equity rights holdings represent unvested rights held at the end of the reporting period. There were no rights vested but unexercised as at 30 June 2019

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

4. Mr. Abbott became a Director on 1 May 2018

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

6. Ms. Jones became a KMP on 16 August 2017

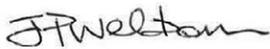
7. Mr. Lane ceased as a KMP on 6 October 2017

End of Remuneration Report.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2019

Signed in accordance with a resolution of the Directors:



J P Welborn  
Chairman



T M Alder  
Managing Director and Chief Executive Officer

Dated at Perth, Western Australia 30 August 2019

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# AUDITOR'S INDEPENDENCE DECLARATION



## *Auditor's Independence Declaration*

As lead auditor for the audit of Orbital Corporation Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink that reads 'Ben Gargett'.

Ben Gargett  
Partner  
PricewaterhouseCoopers

Perth  
30 August 2019

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840  
T: +61 8 9238 3000, F: +61 8 9238 3999, [www.pwc.com.au](http://www.pwc.com.au)

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### Corporate information

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
<b>Continuing operations</b>			
Sale of goods		10,978	17,535
Engineering services income		3,992	2,635
Royalty and licence income		129	623
Interest revenue		154	207
<b>Total revenue</b>		<b>15,253</b>	<b>21,000</b>
Other income	A.3	1,929	1,826
Materials and consumables expenses	A.4(d)	(4,383)	(5,688)
Employee benefits expenses	A.4(a)	(9,220)	(9,070)
Depreciation expenses	B.1	(690)	(534)
Amortisation of intangibles	B.2	(45)	-
Engineering consumables and contractor expenses		(1,659)	(926)
Occupancy expenses		(1,486)	(1,377)
Travel and accommodation expenses		(532)	(360)
Communications and computing expenses		(809)	(527)
Patent expenses		(269)	(195)
Insurance expenses		(785)	(538)
Audit, compliance and listing expenses		(392)	(244)
Finance costs	A.4(b)	(615)	(528)
Allowance for impairment of other receivables	C.2	(1,379)	-
Other expenses	A.4(c)	(861)	(1,102)
<b>(Loss)/profit before income tax from continuing operations</b>		<b>(5,943)</b>	<b>1,737</b>
Income tax benefit/(expense)	A.5	37	(2)
<b>(Loss)/profit for the year from continuing operations</b>		<b>(5,906)</b>	<b>1,735</b>
<b>Discontinued operations</b>			
(Loss)/profit after tax for the year from discontinued operations	F.6	-	483
<b>(Loss)/profit for the year</b>		<b>(5,906)</b>	<b>2,218</b>
Attributable to:			
Equity holders of the parent		(5,906)	2,218
<b>(Loss)/profit for the year</b>		<b>(5,906)</b>	<b>2,218</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(42)	9
<b>Total comprehensive (Loss)/profit for the year</b>		<b>(5,948)</b>	<b>2,227</b>
Attributable to:			
Equity holders of the parent		(5,948)	2,227
<b>Total comprehensive (Loss)/profit for the year</b>		<b>(5,948)</b>	<b>2,227</b>
<b>Earnings per share</b>			
Basic (loss)/profit for the year attributable to ordinary equity holders of the parent (cents)	A.6	(7.63)	2.87
<b>Earnings per share from continuing operations</b>			
Basic (loss)/profit for the year attributable to ordinary equity holders of the parent (cents)	A.6	(7.63)	2.24

The accompanying notes form part of the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	C.3	7,487	9,926
Other financial assets	C.4	585	585
Trade and other receivables	C.2	7,055	13,667
Prepayments		1,023	548
Inventories	C.1	6,698	2,154
<b>Total current assets</b>		<b>22,848</b>	<b>26,880</b>
<b>Non-current assets</b>			
Intangibles	B.2	924	-
Deferred taxation asset	A.5	5,542	5,505
Plant and equipment	B.1	4,516	2,216
<b>Total non-current assets</b>		<b>10,982</b>	<b>7,721</b>
<b>Total assets</b>		<b>33,830</b>	<b>34,601</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	C.5	4,077	1,535
Deferred revenue	C.6	2,911	943
Borrowings	D.1	-	1,032
Government grants	E.2	74	225
Provisions	E.1	2,333	2,090
<b>Total current liabilities</b>		<b>9,395</b>	<b>5,826</b>
<b>Non-current liabilities</b>			
Trade payables and other liabilities	C.5	71	173
Borrowings	D.1	8,277	6,738
Government grants	E.2	-	74
Provisions	E.1	108	128
<b>Total non-current liabilities</b>		<b>8,456</b>	<b>7,113</b>
<b>Total liabilities</b>		<b>17,851</b>	<b>12,939</b>
<b>Net assets</b>		<b>15,979</b>	<b>21,663</b>
<b>Equity</b>			
Share capital	D.2	31,178	31,144
Reserves	D.3	2,171	1,216
Accumulated losses		(17,370)	(10,697)
<b>Total equity</b>		<b>15,979</b>	<b>21,663</b>

The accompanying notes form part of the financial statements.

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Notes	Share capital D.2 \$'000	(Accumulated losses) \$'000	Employee equity benefits reserve D.3 \$'000	Foreign currency translation reserve D.3 \$'000	Contingent consideration D.3 \$'000	Consolidation reserve D.3 \$'000	Convertible note reserve D.3 \$'000	Total equity \$'000
<b>At 1 July 2018</b>	<b>31,144</b>	<b>(10,697)</b>	<b>1,974</b>	<b>9</b>	<b>3,440</b>	<b>(4,455)</b>	<b>248</b>	<b>21,663</b>
Loss for the year	-	(5,906)	-	-	-	-	-	(5,906)
Transfer to accumulated losses	-	(767)	-	-	(3,440)	4,455	(248)	-
Foreign currency translation	-	-	-	(42)	-	-	-	(42)
Total comprehensive loss for the year	-	(5,906)	-	(42)	-	-	-	(5,948)
Share based payments	34	-	229	-	-	-	-	263
<b>At 30 June 2019</b>	<b>31,178</b>	<b>(17,370)</b>	<b>2,203</b>	<b>(32)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,979</b>
At 1 July 2017	31,106	(12,915)	1,759	-	3,440	(4,455)	248	19,183
Profit for the year	-	2,218	-	-	-	-	-	2,218
Foreign currency translation	-	-	-	9	-	-	-	9
Total comprehensive profit for the year	-	2,218	-	9	-	-	-	2,227
Share based payments	38	-	215	-	-	-	-	253
At 30 June 2018	31,144	(10,697)	1,974	9	3,440	(4,455)	248	21,663

The accompanying notes form part of the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		22,776	13,380
Cash paid to suppliers and employees		(21,147)	(22,333)
Interest received		154	207
Interest paid		-	(32)
<b>Net cash from/(used in) operating activities</b>	C.3	<b>1,783</b>	<b>(8,778)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of financial instruments		-	2,029
Proceeds from sale of plant and equipment		-	29
Proceeds from sale of subsidiary	F.6	100	720
Purchase of plant and equipment		(2,990)	(1,303)
Redemption of short term deposit		-	152
Payments for intangible asset		(2,390)	-
<b>Net cash (used in)/provided by investing activities</b>		<b>(5,280)</b>	<b>1,627</b>
<b>Cash flows from financing activities</b>			
Fee for standby facility	A.4(b)	(108)	-
Repayment of borrowings	D.1	-	(860)
<b>Net cash used in financing activities</b>		<b>(108)</b>	<b>(860)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,605)</b>	<b>(8,011)</b>
Cash and cash equivalents at 1 July		9,926	17,131
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1,166	806
<b>Cash and cash equivalents at 30 June</b>	C.3	<b>7,487</b>	<b>9,926</b>

The accompanying notes form part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## About these statements

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

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

The financial statements were authorised for issue in accordance with a resolution of the Directors on 30 August 2019. The Directors have the power to amend and reissue the financial report.

## Statement of compliance

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

The Group applied for the first time new and amended Accounting Standards and Interpretations which are effective for annual periods beginning on or after 1 July 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective. The adoption of these standards, interpretations or amendments has not significantly affected the Group's accounting policies, financial position or performance.

## Currency

The financial statements are presented in Australian dollars, which is the functional currency of the Company. Transactions are recorded in the functional currency of the transacting entity using the spot rate. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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

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

## Rounding of amounts

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

## Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis.

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

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

Profit or loss and other comprehensive income are attributed to the equity holders of the parent of the Group, and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

## Other accounting policies

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## Financial and capital risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management strategy, policy and key risk parameters. The Board of Directors have oversight of the Group's internal control system and risk management process. The Group's management of financial and capital risks is aimed at ensuring that available capital, funding and cash flows are sufficient to meet the Group's financial commitments as and when they fall due and maintain the capacity to fund its committed project developments. During 2019 the Group's strategy remained unchanged from 2018, the gearing ratio at 30 June 2019 was 52% (2018: 36%). Gearing ratio's are calculated by dividing net debt (as per note D.1) divided by total equity.

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

Section A	Foreign currency risk	Page 25
Section C	Liquidity risk	Page 35
Section C	Interest Rate risk	Page 36
Section C	Credit risk	Page 36
Section D	Capital risk management	Page 39

## Key estimates and judgements

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

Note	Key estimate/ judgement	Page
A.5	Recoverability of deferred tax assets	31
B.1	Impairment of non-current assets	33

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### In this section

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

<b>A.</b>	<b>Current Year Performance</b>	
A.1	Operating segments	Page 26
A.2	Revenue	Page 27
A.3	Other income	Page 28
A.4	Expenses	Page 29
A.5	Taxes	Page 30
A.6	Earnings per share	Page 32

### Financial risks in this section

#### Foreign currency risk

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

The Group manages its exposure to foreign currency risk by regularly monitoring and performing sensitivity analysis on the Group's financial position and performance as a result of movements in foreign exchange rates. The Group holds bank accounts in foreign denominated currencies which are converted to Australian dollars through rate orders for targeted exchange rates. The Group has foreign currency hedging facilities available as part of its bank facilities. Currently the Group does not directly hedge against its foreign currency exchange risk to a material extent.

#### Exposure

The Group's exposure to USD at the reporting date for the years ended 30 June 2019 and 2018 are as follows:

	2019 USD A\$'000	2018 USD A\$'000
<b>Financial assets</b>		
Cash and cash equivalents	2,121	9,660
Trade and other receivables	3,937	11,190
<b>Financial liabilities</b>		
Trade and other payables	943	99

For the year ended 30 June 2019, revenue from external customers denominated in USD was A\$9,324,000 (2018: A\$18,035,000).

#### Sensitivity

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

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

	Change in AUD/USD rate	Increase / (Reduction) on profit before taxes
2019	+10%	(465)
	-10%	568
2018	+10%	(1,886)
	-10%	2,306

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.1 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.

Segment performance is evaluated based on Revenue and Earnings Before Interest and Tax ("EBIT") which is allocated to the reportable segments according to the geographic location in which the item arose or relates to.

The geographical location of the segment assets is based on the physical location of the assets.

#### Change in segmentation

In the prior period the business of REMSAFE Pty Ltd was classified as a discontinued operation. Refer to Note F.6 for further details.

#### Segment information

Year ended 30 June 2019

	Australia		US		Consolidated	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	14,742	21,000	511	-	15,253	21,000
<b>EBIT</b>	<b>(2,942)</b>	<b>2,542</b>	<b>(2,386)</b>	<b>(276)</b>	<b>(5,328)</b>	<b>2,265</b>
Finance expenses	(615)	(528)	-	-	(615)	(528)
<b>(Loss)/Profit before income tax</b>	<b>(3,557)</b>	<b>2,014</b>	<b>(2,386)</b>	<b>(276)</b>	<b>(5,943)</b>	<b>1,737</b>

	Australia		US		Consolidated	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets	27,250	33,403	6,581	1,198	33,831	34,601
Liabilities	9,472	11,666	8,379	1,272	17,851	12,938
<b>Net assets/(liabilities)</b>	<b>17,778</b>	<b>21,737</b>	<b>(1,798)</b>	<b>(74)</b>	<b>15,980</b>	<b>21,663</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.2 Revenue

	Australia		US		Consolidated	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	14,742	21,000	511	-	15,253	21,000
<b>Total external revenue</b>	<b>14,742</b>	<b>21,000</b>	<b>511</b>	<b>-</b>	<b>15,253</b>	<b>21,000</b>
<b>Timing of revenue recognition</b>						
At a point in time	11,250	18,365	11	-	11,261	18,365
Over time	3,492	2,635	499	-	3,992	2,635
	<b>14,742</b>	<b>21,000</b>	<b>511</b>	<b>-</b>	<b>15,253</b>	<b>21,000</b>

Revenues of approximately \$11,761,000 (2018: \$17,148,000) are derived from a single external customer.

#### Recognition and measurement

Revenue is recognised in accordance with the core principle by applying the following steps:

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

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

#### • Revenue from rendering of services

The Group's general terms and conditions with customers specify a right to payment for work completed, therefore performance obligations are satisfied over time. Using the output method for revenue recognition, the Group recognises revenue based on an appraisal of results achieved or percentage complete.

#### • Sale of goods

Revenue from the sale of goods is recognised on a per-unit basis as the goods are delivered to the customer premise which is deemed to be the time when the performance obligation is performed. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.2 Revenue (continued)

#### · License and royalties

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

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

#### · Interest revenue

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

#### Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	2019 \$'000	2018 \$'000
<b>Contract Assets</b>		
Accrued revenue	500	296
<b>Contract Liabilities</b>		
Deferred revenue	2,911	943

Refer to Note C.6 deferred revenue for a breakdown of deferred revenue recognised in the current year.

### A.3 Other income

	2019 \$'000	2018 \$'000
Grant income	225	225
Rental income	458	428
Research and development grant	130	28
Net foreign exchange gain	1,099	998
Gain on sale of quoted equity shares	-	132
Other	17	15
	1,929	1,826

#### Recognition and measurement

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

In accordance with research and development tax legislation the Group is entitled to a refundable R&D tax offset accounted for as research and development grant. Government grants are recognised when it is probable that the grant will be received and all attached conditions will be complied with. When the grant relates to an asset, it is recognised as a reduction in the related asset. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

#### · Rental income

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.4 Expenses

#### (a) Employee benefits expense

	2019	2018
	\$'000	\$'000
Salaries and wages	7,089	7,302
Defined contribution plans	759	632
Share based payments (Note F.3)	263	250
Annual and long service leave (Note E.1)	307	115
Other personnel costs	802	771
	<b>9,220</b>	<b>9,070</b>

#### (b) Finance costs

	2019	2018
	\$'000	\$'000
Interest expense (Note D.1)	507	528
Standby facility fee (Note F.2)	108	-
	<b>615</b>	<b>528</b>

The Group has agreed an unsecured Standby working capital facility with UIL Limited, in which a 2.5% fee was paid on establishment. Refer note F.2 for further detail.

#### (c) Other expenses

	2019	2018
	\$'000	\$'000
Administration	402	388
Marketing and investor relations	41	86
Warranties (Note E.1)	253	449
Corporate advisory expenses	-	89
Other	165	90
	<b>861</b>	<b>1,102</b>

#### (d) Materials and consumable expenses

	2019	2018
	\$'000	\$'000
Raw materials and consumables	8,927	4,562
Change in inventories	(4,544)	1,126
	<b>4,383</b>	<b>5,688</b>

#### Recognition and measurement

##### · Defined contribution plans

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.5 Taxes

The major components of the income tax benefit/(expense) for the years ended 30 June 2019 and 2018 are:

	2019 \$'000	2018 \$'000
Current income tax	-	-
Deferred income tax	37	(2)
<b>Total income tax benefit/(expense)</b>	<b>37</b>	<b>(2)</b>

The reconciliation of the income tax benefits/(expenses) and accounting profit multiplied by the Australian domestic tax rate for the years ended 30 June 2019 and 2018 are:

	2019 \$'000	2018 \$'000
Accounting (loss)/profit before tax from continuing operations	(5,943)	1,737
Accounting (loss)/profit before tax from discontinued operations	-	483
<b>Accounting (loss)/profit before income tax</b>	<b>(5,943)</b>	<b>2,220</b>
At Australia's statutory income tax rate of 27.5% (2018: 27.5%)	1,634	(611)
Adjustments in respect of the change in statutory income tax rate	-	(459)
Difference in overseas tax rates	(247)	-
Non assessable income	36	798
Recognition of previously unrecognised tax losses	-	459
Deferred tax asset not recognised	(791)	(116)
Other	3	-
Non-deductible expenses	(598)	(73)
<b>Income tax benefit/(expense)</b>	<b>37</b>	<b>(1,070)</b>
Income tax benefit/(expense) reported in the statement of profit or loss	37	(2)

Deferred tax balances comprise of the following deferred tax assets/(deferred tax liabilities):

	2019 \$'000	2018 \$'000
Inventory	82	62
Revenue received in advance	-	259
Plant and equipment	(170)	66
Provisions and accruals	701	614
Intangible asset	(218)	-
Other	-	(26)
Tax losses	5,147	4,530
<b>Net deferred tax asset</b>	<b>5,542</b>	<b>5,505</b>

The Group has unused tax losses that arose in Australia, for which no deferred tax assets have been recognised of \$61,691,000 (2018: \$60,629,000) and are available indefinitely for offsetting against future taxable profits of the Group and its controlled entities in which those losses arose.

Under the tax laws of the United States of America, unused tax losses that cannot be fully utilised for tax purposes during the current period may be carried forward into future periods, subject to statutory limitations. At 30 June 2019, the Group had unused tax losses for which no deferred tax assets have been recognised of \$12,461,000 (2018: \$10,083,000) which expire between 2020 and 2023.

#### Recognition and measurement

##### · Current income tax

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

##### · Deferred tax

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.5 Taxes (continued)

#### • Deferred tax

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

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

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

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

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

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

At 30 June 2019, the Group recognised \$5,542,000 (2018: \$5,505,000) of deferred tax assets after assessing the likelihood of offsetting unused tax losses against future taxable profits. The unused tax losses for which a deferred tax asset is recognised relate to operations in Australia and the United States of America.

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

#### **Offsetting deferred tax balances**

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

#### **Tax consolidation**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## A. CURRENT YEAR PERFORMANCE

### A.6 Earnings per share (EPS)

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

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

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

	2019 \$'000	2018 \$'000
(Loss)/profit attributable to ordinary equity holders of the Parent:		
Continuing operations	(5,906)	1,735
Discontinued operations	-	483
<b>(Loss)/profit attributable to equity holders of the Parent for basic earnings</b>	<b>(5,906)</b>	<b>2,218</b>

Performance rights granted to key management personnel and contingent consideration arising from the acquisition of the remaining 38.50 per cent interest in REMSAFE Pty Ltd were deemed potential ordinary shares. Refer to Notes F.3 and D.3 for further details.

	2019 Number	2018 Number
Weighted average number of ordinary shares for basic EPS	77,403,115	77,337,066
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>77,403,115</b>	<b>77,337,066</b>

#### Earnings per share

	Cents	Cents
Basic (loss)/earnings per share	(7.63)	2.87
Diluted (loss)/earnings per share	(7.63)	2.87

#### Earnings per share from continuing operations

	Cents	Cents
Basic (loss)/earnings per share	(7.63)	2.24
Diluted (loss)/earnings per share	(7.63)	2.24

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

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

	2019 Number
Performance rights (Note F.3)	2,010,654
Contingent consideration (Note D.3)	3,440,000
<b>Total</b>	<b>5,450,654</b>

To calculate the EPS for discontinued operations, the weighted average number of ordinary shares for both basic and diluted EPS is as per the table in this note. Refer to Note F.6 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## B. GROWTH ASSETS

### In this section

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

### B.1 Plant and equipment

	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000
<b>Gross carrying amount at cost</b>			
At 1 July 2017	17,885	404	18,289
Additions	274	1,029	1,303
Disposals	(74)	-	(74)
<b>At 30 June 2018</b>	<b>18,085</b>	<b>1,433</b>	<b>19,517</b>
Additions	1,873	1,117	2,990
Disposals	(1,564)	-	(1,564)
<b>At 30 June 2019</b>	<b>18,393</b>	<b>2,550</b>	<b>20,942</b>
<b>Depreciation and impairment</b>			
At 1 July 2017	(16,617)	(175)	(16,792)
Depreciation charge for the year	(503)	(52)	(555)
Disposals	45	-	45
<b>At 30 June 2018</b>	<b>(17,075)</b>	<b>(227)</b>	<b>(17,301)</b>
Depreciation charge for the year	(592)	(98)	(690)
Disposals	1,564	-	1,564
<b>At 30 June 2019</b>	<b>(16,102)</b>	<b>(325)</b>	<b>(16,428)</b>
<b>Net book value</b>			
<b>At 30 June 2019</b>	<b>2,291</b>	<b>2,225</b>	<b>4,516</b>
At 30 June 2018	1,010	1,206	2,216

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

### Recognition and measurement

Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates those parts separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are expensed as incurred to occupancy expenses in the statement of profit or loss and other comprehensive income. An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the assets, is included in other income or other expenses in the statement of profit or loss and other comprehensive income when the asset is derecognised.

### Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the asset or cash generating unit ("CGU"). The recoverable amount of the asset or the CGU is the higher of its fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposals, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. The budgets and forecast calculations cover a period of three years, or the contract period.

### Depreciation

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

Plant and equipment: 3 to 15 years  
Leasehold improvements: 3 to 15 years

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## B. GROWTH ASSETS

### B.2 Intangible assets

Consolidated	Internally generated intangible	Total
<b>Year ended 30 June 2019</b>		
Cost	2,390	2,390
Accumulated amortisation	(45)	(45)
R&D tax offset recognised	(1,421)	(1,421)
<b>Net carrying amount</b>	<b>924</b>	<b>924</b>
<b>Movement</b>		
Net carrying amount at the beginning of the year	-	-
Additions	2,390	2,390
Amortisation for the year	(45)	(45)
R&D tax offset recognised	(1,421)	(1,421)
<b>Net carrying amount at the end of the year</b>	<b>924</b>	<b>924</b>
<b>Year ended 30 June 2018</b>		
Cost	-	-
Accumulated amortisation and impairment	-	-
<b>Net carrying amount</b>	<b>-</b>	<b>-</b>
<b>Movement</b>		
Net carrying amount at the beginning of the year	-	-
Additions	-	-
Amortisation for the year	-	-
<b>Net carrying amount at the end of the year</b>	<b>-</b>	<b>-</b>

The intangible asset comprises of capitalised development costs for the advancement of the modular propulsion systems. The intangible asset will be amortised using the straight-line method over a finite period of five years.

#### Recognition and measurement

Intangible assets are measured on initial recognition at cost. Following initial recognition; intangible assets are carried at cost less amortisation, any impairment losses and research and development tax grants received. Intangible assets with finite useful lives are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that they may be impaired. The amortisation period and method is reviewed at each financial year end.

Intangible asset	Useful life
Internally generated intangible	Finite (up to five years)

#### Research and development

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## C. WORKING CAPITAL MANAGEMENT

### In this section

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

### C. Working Capital Management

C.1	Inventories	Page 36
C.2	Trade and other receivables	Page 37
C.3	Cash and cash equivalents	Page 37
C.4	Other financial assets	Page 38
C.5	Trade and other payables	Page 38
C.6	Deferred revenue	Page 38

### Financial and capital risks in this section

#### Liquidity risk management

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

The Group's liquidity position is managed by the Board of Directors who regularly review cash-flow forecasts prepared by management, which includes the Group's short and long-term obligations, cash position and forecast liability position to maintain appropriate liquidity levels. At 30 June 2019, the Group has a total of \$7,487,000 of cash at its disposal (2018: \$9,926,000) and a net current asset position \$13,453,000 (2018: \$21,054,000). The remaining contractual maturities of the Group's financial liabilities are:

	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 30 June 2019</b>						
Borrowings	-	-	-	8,933	1,053	9,986
Trade payables and other liabilities	-	3,919	86	72	-	4,077
	-	3,919	86	9,005	1,053	14,064
<b>At 30 June 2018</b>						
Borrowings	-	-	1,032	6,647	2,307	9,986
Trade payables and other liabilities	-	1,304	58	173	-	1,535
	-	1,304	1,090	6,820	2,307	11,521

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## C. WORKING CAPITAL MANAGEMENT

### Interest rate risk management

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

The Group's exposure to market interest rates relates primarily to the Group's cash and term deposits with financial institutions. The primary goal of the Group is to maximise returns on surplus cash, using deposits with maturities of 90 days or less. Management continually monitors the returns on funds invested. The exposure to interest rate risk as at 30 June 2019 is as follows:

	2019	2018
	\$'000	\$'000
Cash and cash equivalents (Note C.3)	7,487	9,926
Short-term deposits (Note C.4)	585	585
	<b>8,072</b>	<b>10,511</b>

A reasonable possible change in the interest rate (+0.5%/-0.5%) (2018: +0.5%/-0.5%), with all variables held constant, would have resulted in a change in post tax profit/(loss) of \$37,000/(\$37,000) (2018: \$51,000)/(\$51,000) and no impact to other comprehensive income.

### Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating and investing activities, including trade receivables and short-term deposits with financial institutions. Maximum exposure to credit risk equals to the carrying amount of these financial assets (as outlined in each applicable note). The significant concentration of credit risk within the Group relate to receivable balances from the Group's major customer.

The maximum exposure to credit risk for the components of the statement of financial position at 30 June 2019 and 2018 is the carrying amounts as illustrated in Note C.2.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Key individual customer receivable balances are monitored on an ongoing basis. The significant concentrations of credit risk within the Group relate to receivable balances from the Group's major customer and cash held with investment grade financial institutions.

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

### C.1 Inventories

	2019	2018
	\$'000	\$'000
Raw materials	4,741	1,841
Provision for obsolescence	(298)	(226)
Work in progress	2,255	489
Finished goods	-	50
	<b>6,698</b>	<b>2,154</b>

### Recognition and measurement

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## C. WORKING CAPITAL MANAGEMENT

### C.2 Trade and other receivables

	2019 \$'000	2018 \$'000
Trade receivables	4,093	12,097
Accrued royalties	-	64
Other receivables (b)	4,341	1,506
Allowance for Impairment of other receivables (a)	(1,379)	-
	<b>7,055</b>	<b>13,667</b>

(a) At 30 June 2019, the Group recognised \$1,350,000 (2018:\$nil) as an allowance for impaired receivables. This amount covers \$1,350,000 receivable from Avidsys Pty Ltd as consideration for the disposal of REMSAFE Pty Ltd on 18 December 2017. The Group has commenced legal action to recover the outstanding receivable. Refer to Note F.6 for further details.

(b) At 30 June 2019, the Group recognised a receivable for \$1,533,000 in accordance with research and development tax legislation in which the Group is entitled to a refundable R&D tax offset. Refer note A.3 for further detail.

See the "Credit risk management" section on credit risk of trade receivables, which explains how the Group manages and measures the quality of trade receivables that are neither past due nor impaired.

The Group's payment terms on trade receivables range from 30 - 35 days. The credit risk of trade receivables neither past due nor impaired was assessed as remote as historical default rates with associated customers are negligible.

#### Recognition and measurement

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

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

#### Impairment

Trade receivables and contract assets are subject to the expected credit loss model. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses the lifetime expected loss allowance for all trade receivable and contract assets. The identified impairment loss was immaterial. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

#### Fair value

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

### C.3 Cash and cash equivalents

	2019 \$'000	2018 \$'000
Cash at bank	7,487	9,926
Short-term deposits	-	-
	<b>7,487</b>	<b>9,926</b>

The reconciliation of net (loss)/profit after tax to net cash flows from operations for the years ended 30 June 2019 and 2018 is as follows:

	2019 \$'000	2018 \$'000
(Loss)/profit after income tax from continuing operations	(5,906)	1,735
(Loss)/profit after income tax from discontinued operations	-	483
(Loss)/profit after income tax	(5,906)	2,218
Depreciation & amortisation	735	555
R&D tax offset (Note B.2)	1,421	-
Government grants (Note E.2)	(225)	(225)
Interest expense (Note D.1)	507	528
Surplus lease space (Note E.1)	(53)	(52)
Warranties (Note E.1)	(31)	350
Employee benefits (Note E.1)	307	(286)
(Gain)/loss on sale of quoted equity shares	-	(132)
Provision for doubtful debt (Note C.2)	1,379	-
Share based payment expense (Note F.3)	263	253
Net foreign exchange gain	(1,200)	(999)
Net cash (used in)/from operating activities before changes in assets and liabilities	(2,804)	2,774

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

Decrease/(increase) in receivables and prepayments	6,950	(8,464)
(Increase)/decrease in inventories	(4,546)	1,127
(Increase)/decrease in deferred tax assets	(37)	2
Increase/(decrease) in payables	2,218	(3,654)
	<b>4,587</b>	<b>(10,989)</b>
Net cash generated from/(used in) operating activities	<b>1,783</b>	<b>(8,215)</b>

#### Recognition and measurement

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

#### Fair value

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## C. WORKING CAPITAL MANAGEMENT

### C.4 Other financial assets

	2019 \$'000	2018 \$'000
Short term deposits	585	585
	<b>585</b>	<b>585</b>

The Group has pledged short term deposits of \$585,000 (2018: \$585,000) as collateral for financing facilities and pledged nil short-term deposits (2018: Nil) as collateral for performance guarantees under contractual arrangements related to customer agreements. Refer to Note D.1 for details on long-term borrowings.

#### Short-term deposits

##### Recognition and measurement

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

##### Fair value

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

### C.5 Trade and other payables

	2019 \$'000	2018 \$'000
Trade payables	3,871	1,080
Lease liabilities	173	246
Taxes payable	10	45
Other payables	94	337
	<b>4,148</b>	<b>1,708</b>

#### Recognition and measurement

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

##### Fair value

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

### C.6 Deferred revenue

Deferred revenue includes revenue allocated to unsatisfied performance obligations in engineering services contracts with customers, unsatisfied performance obligations on sale of goods to customers and long-term advances received from customers.

A reconciliation of deferred revenue for the years ended 30 June 2019 and 2018 is as follows:

	2019 \$'000	2018 \$'000
At 1 July	943	5,144
Deferred during the year	4,426	522
Released to the statement of profit or loss	(2,458)	(4,722)
At 30 June	<b>2,911</b>	<b>943</b>

#### Recognition and measurement

Deferred revenue is recognised as a liability when consideration is received prior to performance obligations being satisfied with a customer. The deferred revenue is recognised as income over the periods that the performance obligations are met.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## D. DEBT AND CAPITAL

### In this section

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

#### D. Debt and capital

D.1	Borrowings	Page 39
D.2	Share capital	Page 39
D.3	Reserves	Page 40

### Financial and capital risks in this section

#### Capital risk management

For the purposes of the Group's capital management, capital includes contributed shareholder equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital, provides a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In order to maintain or adjust the capital structure, the Group may issue new shares or debt.

#### D.1 Borrowings

	2019 \$'000	2018 \$'000
Current	-	1,032
Non-current	8,277	6,738
	8,277	7,770

Changes in borrowings arising from financing activities are as follows:

	At 1 July \$'000	Cash flows \$'000	Finance costs \$'000	At 30 June \$'000
2019	7,770	-	507	8,277
2018	8,102	(860)	528	7,770

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

- The term of the loan was 25 January 2010 to 30 May 2025
- Repayments commenced on 25 May 2010 at \$200,000 per annum
- A deed of variation was confirmed during the year ending 30 June 2019 to defer 2019 and 2020 repayments to 30 May 2021
- Accelerated repayments then occur across the life of the loan then increase to a maximum repayment of \$2,100,000 due on 30 May 2025

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

#### Fair value

The fair value of the Group's secured loan at 30 June 2019 was \$6,868,000 (2018: \$6,516,000). The fair value measurement is classified as Level 3 on the fair value hierarchy. The fair value of the secured loan was calculated by discounting future cash flows at the prevailing market interest rate at 30 June 2019 of 12.00% (2018: 12.00%).

#### Recognition and measurement

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

#### D.2 Share capital

	2019 \$'000	2018 \$'000
Ordinary shares issued and fully paid	31,178	31,144

#### Movement in ordinary shares

	Number	\$000's
At 1 July 2017	77,295,882	31,106
Employee Share plan number 1	73,328	38
At 30 June 2018	77,369,210	31,144
At 1 July 2018	77,369,210	31,144
Employee Share plan number 1	83,716	34
At 30 June 2019	77,452,926	31,178

#### Recognition and measurement

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

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## D. DEBT AND CAPITAL

### D.3 Reserves

	Employee benefits reserve	Foreign currency translation reserve	Contingent consideration	Consolidation reserve	Convertible notes reserve	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
At 1 July 2017	1,759	-	3,440	(4,455)	248	992
Foreign currency translation	-	9	-	-	-	9
Rights issued pursuant to performance rights plan	215	-	-	-	-	215
At 30 June 2018	1,974	9	3,440	(4,455)	248	1,216
At 1 July 2018	1,974	9	3,440	(4,455)	248	1,216
Foreign currency translation	-	(42)	-	-	-	(42)
Rights issued pursuant to performance rights plan	229	-	-	-	-	229
Transferred to accumulated losses	-	-	(3,440)	4,455	(248)	767
At 30 June 2019	2,203	(33)	-	-	-	2,171

#### Nature and purpose of reserves

##### Employee benefits reserve

The employee benefits reserve records the share-based payments provided to key management personnel as part of their long-term incentive remuneration. Refer to Note F.3 for further details.

##### Contingent consideration

On 13 October 2016, the Group acquired the remaining 38.5 per cent minority interest in REMSAFE Pty Ltd from the Lane Trust in consideration for the issue of ordinary shares in the Group. The terms of the sale provided for an incentive to achieve performance targets linked to future accumulated annual sales with consideration payable as follows:

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

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

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

On 18 December 2017, the Group publicly announced the divestment of its 100 per cent interest in REMSAFE Pty Ltd to Avidsys Pty Ltd ("Avidsys") in support of the Group's strategy to strengthen its position in the UAV market. Should the REMSAFE business satisfy one or more of the abovementioned accumulated annual sales targets pertaining to the contingent consideration arrangement, Avidsys is obliged to reimburse the Group for the value of the consideration transferred under the arrangement up to a maximum amount of \$2,200,000. At 30 June 2019, the Group re-assessed the probability that the abovementioned accumulated annual sales targets would be met as nil. As a result, no financial asset for contingent consideration receivable from Avidsys was recognised in these financial statements.

##### Consolidation reserve

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

##### Convertible note reserve

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## E. OTHER ASSETS AND LIABILITIES

### In this section

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

#### E. Other assets and liabilities

E.1	Provisions	Page 41
E.2	Government grants	Page 42

#### E.1 Provisions

	Surplus lease space \$000's	Warranties \$000's	Employee benefits \$000's	Total \$000's
<b>At 1 July 2018</b>	<b>141</b>	<b>770</b>	<b>1,307</b>	<b>2,218</b>
Arising during the year	33	253	491	777
Utilised	(86)	(285)	(183)	(554)
<b>At 30 June 2019</b>	<b>88</b>	<b>738</b>	<b>1,615</b>	<b>2,441</b>
Current	57	738	1,537	2,333
Non-current	31	-	77	108
	<b>88</b>	<b>738</b>	<b>1,614</b>	<b>2,441</b>
<b>At 1 July 2017</b>	<b>193</b>	<b>420</b>	<b>1,593</b>	<b>2,206</b>
Arising during the year	34	449	115	598
Utilised	(86)	(99)	(401)	(586)
<b>At 30 June 2018</b>	<b>141</b>	<b>770</b>	<b>1,307</b>	<b>2,218</b>
Current	57	770	1,263	2,090
Non-current	84	-	44	128
	<b>141</b>	<b>770</b>	<b>1,307</b>	<b>2,218</b>

#### Recognition and measurement

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

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

#### Provision for surplus lease space

The Group recognised a provision for surplus lease space for unused office space under an operating lease, expiring 16 February 2021. In addition, the Group entered into a sublease agreement for the unused office space. In February 2019 the sublease was extended five years, commencing March 2019. Refer to Note F.1 for further details. The provision for surplus lease space is calculated as the present value of the net cost of fulfilling the lease arrangement.

#### Provision for warranties

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

#### Employee benefits

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## E. OTHER ASSETS AND LIABILITIES

### E.2 Government grants

	2019 \$'000	2018 \$'000
<b>At 1 July</b>	<b>299</b>	524
Released to the statement of profit and loss	(225)	(225)
<b>At 30 June</b>	<b>74</b>	299
Current	74	225
Non-current	-	74

In June 2008, the Group received a \$2,760,000 grant from the Commonwealth of Australia through the Alternative Fuels Conversion Program administered by the Department of the Environment, Water, Heritage and the Arts towards the construction of a heavy duty engine test facility. There are no unfulfilled conditions or contingencies attached to the grants.

#### Recognition and measurement

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### In this section

This section addresses information on other items which require disclosure to comply with Australian Accounting Standards and the Corporations Act 2001 (Cth). This section includes Group structure information and other disclosures.

#### F. Other items

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#### F.1 Commitments

##### Operating leases - Group as lessee

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

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

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

For the year ended 30 June 2019, \$1,070,000 (2018: \$921,000) was recognised as an expense in occupancy expenses in the statement of profit or loss and other comprehensive income. Future minimum rentals payable under non-cancellable operating leases at 30 June are as follows:

	2019 \$'000	2018 \$'000
Within one year	1,176	1,110
After one year but not more than five years	1,197	2,366
More than five years	-	1,012
	<b>2,372</b>	<b>4,488</b>

##### Recognition and measurement

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

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

##### Operating leases – Group as lessor

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

For the year ended 30 June 2019, \$458,000 (2018: \$428,000) was recognised as other income in the statement of profit or loss and other comprehensive income. Future minimum rentals receivable under non-cancellable operating leases at 30 June are, as follows.

	2019 \$'000	2018 \$'000
Within one year	359	202
After one year but not more than five years	1,315	-
More than five years	-	-
	<b>1,673</b>	<b>202</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.1 Commitments (continued)

#### Recognition and measurement

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

#### Commitments

At 30 June 2019, the Group had commitments of Nil (2018: \$694,000) related to the fit-out of the Oregon, United States of America, leased premises.

### F.2 Related parties

#### Group structure

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

#### Transactions with key management personnel

Agere Pty Ltd, a company of which Mr. Steve Gallagher is a director, received \$60,000 (2018: \$60,000) in director's fees for his service to the Group. At 30 June 2019, a total of \$5,000 remains due and payable (2018: \$5,000). Payment terms are 7 days.

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

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

	2019	2018
	\$	\$
Short term employee benefits	1,146,953	1,355,701
Post-employment benefits	80,962	121,012
Long-term employee benefits	68,273	120,809
Share based payments	221,708	212,867
	<b>1,517,897</b>	<b>1,810,390</b>

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

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

#### Loans from related parties

The Group has agreed an unsecured US\$3 million (A\$4 million) standby working capital facility with UIL Limited. UIL Limited is the Group's largest shareholder, currently holding 30% of the Group's shares. The establishment of the standby facility secures an additional source of working capital should the Group decide to accelerate further investments in product development. The Group paid a 2.5% facility fee \$108,000 (refer to note A.4 for further detail). Interest on any funds drawn down will be incurred at an interest rate of Libor plus 6%. The facility is available from 11 March 2019 to 10 September 2020.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.3 Share based payments

	2019 \$'000	2018 \$'000
Equity-settled share based payment transactions	263	250
	263	250

There were no cancellations or modifications to awards in the 2019 or 2018 financial years. Share-based payment plans are explained below:

#### Employee Share Plan No. 1

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

For the year ended 30 June 2019, 83,716 ordinary shares (2018: 73,328 ordinary shares) were issued on 23 January 2019 at a market value on the date of issue of \$34,000 (2018: \$38,000).

#### CEO Share Acquisition Performance Rights

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

During the year ended 30 June 2018, Mr. Alder acquired 372,333 ordinary shares in the Group, resulting in a maximum entitlement of 647,250 share acquisition performance rights ("SAPR's"). The grant of the performance rights was approved by the shareholders at an extraordinary general meeting on 23 May 2018. The terms of the performance rights issued to Mr. Alder are subject to a vesting condition of a 30-day volume weighted average share price of \$0.62 per ordinary share.

During the year ended 30 June 2019, no performance rights issued under the plan vested. The share based payment expense recognised for the year ended 30 June 2019 was \$68,000 (2018: \$60,000).

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

On 27 October 2017 and 23 May 2018, the Group issued 951,622 performance rights to key management personnel as part of their long-term incentive plan. The terms of the performance rights are set out on pages 10-11 of the Directors' Report. During the year ended 30 June 2019, no performance rights issued under the plan vested. The share based payment expense recognised for the year ended 30 June 2019 was \$101,000 (2018: \$63,000).

#### 2017 CEO LTI Plan

The 2017 performance rights plan related to Mr. Terry Stinson (the previous Managing Director and CEO) and was approved by shareholders on 7 November 2016. Pages 11-12 of the Directors' Report details the terms of the performance rights. During the year no rights under the plan vested. The total expense recognised during the period is \$59,000 (2018: \$92,000).

#### Movements during the year

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

	2019 Number	2018 Number
Outstanding at 1 July	2,354,373	500,000
Granted during the year	-	1,854,373
Lapsed during the year	(343,719)	-
Outstanding at 30 June	2,010,654	2,354,373

The weighted average remaining contractual life of performance rights outstanding at 30 June 2019 was 1 year (2018: 2 years).

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

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

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

#### Recognition and measurement

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.4 Subsidiaries

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

Entity	Note	Class of shares	Country of incorporation	Principal activities	% equity interest	
					2019	2018
Orbital Australia Pty Ltd	(c)	Ordinary	Australia	Production & Development	100	100
Orbital Australia Manufacturing Pty Ltd	(d)	Ordinary	Australia	Dormant	100	100
OEC Pty Ltd		Ordinary	Australia	Dormant	100	100
S T Management Pty Ltd		Ordinary	Australia	Dormant	100	100
OFT Australia Pty Ltd		Ordinary	Australia	Dormant	100	100
Investment Development Funding Pty Ltd		Ordinary	Australia	Dormant	100	100
Power Investment Funding Pty Ltd		Ordinary	Australia	Dormant	100	100
Kala Technologies Pty Ltd		Ordinary	Australia	Dormant	100	100
Orbital Share Plan Pty Ltd	(a)	Ordinary	Australia	Dormant	100	100
Orbital Holdings (USA) Inc.		Ordinary	United States	Dormant	100	100
Orbital Fluid Technologies Inc.		Ordinary	United States	Dormant	100	100
Orbital UAV USA, LLC		Ordinary	United States	Production & Development	100	100

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

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

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

### F.5 Parent entity information

	2019	2018
	\$'000	\$'000
Current assets	2	1,451
Non-current assets	22,848	25,430
Current liabilities	-	1,032
Non-current liabilities	8,277	6,738
<b>Net assets</b>	<b>14,573</b>	<b>19,111</b>
Issued capital	31,178	31,144
Accumulated losses	(18,842)	(14,007)
Employee benefits reserve	2,237	1,974
<b>Total equity</b>	<b>14,573</b>	<b>19,111</b>
Loss of the parent	(4,835)	(1,834)
Total comprehensive loss of the parent entity	(4,835)	(1,834)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.6 Discontinued operations

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

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

- The first tranche payment of \$720,000 has been received.
- Of the second tranche payment, \$100,000 has been received with \$650,000 remaining receivable as at 30 June 2018.
- The third tranche payment of \$700,000 was receivable on 18 June 2019.
- For the year ended 30 June 2019, the group assessed the recoverability of the outstanding amounts on tranche two and three. This led to the outcome of raising a provision of \$1,350,000 due to unfulfilled payment terms.

The business of REMSAFE Pty Ltd was classified as a discontinued operation. Refer to Note A.1 for further details.

The result of REMSAFE Pty Ltd for the 2018 year is presented below:

	2019 \$'000	2018 \$'000
Revenue	-	517
Expenses	-	(1,140)
<b>Operating loss</b>	<b>-</b>	<b>(623)</b>
Gain on disposal of discontinued operation	-	1,106
<b>Profit before tax from discontinued operation</b>	<b>-</b>	<b>483</b>
Income tax expense	-	-
<b>Profit for the year from discontinued operation</b>	<b>-</b>	<b>483</b>

#### Earnings per share (in cents)

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

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

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

The gain on sale of REMSAFE was calculated as follows:

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

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

	2019 \$'000	2018 \$'000
Operating	-	(448)
Investing	-	181
Financing	-	-
<b>Net cash outflow</b>	<b>-</b>	<b>(267)</b>

#### Recognition and measurement

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.7 Auditor remuneration

During the year the Group changed auditor from Ernst & Young Australia ("EY") to PricewaterhouseCoopers ("PwC")

	2019	2018
	\$	\$
<b>Amounts received or due and receivable for:</b>		
Audit and review of the consolidated financial statements	127,500	127,000
Tax compliance services	73,011	117,362
	<b>200,511</b>	<b>244,362</b>

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

### F.9 Other accounting policies

#### Goods and services tax

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

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

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

#### Intangible assets

##### Patents

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

#### Fair value measurement

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.10 Adopted accounting standards

#### Adopted standards and interpretations

A number of adopted standards and interpretations have been issued as at the financial reporting date.

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

Title	Application of new standard	Summary
AASB 15 Revenue from contracts with customers ("AASB 15")	Adopted 1 July 2018	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 118 Revenue and AASB 111 Construction Contracts) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.</p> <p>An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"><li>• Step 1: Identify the contract(s) with a customer</li><li>• Step 2: Identify the performance obligations in the contract</li><li>• Step 3: Determine the transaction price</li><li>• Step 4: Allocate the transaction price to the performance obligations in the contract</li><li>• Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</li></ul> <p>The Group has implemented the modified approach as its transition method for the adoption of AASB 15.</p> <p>The Group has reviewed the terms and conditions of its contracts with customers and determined that the adoption of AASB 15 will not have a material impact on the business. As at 30 June 2019 the reported sales of goods represent component sales to customers where revenue is only recognised once control passes to the customer, which is at a point in time.</p> <p>In relation to engineering services contracts, the services rendered under each stage are highly interrelated and therefore treated as a single performance obligation. Orbital is entitled to payment for work completed in the event an engineering services contract is discontinued, and therefore, performance obligations are satisfied over time with reference to the stage of completion under the output method for revenue recognition. As at 30 June 2019, the group has 5 engineering services contracts.</p> <p>The group has confirmed:</p> <ul style="list-style-type: none"><li>• Contracts commenced and completed in the same financial year will not be adjusted for the impact of AASB 15.</li><li>• Licence and royalty revenue will continue to be recognised as and when customer sales of patented technologies are made.</li></ul> <p>The Group has assessed there is no financing impact under AASB 15 from customer payments received in advance of goods delivered or services rendered.</p>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.10 Adopted accounting standards

Title	Application of new standard	Summary
AASB 9 Financial Instruments ("AASB 9")	Periods beginning on or after 1 January 2018	<p>AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), based on their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. There has been no material impact for this change on the financial statements.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139. The Group does not have any hedging relationships and therefore will not be impacted by AASB 9 hedge accounting. The Group assessed no significant impact on its statement of financial position or equity on applying the classification and measurement requirements of AASB 9.</p>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## F. OTHER ITEMS

### F.11 New accounting standards

#### New standards and interpretations

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

Title	Application of new standard	Summary
AASB 16 Leases ("AASB 16")	Periods beginning on 1 July 2019	<p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right of-use asset.</p> <p>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p> <p>The Group's current operating leases comprise only of real estate. Upon adoption of AASB 16, the Group's balance sheet is expected to include a right of use asset and liability related to these operating lease arrangements.</p> <p><i>Transition to AASB 16:</i></p> <p>The Group has evaluated the impact of current lease arrangements for the lease of office buildings, storage facilities, equipment and other assets. The approximate impact on the balance sheet at 30 June 2019 was an increase in leased related assets of \$1,710,000 and an increase in lease liabilities of \$2,215,000. Furthermore the sublease will give rise to a finance lease receivable of approximately \$505,000.</p>

# DIRECTORS' DECLARATION

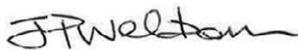
In accordance with a resolution of the Directors of Orbital Corporation Limited, I state that:

1. In the opinion of the Directors:

- (a) The financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, of the Group are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the financial position of the Group as at 30 June 2019 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - (ii) Complying with Accounting Standards in Australia and the *Corporations Act 2001*.
- (b) The financial statements and notes also comply with International Financial reporting Standards as disclosed in note 2(a).
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001*, from the Chief Executive Officer and Chief Financial Officer for the financial year 30 June 2019.

On behalf of the Board,



JP Welborn  
Chairman



TM Alder  
Managing Director & Chief Executive Officer

Dated at Perth, Western Australia 30 August 2019.

# INDEPENDENT AUDITOR'S REPORT



## *Independent auditor's report*

To the members of Orbital Corporation Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Orbital Corporation Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended, and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840  
T: +61 8 9238 3000, F: +61 8 9238 3999, [www.pwc.com.au](http://www.pwc.com.au)

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# INDEPENDENT AUDITOR'S REPORT

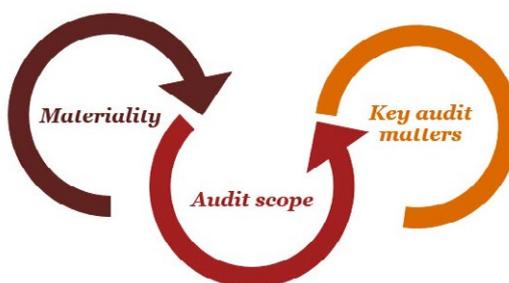


## Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group specialises in designing and manufacturing unmanned aerial vehicle propulsion systems for its customers. The Group has manufacturing operations in Australia and in the United States of America. The accounting processes are structured around a Group finance function at its corporate head office in Perth.



### Materiality

- For the purpose of our audit we used overall Group materiality of \$350,000, which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose total assets as the benchmark as, in our view, it is the benchmark against which the performance of the Group is most commonly measured whilst it is in the production ramp-up phase.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Our audit procedures were predominantly performed in Perth where many of the corporate and Group operations functions are centralised. We also visited the Hood River operations in Oregon, USA during the year

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# INDEPENDENT AUDITOR'S REPORT



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

### Key audit matter

### How our audit addressed the key audit matter

#### Basis of preparation of financial report

As described in the financial report, the financial statements have been prepared by the Group on a going concern basis, which contemplates that the Group will continue to meet its commitments, realise its assets and settle its liabilities in the normal course of business.

The Group has invested in the construction of a new manufacturing facility in Oregon, USA and is still to achieve steady state production under the expanded agreement with its largest customer.

Assessing the appropriateness of the Group's basis of preparation for the financial report was a key audit matter due to its importance to the financial report as a whole and the level of judgement involved in assessing the operational status, future funding and cash flows from sales in particular with respect to the Group forecasting future cash flows for a period of at least 12 months from the date of the financial report (cash flow forecasts).

In assessing the appropriateness of the Group's going concern basis of preparation for the financial report, we performed the following procedures amongst others:

- evaluated the appropriateness of the Group's assessment of their ability to continue as a going concern, including whether the level of analysis is appropriate given the nature of the Group, the period covered is at least 12 months from the date of our auditor's report and relevant information of which we are aware as a result of the audit has been included
- enquired of management and the directors as to their knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern
- evaluated the Group's plans for future actions, including the establishment of a standby working capital facility with a related party
- evaluated selected data and assumptions in the Group's cash flow forecasts for at least 12 months from the date of signing the auditor's report, including comparing selected elements, such as purchase orders from customers, in the cash flow forecasts to existing contracts and agreements
- requested written representations from management and the board of directors regarding their plans for future action and the feasibility of these plans
- evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provide adequate disclosures about these events and conditions.

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# INDEPENDENT AUDITOR'S REPORT



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## Key audit matter

### Recognition and measurement of deferred tax assets

(Refer to note A.5) \$5.5 million

At 30 June 2019, the Group recognised \$5.5 million of net deferred tax assets, which includes \$5.1 million for the anticipated benefit of utilising carry forward tax losses to reduce future tax payable in both Australia and the USA.

In determining the quantum of tax losses that are probable of utilisation, the Group made a number of judgements, including assessing whether it has access to the carry forward tax losses and its forecast taxable income in both Australia and the USA over the period for which the carry forward tax losses are available.

Assessing the appropriateness of recognising these deferred tax assets was a key audit matter due to the level of judgement applied by the Group in forecasting future taxable income and the probability of the carry forward tax losses being utilised.

## How our audit addressed the key audit matter

In assessing the appropriateness of the Group's recognition and measurement of deferred tax assets in the financial report, we performed the following procedures amongst others:

- evaluated the accuracy Group's reconciliation of the available carry forward tax losses at 30 June 2019 by agreeing the opening balance of carry forward losses to losses recorded in previous years and agreeing the losses for the current year to the current year calculations
- obtained and read the advice that the Group received with respect to the availability of these losses under current Australian and USA income tax legislation
- together with PwC tax experts, we evaluated the Group's ability to access the carry forward losses under Australian and USA income tax legislation
- evaluated the Group's calculation for the recognition and measurement of the temporary differences to be recognised as deferred tax assets and liabilities in light of the requirements of Australian Accounting Standards
- obtained the calculation of forecast taxable income for the operations of the Group to evaluate the Group's conclusion that sufficient taxable income would likely be earned in the future to utilise the tax losses for which deferred tax assets have been recognised. We evaluated selected data and assumptions in the Group's cash flow forecasts, including comparing selected elements, such as customer purchase orders, in the cash flow forecasts to existing contracts and agreements
- evaluated the adequacy of the disclosures made in Note A.5 in light of the requirements of Australian Accounting Standards.

# INDEPENDENT AUDITOR'S REPORT



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## *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## *Responsibilities of the directors for the financial report*

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

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

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

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

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# INDEPENDENT AUDITOR'S REPORT



## *Report on the remuneration report*

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 7 to 15 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Orbital Corporation Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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

A handwritten signature in grey ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in grey ink that reads 'Ben Gargett'.

Ben Gargett  
Partner

Perth  
30 August 2019

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# SHAREHOLDING DETAILS

## Class of Shares and Voting Rights

As at 15 August 2019 there were 4,042 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:

- at meetings of members or class of members, each member entitled to vote may vote in person or by proxy or representative; and
- 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 2019

UIL Limited <i>(as notified 13 April 2017)</i>	<b>23,227,904</b>	<b>30.05%</b>
Mitsubishi UFJ Financial Group, Inc. <i>Comprising voting power of over 20% in Morgan Stanley; and voting power of 100% in Carol Australia Holdings Pty Limited (as notified 2 August 2019)</i>	<b>10,540,218</b> 2,570,760 7,969,458	<b>13.61%</b>

## Distribution of Shareholdings as at 15 August 2019

1-1,000	2,524
1,001-5,000	889
5,001-10,000	238
10,001-100,000	309
100,001 and over	64
<b>Number of shareholders</b>	<b>4,024</b>
<b>Total Shares on Issue</b>	<b>77,452,926</b>
<b>Number of unmarketable parcels</b>	<b>1,158,829</b>

## Top 20 Shareholders as at 15 August 2019

NAME	NUMBER OF SHARES HELD	% OF SHARES
1 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	24,067,349	31.47
2 CITICORP NOMINEES PTY LIMITED	9,008,813	11.78
3 ANNAPURNA PTY LTD	2,600,000	3.40
4 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	2,570,760	3.36
5 SWEET AS DEVELOPMENTS PTY LTD	2,491,944	3.26
6 DEBUSCEY PTY LTD	1,850,000	2.42
7 BIRKETU PTY LTD	1,600,000	2.09
8 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,589,830	2.08
9 MR TERRY STINSON	1,172,621	1.53
10 MR MICHAEL WILLIAM FORD & MRS NINA BETTE FORD	1,000,122	1.31
11 MR JOSHUA LEIGH SWEETMAN & MRS CAROLINE SWEETMAN	990,662	1.30
12 MR JOHN PAUL WELBORN & MS CAROLINE ANNE WELBORN	850,000	1.10
13 NATIONAL NOMINEES LIMITED	820,379	1.07
14 MR CHRISTOPHER IAN WALLIN & MS FIONA KAY MCLOUGHLIN & MRS SYLVIA FAY	689,200	0.90
15 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	632,865	0.83
16 MR CRAIG GRAEME CHAPMAN	500,000	0.65
16 BOND STREET CUSTODIANS LIMITED	500,000	0.65
16 RACT SUPER PTY LTD	500,000	0.65
17 NALLAC NOMINEES PTY LTD	425,000	0.56
18 DR STUART JAMES MACKAY & MR STEPHEN MACKAY	406,455	0.53
19 MR TODD MATHEW ALDER	372,333	0.49
20 MR JOHN AYRES	356,667	0.47
<b>Top 20 Shareholders Total</b>	<b>54,995,000</b>	<b>71.89</b>

The 20 largest shareholders hold 71.89% of the ordinary shares of the Company (2018: 71.85%).

## 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



| @OrbitalCorpASX



| OrbitalUAV

## CONTACT DETAILS

### Australia

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

### USA

Address: 210 Wasco Loop, Hood River, OR 97031, USA  
Telephone: +1 541.716.5930

## INTERNET ADDRESS

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

## DIRECTORS

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

## COMPANY SECRETARY

R. Jones

## SHARE REGISTRY

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

## SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")

## AUDITORS

**PricewaterhouseCoopers**  
125 St Georges Terrace  
Perth, Western Australia 6000

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UAV

**ORBITAL CORPORATION LIMITED** ASX:OEC | ABN 32 009 344 058

A: 4 Whipple Street, Balcatta, Western Australia, 6021 | PO Box 901, Balcatta, Western Australia, 6914  
P : +61 (08) 9441 2311 | F : +61 (08) 9441 2345 | E : [contact@orbitalcorp.com.au](mailto:contact@orbitalcorp.com.au) | [ORBITALUAV.COM](http://ORBITALUAV.COM)