ORBITAL CORPORATION LIMITED

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APPENDIX 4D

Orbital Corporation Limited
ABN 32 009 344 058

Half Year Report

1. Details of the reporting period and the previous corresponding period

Reporting period:	Half year ended 31 December 2014
Previous corresponding period:	Half year ended 31 December 2013

2. Results for announcement to the market

		A$'000			A$'000
2.1 Revenue from ordinary activities	Down	3,331	30%	to	7,954
2.2 Net loss for period	Up	700	132%	to	(1,230)
2.3 Loss attributable to equity holders	Up	700	132%	to	(1,230)

2.4 There is no proposal to pay dividends for the six months ended 31 December 2014.

3. Net tangible assets per share

	31 December 2014	30 June 2014
Net tangible assets per share (cents)	**48.98**	**42.29**

ORBITAL CORPORATION LIMITED

ABN 32 009 344 058

AND ITS CONTROLLED ENTITIES

31 DECEMBER 2014
HALF-YEAR FINANCIAL REPORT

Directors' report

Your Directors submit their report for the half year ended 31 December 2014.

DIRECTORS

The names of the Company's directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name	Information on Directors
Mervyn Thomas Jones	Non-Executive Director and Chairman.
Terry Dewayne Stinson	Managing Director and Chief Executive Officer.
John Paul Welborn	Non-Executive Director and Chairman of the Audit Committee.
Vijoleta Braach-Maksvytis	Non-Executive Director and Chairman of the Human Resources, Remuneration and Nomination Committee.

REVIEW AND RESULTS OF OPERATIONS

The total statutory revenue and loss after tax for the half year period ended 31 December 2014 was $7,954,000 and $1,230,000 respectively (2013: total revenue $11,285,000 and loss after tax of $530,000) as shown below:

Financial Overview(1)

				Dec 2014 $'000	Dec 2013 $'000
System Sales			Revenue	**6,212**	9,067
			Segment result	**(162)**	(909)
Consulting Services			Revenue	**1,305**	1,543
			Segment result	**34**	363
Royalties and Licences			Revenue	**375**	582
			Segment result	**181**	363
Total			Revenue	**7,892**	11,192
			Segment result	**53**	(183)
Synerject	**Dec 2014 US$'000**	**Dec 2013 US$'000**			
Revenue (100%)	**75,638**	73,379			
Equity accounted profit				**1,773**	2,126
Other income				**808**	294
Foreign exchange gain				**106**	212
Finance costs (net)				**(293)**	(268)
Research and development				**(1,083)**	(733)
Other expenses				**(2,547)**	(2,326)
Loss before tax				**(1,183)**	(878)
Taxation				**(47)**	348
Loss after tax				**(1,230)**	(530)

(1) The Financial Overview includes segment information which is non-IFRS information that has not been reviewed by the external auditors. This information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

Directors' report

(1) Detailed comments on Orbital's four business streams are as follows:

Synerject

	Dec 2014	Dec 2013
	US$'000	US$'000
Synerject (100%)		
Revenue	75,638	73,379
Profit after tax	5,942	6,487
Operating cash flow including capex	9,115	6,406
	A$'000	A$'000
Equity Accounted Contribution	1,773	2,126

Synerject, Orbital's 30:70% (2013: 30:70%) Partnership with Continental AG, is a key supplier of engine management systems to the non-automotive market. Original Equipment products using Synerject's engine management systems range from high performance motorcycle/recreational vehicles to high volume scooter and small engine applications.

Synerject reported a 3% increase in revenue compared to the same period last year with increased sales in its recreation and Low-End 2/3 wheeler segments.

Synerject generated a half year profit after tax of US$5,942,000 and positive cash flow of US$9,115,000. During the period, Orbital received a dividend from Synerject totalling A$717,000. At 31 December 2014, Synerject held cash of US$17,419,000 and had no borrowings (June 2014: net cash of US$8,611,000).

The investment in Synerject remains a valuable asset for Orbital which the Board does not consider is fully represented in the Company's current market capitalisation nor fully realised by the current dividend policy. As at 31 December 2014 the value of Orbital's investment in Synerject is recorded in the Company's accounts as A$17,018,000.

System Sales

	Dec 2014	Dec 2013
	$'000	$'000
Revenue	6,212	9,067
Segment Result	(162)	(909)

Revenues for the half year were $6,212,000 a 31% decrease on the corresponding period last year. The decrease in revenue is largely attributable to a focus during the period on the design, development and validation program of the Small Unmanned Aircraft Systems ("SUAS") propulsion systems for the Insitu Inc. engineering project. The investment in the SUAS propulsion system project is expected to lead to a full scale production contract and significant future revenue growth.

The SUAS engineering project is on track and Insitu Inc. is pleased with Orbital's performance. The new ScanEagle SUAS propulsion system is currently undergoing testing and is progressing well. Orbital is preparing to deliver on the next major milestone, the flight testing stage of the program. The Orbital designed and developed, Insitu ScanEagle propulsion system recently passed the United States of America, Federal Aviation Administration's Federal Aviation Regulation section 33.49 reciprocating aircraft engine endurance test. This propulsion system is the first spark-ignited piston SUAS engine to run on heavy fuel and pass the stringent endurance test.

The Australian LPG automotive market continues to contract. This significantly impacted the Orbital Autogas Systems (OAS) and Sprint Gas Australia (SGA) businesses during the reporting period with combined sales declining 37% over the previous year. Orbital's LPG businesses have gained significant market share during this decline, however the improvement in market share was not enough to offset the decline in the overall market. In response to the very subdued LPG systems market at present, both OAS and SGA have undertaken significant restructuring of their businesses and in parallel Orbital is investigating options to improve overall sales and return to profitability and/or further restructuring or divestment opportunities.

Directors' report

Consulting Services

	Dec 2014	Dec 2013
	$'000	$'000
Revenue	1,305	1,543
Segment Result	34	363

Orbital Consulting Services (OCS) provides engineering consulting services in engine design, research and development for advanced combustion systems, fuel and engine management systems, along with engine and vehicle testing and certification. Orbital provides improved performance, fuel economy and emission improvement solutions to a wide variety of engine and vehicle applications, from 150 tonne mine haul trucks through to small industrial engines.

OCS revenue for the half year was $1,305,000 a decrease of $238,000 (15%) compared to last year. The main customer programs during the period were in engine design, alternative fuel system development and in programs requiring the use of Orbital's state-of-the-art testing facilities.

Royalties and Licences

	Dec 2014	Dec 2013
	$'000	$'000
Revenue	375	582
Segment Result	181	363

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

FlexDI™ product volumes in the marine market decreased compared to the same period last year due to a change in product mix by the manufacturer. This decrease in volumes accounted for 56% of the reduction in revenue for the half year and is expected to recover in the full year as the manufacturer has rebalanced the product offering to include Orbital royalty bearing products.

Other Income

Other income increased during the reporting period primarily through an increase in Government grant income and in rental income generated from the sub-letting of surplus space.

Cash Flow

	Dec 2014	Dec 2013
	$'000	$'000
Operating cash flow	(152)	(2,326)
Synerject dividend	717	615
	565	(1,711)
Share buy-back	(773)	-
Other capital expenditure and development costs	(32)	(96)
Repayment of borrowings	(20)	(10)
Movement in cash/term deposits	(260)	(1,817)

Net cash provided by operations was $565,000 representing an improvement of $2,276,000 (2013:$(1,711,000)). This included a decrease in working capital of $2,298,000 due primarily to the collection of receivables.

At 31 December 2014, Orbital had cash and short term deposits of $6,361,000.

Directors' report

Outlook

The Company's primary objective is to deliver on Orbital's Growth Strategy and generate sustainable profitability and an increase in market capitalisation. A comprehensive review of the Company's existing assets has been undertaken and the results of the half year ended 31 December 2014 demonstrate the investment being made in repositioning the existing businesses and generating new business opportunities both internally and via acquisition.

The UAV propulsion engineering project remains an exciting and important part of Orbital's future growth. The design, development and validation program will continue to be a focus as the Company aims to move from the testing phase into the full scale production of a next generation propulsion system. Success in the Insitu ScanEagle propulsion system design, development and validation program will be a key driver for revenue growth for Orbital. Unmanned aircraft is a rapidly growing market, for both defence and commercial applications. Orbital's technology and experience uniquely positions the Company to capitalise on this growth.

The REMSAFE acquisition is a key component of Orbital's growth strategy which is focused on identifying and delivering unique and innovative business opportunities to generate outstanding returns for shareholders. REMSAFE has developed a high voltage electrical isolation system which Orbital believes has the potential to grow into a significant global business. REMSAFE has the potential to deliver massive revenue growth from its current West Australian customer base and exponential growth by moving into new markets, domestic and international. The acquisition of Orbital's interest in REMSAFE was completed on 4 February 2015. The business has already announced new orders and has a number of proposals in the pipeline that are expected to deliver considerable growth in revenues in the next financial year.

The UCAL-Orbital Joint Venture in India is planned to be consummated within the fiscal year providing future growth opportunities in the huge and rapidly expanding Indian automotive and motorcycle markets.

Orbital's alternative fuels business is undergoing transition. While LPG businesses are in decline, there is a renewed interest in what Orbital technology has to offer for Liquid Natural Gas (LNG) applications. The current focus of major iron ore mining companies in Western Australia is cost reduction. Running heavy mobile equipment, like mine haul trucks, on natural gas is a way to make large operating cost reductions. There is significant interest from the region and Orbital has LNG system technology and solutions that are already proven on Pilbara large engine applications. Orbital remains uniquely placed in the gaseous fuels market and our future strategy is to leverage our knowledge and assets to achieve growth and overall profitability.

Orbital's 30% interest in Synerject remains a highly valuable asset for Orbital and demonstrates the Company's historical success with joint ventures and the successful commercialisation of technology. The Synerject business was created within Orbital to provide gasoline engine management systems and components to marine, motorcycle and recreation industry manufacturers. Synerject is a global company with production plants and regional offices in Asia, Europe and the United States, providing both onsite and regional support to its local and global customers. The Synerject business is a positive example of Orbital's business model and the Company intends to continue to search for new and profitable joint ventures which will enhance Orbital's value proposition. Orbital is exploring opportunities to enhance the value of the Company's 30% interest in Synerject and ensure this investment is leveraged for the maximum benefit for shareholders.

The acquisition of REMSAFE and the investment being made by Orbital in the growth strategy during the half-year has resulted in a loss of $1.2million. The second half of financial year 2015 is expected to be profitable, notwithstanding that Orbital's focus and investment will remain targeted on repositioning the Company towards high value growth opportunities. Looking ahead to financial year 2016, Orbital can expect to be generating increasing revenue from the REMSAFE business and production volumes from UAV propulsion systems which, together with Orbital's other revenue streams is expected to result in sustainable and increasing profitability.

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

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the half year ended 31 December 2014.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

MT Jones
Chairman

Perth, 26 February 2015

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

In relation to our review of the consolidated financial report of Orbital Corporation Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
26 February 2015

Consolidated Income Statements

For the half year ended 31 December 2014	Note	Consolidated 31 Dec 2014	31 Dec 2013
		$'000	$'000
Sale of goods		**6,212**	9,067
Engineering services income		**1,305**	1,543
Royalty and licence income		**375**	582
Other revenue	4(a)	**62**	93
Total Revenue		**7,954**	11,285
Other income	4(b)	**1,220**	552
Inventory expense		**(2,967)**	(4,364)
Employee benefits expense	4(c)	**(5,278)**	(4,669)
Depreciation and amortisation		**(330)**	(432)
Engineering consumables and contractors		**(592)**	(458)
Occupancy expenses		**(906)**	(1,015)
Travel and accommodation		**(154)**	(113)
Communications and computing		**(205)**	(187)
Patent costs		**(57)**	(108)
Insurance costs		**(311)**	(343)
Audit, compliance and listing costs		**(380)**	(394)
Finance costs	5	**(293)**	(268)
Other expenses	4(d)	**(657)**	(2,490)
Share of profit from associate	7(a)	**1,773**	2,126
Loss before income tax		**(1,183)**	(878)
Income tax (expense)/benefit	6	**(47)**	348
Net loss for the period		**(1,230)**	(530)
Loss for the period attributable to owners of the parent		**(1,230)**	(530)
Basic earnings per share (in cents)		**(2.59)**	(1.08)
Diluted earnings per share (in cents)		**(2.59)**	(1.08)

Consolidated Statements of Comprehensive Income

For the half year ended 31 December 2014	Consolidated 31 Dec 2014	31 Dec 2013
	$'000	$'000
Net loss for the period	**(1,230)**	(530)
Items that may be reclassified subsequently to profit or loss		
Share of foreign currency reserve of equity accounted investment	**(236)**	142
Foreign currency translation	**3,016**	675
Other comprehensive income for the period, net of tax	**2,780**	817
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,550**	287
Total comprehensive income for the period attributable to owners of the parent	**1,550**	287

Consolidated Statements of Changes in Equity

For the half year ended 31 December 2014	Share Capital	(Accumulated Loss) / Retained Profits	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2013	19,518	366	1,645	(2,032)	19,497
Loss for period	-	(530)	-	-	(530)
Other comprehensive income	-	-	-	817	817
Total comprehensive income for the half-year	-	(530)	-	817	287
Share based payments	-	-	68	-	68
Balance at 31 December 2013	19,518	(164)	1,713	(1,215)	19,852
At 1 July 2014	**19,590**	**2,042**	**1,705**	**(2,292)**	**21,045**
Loss for period	**-**	**(1,230)**	**-**	**-**	**(1,230)**
Other comprehensive income	**-**	**-**	**-**	**2,780**	**2,780**
Total comprehensive income for the half-year	**-**	**(1,230)**	**-**	**2,780**	**1,550**
Share buy-back	**(773)**	**-**	**-**	**-**	**(773)**
Share based payments	**58**	**-**	**127**	**-**	**185**
Balance at 31 December 2014	**18,875**	**812**	**1,832**	**488**	**22,007**

Consolidated Statements of Financial Position

As at 31 December 2014

	Note	Consolidated 31 Dec 2014	30 Jun 2014
		$'000	$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**5,474**	5,416
Other financial assets	9	**887**	1,341
Trade and other receivables		**2,765**	5,755
Inventories		**2,807**	3,328
Total current assets		**11,933**	15,840
Non-current assets			
Investment in associate	7(b)	**17,018**	13,980
Deferred taxation asset		**5,738**	5,001
Plant and equipment		**2,583**	2,845
Total non-current assets		**25,339**	21,826
TOTAL ASSETS		**37,272**	37,666
LIABILITIES			
Current liabilities			
Trade payables and other liabilities		**2,580**	3,696
Borrowings	9	**620**	521
Contingent consideration	9	**638**	638
Other financial liabilities	9	**61**	-
Employee benefits		**1,865**	1,938
Deferred revenue		**-**	316
Government grants		**225**	225
Other provisions		**162**	192
Total current liabilities		**6,151**	7,526
Non-current liabilities			
Borrowings	9	**-**	19
Long term borrowings	9	**7,963**	7,792
Employee benefits		**32**	32
Government grants		**862**	974
Other provisions		**257**	278
Total non-current liabilities		**9,114**	9,095
TOTAL LIABILITIES		**15,265**	16,621
NET ASSETS		**22,007**	21,045
EQUITY			
Share capital	10	**18,875**	19,590
Reserves		**2,320**	(587)
Retained profits		**812**	2,042
TOTAL EQUITY		**22,007**	21,045

Consolidated Statements of Cash Flows

For the half year ended 31 December 2014	Consolidated	
	31 Dec 2014	31 Dec 2013
	$'000	$'000
Cash Flows from Operating Activities		
Cash receipts from customers	**11,946**	10,124
Cash paid to suppliers and employees	**(12,089)**	(12,479)
Cash used by operations	**(143)**	(2,355)
Interest received	**62**	93
Interest paid	**(24)**	(27)
Income taxes paid	**(47)**	(37)
Net cash used in operating activities	**(152)**	(2,326)
Cash Flows from Investing Activities		
Dividends received from associate	**717**	615
Proceeds from sale of plant and equipment	**36**	28
Acquisition of plant and equipment	**(68)**	(124)
Investment in short term deposit	**-**	(460)
Redemption of short term deposit	**318**	-
Net cash from investing activities	**1,003**	59
Cash Flows from Financing Activities		
Share buy-back	**(773)**	-
Repayment of borrowings	**(20)**	(10)
Net cash used in financing activities	**(793)**	(10)
Net increase/(decrease) in cash and cash equivalents	**58**	(2,277)
Cash and cash equivalents at 1 July	**5,416**	6,902
Cash and cash equivalents at 31 December	**5,474**	4,625

Notes to the Financial Statements

For the half year ended 31 December 2014

1. REPORTING ENTITY

Orbital Corporation Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 4 Whipple Street, Balcatta, Western Australia. The consolidated financial report of the Company for the half year ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the "Group"). Orbital Corporation Limited is a for-profit entity and the Group operates in a number of industries (see the Directors' Report).

The consolidated financial report was authorised for issue by the directors on 26 February 2015.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2014 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2014 and considered together with any public announcements made by Orbital Corporation Limited during the half year ended 31 December 2014 in accordance with the continuous disclosure obligations of the *ASX listing rules*.

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

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

The Group has adopted all new and amended standards and interpretations, mandatory for annual periods beginning 1 July 2014. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

(b) Going Concern

The Group incurred a net loss after tax for the half year ended 31 December 2014 of $1,230,000 (2013: Loss of $530,000) and experienced net cash outflows from operating activities of $152,000 (2013: $2,326,000). At 31 December 2014, the Group had net current assets of $5,782,000 (30 June 2014: $8,314,000). The cash and term deposit position of the Group at 31 December 2014 was $6,361,000 (of which $887,000 is held as cash collateral for the financing facilities provided by the Company's bankers).

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Directors believe the Company can meet all its liabilities as and when they fall due.

Notes to the Financial Statements

For the half year ended 31 December 2014

3. OPERATING SEGMENTS

The following table presents revenue and profit information for reportable segments for the half years ended 31 December 2014 and 31 December 2013.

	System Sales		Consulting Services		Royalties and Licences		Consolidated	
	31 Dec 2014 $'000	31 Dec 2013 $'000	**31 Dec 2014 $'000**	31 Dec 2013 $'000	**31 Dec 2014 $'000**	31 Dec 2013 $'000	**31 Dec 2014 $'000**	31 Dec 2013 $'000
Revenue – external customers	**6,212**	9,067	**1,305**	1,543	**375**	582	**7,892**	11,192
Unallocated other revenue							**62**	93
Total Revenue							**7,954**	11,285
Segment profit/(loss)	**(162)**	(909)	**34**	363	**181**	363	**53**	(183)
Research & development costs							**(1,083)**	(733)
Unallocated expenses (net)*							**(1,633)**	(1,820)
Finance costs							**(293)**	(268)
Share of profit from associate							**1,773**	2,126
Loss before related income tax							**(1,183)**	(878)
Income tax (expense)/benefit							**(47)**	348
Net loss for the period							**(1,230)**	(530)

*Unallocated expenses (net) includes other income and corporate overheads which are not allocated to operating segments as they are considered to support the Group as a whole.

The following table presents assets and liabilities for reportable segments for the half year ended 31 December 2014 and for the full year ended 30 June 2014.

	System Sales		Consulting Services		Royalties and Licences		Consolidated	
	31 Dec 2014 $'000	30 June 2014 $'000	**31 Dec 2014 $'000**	30 June 2014 $'000	**31 Dec 2014 $'000**	30 June 2014 $'000	**31 Dec 2014 $'000**	30 June 2014 $'000
Segment Assets	**5,193**	8,114	**2,724**	3,517	**238**	297	**8,155**	11,928
Unallocated Assets:								
Cash							**5,474**	5,416
Other financial assets							**887**	1,341
Investment in associate							**17,018**	13,980
Deferred taxation asset							**5,738**	5,001
Consolidated Total Assets							**37,272**	37,666
Segment Liabilities	**2,349**	3,199	**4,283**	5,029	**50**	103	**6,682**	8,331
Current and Long term borrowings							**8,583**	8,290
Consolidated Total Liabilities							**15,265**	16,621
Consolidated Net Assets							**22,007**	21,045

Notes to the Financial Statements

For the half year ended 31 December 2014

4. REVENUE, INCOME AND EXPENSES

	31 Dec 2014 $'000	31 Dec 2013 $'000
(a) Other revenue		
Interest Income	**62**	93
(b) Other Income		
Automotive grant income	**49**	182
Government grant	**759**	112
Movement in fair value of financial liability through profit and loss (note 9)	**-**	15
Net foreign exchange gains	**106**	212
Rental income from sub-lease	**236**	-
Gain on sale of plant and equipment	**36**	-
Other	**34**	31
	1,220	552
(c) Employee benefits expense		
Salaries and wages	**4,352**	3,828
Contributions to defined contributions superannuation funds	**441**	442
Share based payments	**185**	68
Decrease in liability for annual leave	**(57)**	(3)
Increase in liability for long service leave	**50**	63
Other associated personnel expenses	**307**	271
	5,278	4,669
(d) Other Expenses		
Administration costs	**137**	141
Marketing costs	**105**	163
Investor relations	**25**	35
Freight & courier	**17**	55
Motor vehicle expenses	**28**	33
Impairment of receivables*	**-**	1,626
Allowance for slow moving inventory	**44**	37
Allowance for warranty	**11**	375
Fair value movement in financial instruments (note 9)	**203**	-
Other	**87**	25
	657	2,490

* An allowance for impairment of receivables is recognised when there is objective evidence that an individual trade receivable is impaired.

Impairment of receivables for the prior period included an impairment of overdue invoices totaling $1,626,000 relating to a System Sales customer. The Group subsequently recovered the overdue invoices in accordance with the new payment plan that had been agreed with the customer.

Notes to the Financial Statements
For the half year ended 31 December 2014

5. FINANCE COSTS

	31 Dec 2014 $'000	31 Dec 2013 $'000
Non-cash interest expense WA Government Loan (a)	**270**	266
Interest on borrowings	**1**	2
Unwinding of discount rate related to provisions	**22**	-
	293	268

(a) The non-interest bearing loan from the Government of Western Australia was recognised initially at fair value and subsequently stated at amortised cost with any difference between cost and repayment value being recognised in the income statement over the period of the borrowings on an effective interest basis.

6. TAXATION

Current income tax		
Withholding tax	**(7)**	15
Australian tax	**-**	-
United States of America Federal and State taxes	**(34)**	93
	(41)	108
Deferred tax	**(6)**	240
Total income tax (expense)/benefit in income statement	**(47)**	348

Certain State and Federal Income Taxes are payable on portions of the profits generated by Synerject LLC from its various operating locations in the United States of America ("USA"). Synerject LLC is a pass-through enterprise for taxation purposes and as such Orbital is assessed for various State income taxes and Federal income taxes (Alternative Minimum Tax). The amount of income tax paid in the USA is reduced through the utilisation of carried forward tax losses at both a State level, and at the Federal level. A deferred tax asset has been recognised for the probable future benefit arising from the utilisation of these carried forward tax losses.

7. INVESTMENT IN ASSOCIATE

As at 31 December 2014, the consolidated entity holds a 30% interest in Synerject LLC, a company incorporated in the United States (30 June 2014: 30%; 31 December 2013: 30%). The principal activities of Synerject LLC are the marketing, sale and manufacture, including research and development in the area of engine management of non-automotive systems and components and automotive components related to the Orbital combustion process.

(a) Results of Synerject

Share of Synerject's net profit	**1,773**	2,126

Notes to the Financial Statements

For the half year ended 31 December 2014

7. INVESTMENT IN ASSOCIATE (continued)

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

	31 Dec 2014 $'000	30 June 2014 $'000
Balance at the beginning of reporting period	**13,980**	12,468
Share of profits after tax	**1,773**	3,256
Share of reserves	**(236)**	80
Dividends received	**(717)**	(1,634)
Unrealised foreign exchange movements	**2,218**	(190)
Balance at the end of reporting period	**17,018**	13,980

8. CASH AND CASH EQUIVALENTS

	31 Dec 2014 $'000	30 June 2014 $'000
Cash at bank	**800**	575
Cash at bank - US dollars	**5**	8
Cash at bank - European currency units	**3**	2
At call deposits - financial institutions	**4,666**	4,831
	5,474	5,416

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Other financial assets

	31 Dec 2014 $'000	30 June 2014 $'000
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
Derivative – Foreign exchange forward contracts	**-**	136
Short term deposits		
Short term deposits – financial institutions*	**887**	1,205
Total other financial assets	**887**	1,341

Financial assets at fair value through profit and loss

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

Short term deposits – financial institutions

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

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

Short term deposits are held as collateral for the financial arrangements provided by Westpac Banking Corporation.

The Company has pledged short term deposits of $737,000 (30 June 2014: $705,000) held as collateral for the financing facilities.

The bank guarantee has been provided for the benefit of the landlords of the Balcatta, Wetherill Park, Melbourne and Brisbane premises.

Notes to the Financial Statements

For the half year ended 31 December 2014

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Financial liabilities and borrowings

	31 Dec 2014 $'000	30 June 2014 $'000
Current		
Obligations under hire purchase contracts	**23**	23
Current portion of loans and advances - secured	**597**	498
Total current borrowings	**620**	521
Non-current		
Obligations under hire purchase contracts	**-**	19
Loans and advances - secured	**7,963**	7,792
Total non-current borrowings	**7,963**	7,811

Obligations under hire purchase contracts

Obligations under hire purchase contracts mature in 2015.

Interest calculations on hire purchase contracts are based on fixed interest rates applicable at the date of drawdown and payable monthly. The average interest rate on hire purchase contracts at reporting date is 7.35% (2014: 7.35%).

Loans and advances - secured

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

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

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

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

Subsequent to initial recognition the loan is carried at amortised cost. Amortisation for the period ended 31 December 2014 was $270,000 (31 December 2013: $266,000).

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

(c) Other financial liabilities

Financial instruments at fair value through profit or loss

	31 Dec 2014 $'000	30 June 2014 $'000
Derivatives not designated as hedges		
Derivative – Foreign exchange forward contracts	**61**	-
Contingent consideration for business acquisition	**638**	638
Total current other financial liabilities	**699**	638

Notes to the Financial Statements

For the half year ended 31 December 2014

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Other financial liabilities (continued)

Derivatives

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

At 31 December 2014 the contractual undiscounted payments related to foreign exchange forward contracts totalled $457,000 (30 June 2014: $2,330,000) maturing within 3 months. The Group has pledged $150,000 (30 June 2014: $500,000) of its short-term deposits in order to fulfil the collateral requirements for the foreign exchange forward contracts in place.

Contingent Consideration

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

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

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

The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. The undiscounted value is discounted at the present value using a market discount rate.

(d) Fair values

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

	Carrying Amounts		Fair Value	
	31 Dec 2014 $'000	30 Jun 2014 $'000	**31 Dec 2014 $'000**	30 Jun 2014 $'000
Financial Assets				
Foreign exchange forward contracts	**-**	136	**-**	136
Total	**-**	136	**-**	136
Financial Liabilities				
Loans and advances - secured	**8,560**	8,290	**8,766**	8,498
Foreign exchange forward contracts	**61**	-	**61**	-
Contingent Consideration	**638**	638	**638**	638
Total	**9,259**	8,928	**9,465**	9,136

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

Notes to the Financial Statements

For the half year ended 31 December 2014

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Fair values (continued)

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

Foreign exchange forward contracts are valued using a discounted cash flow valuation technique with market observable inputs such as foreign exchange forward rates and interest rates.

The fair value of the Group's secured loan is calculated by discounting the expected future cash flows at the prevailing market interest rate at reporting date 31 December 2014: 6.31% (30 June 2014: 6.31%).

The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. The undiscounted value is discounted at the present value using a market discount rate of 6.31% (30 June 2014: 6.31%).

(e) Fair value measurement

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

As at 31 December 2014:		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$'000	$'000	$'000	$'000
Liabilities measured at fair value:				
Contingent consideration	**638**	**-**	**-**	**638**
Foreign exchange forward contracts – US dollar	**61**	**-**	**61**	**-**

As at 30 June 2014:		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$'000	$'000	$'000	$'000
Assets measured at fair value:				
Foreign exchange forward contracts – US dollar	136	-	136	-
Liabilities measured at fair value:				
Contingent consideration	638	-	-	638

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

Contingent consideration	**31 Dec 2014**	30 June 2014
	$'000	$'000
Beginning of reporting period	**638**	886
Released to the income statement	**-**	(248)
End of reporting period	**638**	638

Notes to the Financial Statements

For the half year ended 31 December 2014

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(e) Fair value measurement (continued)

Significant unobservable inputs to the valuation of the contingent consideration and the sensitivity of the input to fair value:

The fair value of the contingent consideration payable was calculated with reference to the estimated future value of the Sprint Gas business, which is based on an estimated average EBITDA multiple. The undiscounted value is discounted to its present value using a market discount rate. During the year management estimated average EBITDA by reference to the actual results of the business since acquisition and the latest forecasts of future results for the business. If the business was to perform 20% better or 20% worse than forecast the estimated fair value of the contingent consideration would increase by $59,000/decrease by $59,000 respectively.

10. SHARE CAPITAL

	Consolidated	
	31 Dec 2014 $'000	30 June 2014 $'000
Ordinary shares	**18,875**	19,590

Movement in ordinary shares on issue	**Number**	**$'000**
At 1 July 2013	49,334,591	19,518
Shares issued pursuant to employee share plan	-	-
At 31 December 2013	49,334,591	19,518
At 1 July 2014	**49,756,994**	**19,590**
On market share buy-back	**(4,975,699)**	**(773)**
Shares issued pursuant to employee share plan	**146,039**	**58**
At 31 December 2014	**44,927,334**	**18,875**

11. SHARE BASED PAYMENTS

The Company has two employee share plans in which the key management personnel participate.

(a) Employee Share Plan No.1

Key management personnel (together with all other eligible employees) are each offered shares in the Company, at no cost to the employees, to the value of $1,000 per annum under the terms of the Company's Employee Share Plan. Under the Employee Share Plan, offered shares are held in escrow for a period of 3 years or until the date the employee ceases employment with the Company.

Total expense recognised during the period is $58,000.

There were 146,039 shares issued under the Employee Share Plan No.1 during the reporting period.

(b) Performance Rights Plan

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

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

Notes to the Financial Statements

For the half year ended 31 December 2014

11. SHARE BASED PAYMENTS (continued)

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

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

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

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

The terms and conditions of the offer of Performance Rights Plan approved are as follows:

Tranche	**Performance Condition**	**Expiry Date**	**Allocation**		
			Mr T D Stinson	Mr G P Cathcart	Mr IG Veitch
1	Milestone: the Company having a market capitalisation of greater than A$20 million for a period of 30 consecutive calendar days.	18 months from the date of issue of the Performance Rights	500,000	200,000	200,000
2	Milestone: the Company having a market capitalisation of greater than A$20 million for a period of 30 consecutive calendar days.	24 months from the date of issue of the Performance Rights	500,000	200,000	200,000
3	Milestone: the Company having a market capitalisation of greater than A$20 million for a period of 30 consecutive calendar days.	36 months from the date of issue of the Performance Rights	500,000	200,000	200,000
	Total		1,500,00	600,000	600,000

There have been no issues of performance rights under the Performance Rights Plan during the reporting period.

The Performance Rights Plan previously approved by shareholders in October 2009 under which 1,150,000 performance rights were awarded to Mr T D Stinson over seven tranches was cancelled with the introduction of the new Performance Rights Plan.

(c) Executive Long Term Share Plan ("ELTSP")

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

The performance conditions for the plan as approved at the Company's Annual General Meeting in October 2013 were based 100% on earnings per share. This plan was cancelled with the introduction of the new Performance Rights Plan referred to in Note 11 (b) above.

12. COMMITMENTS AND CONTINGENCIES

There have been no significant changes to the commitments and contingencies disclosed in the most recent annual financial report.

Notes to the Financial Statements

For the half year ended 31 December 2014

13. RELATED PARTY DISCLOSURES

(a) Identity of related parties

The Group has a relationship with its subsidiaries, with its investment accounted for using the equity method, and with its key management personnel.

(b) Controlled Entities

There have been no changes to interest in controlled entities disclosed in the most recent annual financial report.

(c) Other Related Parties

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

(i) Receivables and Payables

The aggregate amounts receivable from/payable to Synerject LLC by the Group at balance date are:

	31 Dec 2014 $'000	30 June 2014 $'000
Receivables		
Current	**-**	1
Payables		
Current	**-**	-

(ii) Transactions

During the period the Group purchased goods and services to the value of $nil (December 2013: $88,000) from Synerject LLC. All transactions are in the ordinary course of business and on normal commercial terms and conditions. The Group received dividends of $717,000 (December 2013:$615,000) from Synerject LLC.

14. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

(a) Convertible Note Issuance

At an Extraordinary General Meeting held on 21 January 2015, Orbital shareholders approved the issue of up to $10,000,000 of Convertible Notes. As at the date of this report the Company has issued Convertible Notes to the value of $7,000,000.

The Convertible Note issue funded Orbital's acquisition of 50% of REMSAFE Pty Ltd ("REMSAFE") and the associated working capital requirements of integrating REMSAFE into Orbital, building the order book and expanding the business.

Key management personnel participated in the Convertible Note issuance. The terms and potential financial benefit of the Convertible Notes issued to the Directors have been determined on an arms-length basis.

The issue of Convertible Notes to Mr TD Stinson (Managing Director and Chief Executive Officer) and Mr JP Welborn (Non-Executive Director) was approved by shareholders at the Extraordinary General Meeting on 21 January 2015.

	Number of Convertible Notes	**Consideration Paid**
Executive director		
Mr TD Stinson	1	$ 50,000
Non-executive director		
Mr JP Welborn	5	$250,000

Notes to the Financial Statements

For the half year ended 31 December 2014

14. EVENTS SUBSEQUENT TO BALANCE SHEET DATE (continued)

(b) Business Combination

Acquisition of REMSAFE

On 4 February 2015 Orbital acquired 50% of the voting shares of REMSAFE Pty Ltd ("REMSAFE") for $5,000,000 cash payment. On 10 February 2015 Orbital provided REMSAFE with $1,000,000 of working capital required to integrate REMSAFE into Orbital, build the order book and expand the business. As a result of the working capital investment Orbital's equity share in REMSAFE increased from 50% to a majority share of 55% with Mr Michael Lane, the founding inventor of REMSAFE, holding the minority 45% share. REMSAFE will be consolidated by the Group.

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

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

The total acquisition consideration of $6,000,000 will be allocated across the identifiable assets acquired, the liabilities assumed and the non-controlling interest in REMSAFE. Fixed price contracts in progress as the acquisition date will be recognised as identifiable assets. The difference between the consideration paid and net assets acquired will be allocated to goodwill. Due to the proximity of the acquisition to the signing of this report, the final accounting for the business combination is incomplete at the date this half year report was authorised for issue.

Director's Declaration

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

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including: -

(i) Giving a true and fair view of the financial position as at 31 December 2014 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

MT Jones
Chairman

Dated: 26 February 2015
Perth, Western Australia

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Independent review report to members of Orbital Corporation Limited

Report on the 31 December 2014 Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Orbital Corporation Limited, which comprises the statement of financial position as at 31 December 2014, the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As the auditor of Orbital Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Orbital Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
26 February 2015

CORPORATE INFORMATION

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M.T. Jones, Chairman
T.D. Stinson, Managing Director and Chief Executive Officer
V. Braach-Maksvytis
J.P. Welborn

COMPANY SECRETARY

I.G. Veitch

SHARE REGISTRY

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SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")

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