



ORBITAL®

ASX RELEASE

**For Immediate Release: 30 August 2016**

# Orbital positioned for rapid growth

**PERTH, AUSTRALIA:** Orbital Corporation Limited today reports results for the year ended 30 June 2016.

## KEY FEATURES

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Delivery of UAVE production systems to Insitu Inc. (“Insitu”), a subsidiary of The Boeing Company, has commenced as Orbital continues to work towards a long term production supply agreement. REMSAFE has successfully installed and commissioned a first complete system in South Africa following completion and commissioning of eight REMSAFE systems in the Pilbara. During the current financial year Orbital has invested in the UAVE and REMSAFE businesses and remains committed to driving revenue growth and future profitability through expansion and diversification.

- Profit after tax of \$1.2 million
- Revenue of \$11.7 million
- Net tangible assets as at 30 June 2016 of \$26.0 million
- Orbital UAVE delivers first production engines to Insitu Inc.
- REMSAFE commissions its first international Remote Isolation Systems for a South African colliery
- REMSAFE commissions eight Remote Isolation Systems at Pilbara based mine and port operations
- Interest in Synerject sold for US\$17.8 million (A\$24.2 million)
- Cash balance of \$24.9 million as at 30 June 2016

# CORPORATE PROFILE

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

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

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

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

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

Orbital earns income from multiple channels:

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

# SEGMENT REVIEW

## UNMANNED AERIAL VEHICLES

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

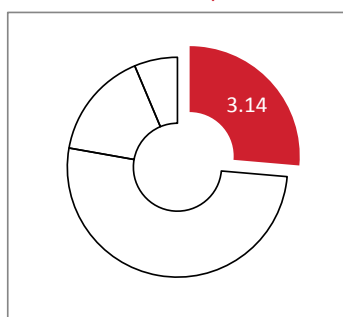
### 2016 KEY PERFORMANCE HIGHLIGHTS

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

### SIGNIFICANT CHANGES

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

### SALES \$m



### METRICS

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

### FUTURE OBJECTIVES

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

### Summary of Segment

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

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

The key focus of the UAVE business during the year was to deliver on the contract for the design, development and validation of a next generation production engine for Insitu Inc., a subsidiary of The Boeing Company (NYSE: BA), and one of the largest and most experienced UAV operators in the world. Low volume production of UAV engines commenced at the end of FY2016 and will ramp-up in FY2017. The UAV market is projected to double in the next decade and with Orbital's unique FlexDI™ technology, this is projected to be a significant growth area for the Company.

## Highlights

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

## Business Model

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

## Outlook

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

## SAFETY & PRODUCTIVITY

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

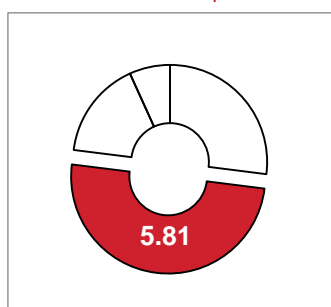
### 2016 KEY PERFORMANCE HIGHLIGHTS

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

### SIGNIFICANT CHANGES

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

### SALES \$m



### METRICS

	2016 \$'000	2015 \$'000
Segment Revenue	5,814	2,281
Segment Result	(248)	257

### FUTURE OBJECTIVES

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

### Summary of Segment

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

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

The REMSAFE system is currently utilised in Pilbara iron-ore operations by BHP Billiton, Rio Tinto and FMG and at the first international installation, an Anglo American coal mine in South Africa. The REMSAFE product is delivering on safety and productivity expectations and this is driving more sales. The recent pilot installations are delivering significant productivity improvements to REMSAFE's customers and are projected to lead to a proliferation of REMSAFE systems.

### Highlights

The REMSAFE team completed the development and commissioning of eight REMSAFE Remote Isolation Systems for Pilbara-based iron ore mine and port operations and also completed the development and commissioning of the first international REMSAFE Remote Isolation System for a South African colliery. The REMSAFE team has continued with the development of the engineering process that enables the REMSAFE Remote Isolation System to obtain its safety integrity level (SIL) certifications. These SIL certifications allow REMSAFE's customers to combine the benefits of safety and productivity. The REMSAFE team has also continued with the development of the latest product, the GEN 4. The GEN 4 is the most refined, highest featured, and lowest cost product offered by REMSAFE to date. REMSAFE continues to leverage Orbital to develop next generation products and grow internationally.

## Business Model

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

## Outlook

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

## ACCELERATOR

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

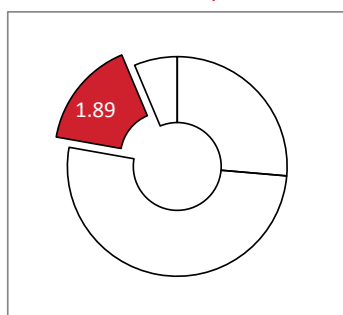
### 2016 KEY PERFORMANCE HIGHLIGHTS

- ▶ Continued revenues from the Heavy Duty Engine Testing facility.
- ▶ Facilities and Labs shifting focus to support of UAVE and away from general vehicle and engine development.

### SIGNIFICANT CHANGES

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

### SALES \$m



### METRICS

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

### FUTURE OBJECTIVES

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

### Summary of Segment

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

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

Throughout the year, the engineering consulting group have provided internal research and development support across the Orbital group. This is a key service made available to the group, ranging from technical support of existing products and customers through to analysis and design of potential future product offerings. At 30 June 2016, the OCS order book stood at approximately \$600,000 (30 June 2015 \$1,752,000).

### Highlights

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

## **Business Model**

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

## **Outlook**

The consulting group will also continue to provide a base level of contract services from advanced engineering and testing to general engineering contract work and in parallel provide another avenue to identify new opportunities and covering the overhead of maintaining our world-class capabilities and facilities.



## CONSUMER

The Consumer segment includes Royalties on Consumer products

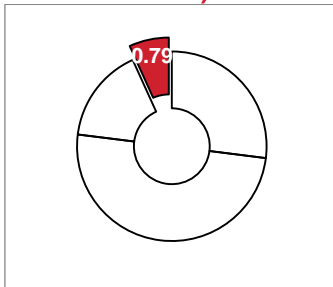
### 2016 KEY PERFORMANCE HIGHLIGHTS

- ▶ Royalty revenue similar year over year, high horsepower outboards retaining popularity.

### SIGNIFICANT CHANGES

- ▶ LPG-based businesses exited during the first half of the year.

### SALES \$m (pro-rata share)



### METRICS

	2016 \$'000	2015 \$'000
Segment Revenue	788	777
Segment Result	399	904

### FUTURE OBJECTIVES

- ▶ Identify new consumer product markets that fit Orbital's criteria for strategic growth.
- ▶ Technical support for expansion of low end 2 & 3 wheeler EMS markets targeting India, China & Asia to increase royalty revenues.

### Summary of Segment

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

### Highlights

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

### Business Model

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

### Outlook

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

## SYNERJECT

### Summary of Segment

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

### Highlights

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

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

## SUMMARY

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REMSAFE continues to identify opportunities for domestic and international sales growth. Despite the impact of the downturn in the local iron ore industry, the company has high confidence in the medium to long term potential for REMSAFE. To stimulate sales in a capital constrained local mining market, REMSAFE is developing alternative financing options, including rental arrangements as an alternative to outright purchase.

In response to customer requests, REMSAFE plans expansion into underground mining applications. There is a growing demand for improved safety, efficiency and output from underground mine operators. Orbital is targeting this identified underground system opportunity in both Australia and in South Africa. REMSAFE has a product in research and development to meet this market demand. REMSAFE is also exploring opportunities for a proof of concept pilot installation for a domestic passenger rail customer.

Sales growth is our primary focus and REMSAFE continues to expand direct sales initiatives, enter into collaborative marketing agreements with leading Engineering, Procurement and Construction Management companies (EPCMs), establishing relationships with original equipment manufacturers (OEMs) and industrial equipment suppliers, and exploring joint ventures that should lead REMSAFE into new industry opportunities both domestically and internationally. REMSAFE is now in discussions with a major industrial equipment OEM to form a cooperative marketing arrangement that is projected to open up extensive sales opportunities across the global mining market.

Orbital UAVE continues to review options to establish a USA based facility for engine service, support and manufacturing under a long term production supply agreement with Insitu. To ensure a continuation of propulsion systems supply to Insitu, an additional batch order is anticipated within the next three months.

Orbital continues to position and prepare for rapid growth by expanding the product ranges offered by UAVE and REMSAFE, establishing new sales channels through global partnerships, and expanding the highly skilled workforce to deliver on the aggressive growth strategy. Mr Terry Stinson stated that “The sale of Orbital’s 30% joint venture interests in Synerject in October 2015 and the conversion of 100% of the Convertible Notes to equity in February 2016 have provided Orbital’s with the strong balance sheet position to continue supporting the aggressive growth strategy of the Company. The current cash balance of \$25 million will ensure that the company has the appropriate cash reserves to support continued investments in expanding operations.”

**-ENDS-**

## CONTACTS

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## About Orbital

**ORBITAL is an innovative industrial technology company.**

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

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

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

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

## 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. Orbital 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.*