



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 2016
Previous corresponding period: Half year ended 31 December 2015

2. Results for announcement to the market

		<u>A\$'000</u>			<u>A\$'000</u>
2.1 Revenue from ordinary activities	Up	2,063	29%	to	9,173
2.2 Net profit from continuing operations	Down	3,173	224%	to	(1,754)
2.3 Profit attributable to equity holders of the parent	Down	2,940	197%	to	(1,451)
2.4 There is no proposal to pay dividends for the six months ended 31 December 2016.					

3. Net tangible assets per share

	31 December 2016	30 June 2016
Net tangible assets per share (cents)	31.59	34.58



ORBITAL[®]

ORBITAL CORPORATION LIMITED

ABN 32 009 344 058

AND ITS CONTROLLED ENTITIES

**31 DECEMBER 2016
HALF-YEAR FINANCIAL REPORT**

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Directors' report

Your Directors submit their report for the half year ended 31 December 2016.

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
John P Welborn	Chairman (Non-executive).
Terry D Stinson	Managing Director and Chief Executive Officer (Executive).
John H Poynton	Director (Non-executive)

REVIEW AND RESULTS OF OPERATIONS

The Directors' Report includes 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.

Financial Review

The total statutory revenue, and loss after tax, from continuing operations for the half year period ended 31 December 2016 was \$9,173,000 and \$1,754,000 respectively (2015: total revenue \$7,110,000 and profit after tax from continuing operations of \$1,419,000). The increased revenue is attributable to the production ramp up of propulsion systems for Insitu, with the loss after tax a result of reduced REMSAFE installations.

Change in Operations

During the period, the Group changed the names of three reportable segments (as disclosed below) to represent the internal reorganisation of the operating segments in line with Orbital's updated strategy.

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

Review of Operations

UNMANNED AERIAL VEHICLES (PREVIOUSLY AEROSPACE)

	Dec 2016	Dec 2015
	\$'000	\$'000
Revenue	7,656	2,001
Segment Result	1,426	(343)



Orbital UAVE is the global leader in small unmanned aerial vehicle propulsion systems delivering leading endurance, reliability and power-to-weight advantages. Orbital's patented FlexDI™ technology offers a unique solution for light-weight combustion engine applications demanded by the growing military and commercial drone market.

Revenues for the half year were \$7,656,000, a 283% increase on the corresponding period last year. The increase in revenue is attributable to the delivery of UAV propulsion systems to Insitu under the initial production order of US\$9,700,000 (ASX announcement 26 August 2015).

During the reporting period, Orbital UAVE progressed two further supply contracts with Insitu as follows:

- A second US\$9,700,000 batch order for additional supply of UAV propulsion systems (ASX announcement 5 September 2016).
- A long term agreement for the manufacture and supply of UAV propulsion systems over a three year period for an order value between US\$33,000,000 and US\$91,000,000 (ASX announcement 23 December 2016).

Directors' report

SAFETY & PRODUCTIVITY (PREVIOUSLY MINING & INDUSTRIAL)



	Dec 2016	Dec 2015
	\$'000	\$'000
Revenue	395	3,982
Segment Result	(1,813)	(450)

REMSAFE is the world's leading custom engineered and installed, SIL rated, remote isolation system that minimises isolation downtime safely to maximise production performance.

REMSAFE systems have been successfully deployed in Western Australia by the state's major iron ore miners: BHP Billiton, Rio Tinto, Fortescue Metals Group and Anglo American's coal operation in South Africa.

Revenues for the half year were \$395,000, a 90% decrease on the corresponding period last year, largely attributable to the capital constraints facing the coal and iron ore producers.

Subsequent to the reporting period, REMSAFE executed a collaboration agreement with FLSmidth, a global supplier of conveyors and other associated bulk handling equipment.

With improving conditions in the commodity markets and the introduction of a lower cost REMSAFE product, the company is confident of improving results moving forward.

ENGINEERING SERVICES (PREVIOUSLY ACCELERATOR)

	Dec 2016	Dec 2015
	\$'000	\$'000
Revenue	673	718
Segment Result	779	(203)

During the reporting period, the Engineering Services (previously 'Accelerator') business continued to deliver consulting engineering services to domestic and international customers; primarily in engine development, advanced electronics, and fuels testing.

Revenues for the half year were \$673,000, a decrease of \$45,000 (6%) compared to last year.

CONSUMER

	Dec 2016	Dec 2015
	\$'000	\$'000
Revenue	372	369
Segment Result	187	161

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

FlexDI™ product volumes in the marine market increased marginally compared to the same period last year due to a change in product mix by the manufacturer. A favourable movement in the foreign exchange rate for the US dollar denominated royalties contributed to the increase in segment result.

Directors' report

Other Income

Other income decreased compared to the prior period primarily due to the gain on sale of the interest in Synerject in October 2015.

Cash from operating activities

Net cash used in operating activities was \$2,134,000 (2015: \$2,199,000) reflecting an excess of operational expenditures of \$1,987,000 (2015: \$2,383,000) and a decrease in working capital of \$147,000 (2015: increase of \$184,000).

Outlook

Revenues from UAVE propulsion systems commenced in May 2016 and have continued into the first half of the current financial year. The Orbital UAVE team will concurrently develop new products for unmanned helicopters and larger unmanned aircraft applications to provide increased revenues from an expanding customer base.

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. Further growth opportunities exist in the minerals, commuter & freight rail and oil & gas industries across the globe.

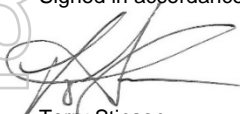
LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half year ended 31 December 2016.

ROUNDING

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 half-year financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the directors.



Terry Stinson
Managing Director

Perth, 27 February 2017

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

As lead auditor for the review of Orbital Corporation Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



T G Dachs
Partner
Perth
27 February 2017

Consolidated Statement of Profit or Loss

Consolidated

For the half year ended 31 December 2016

	Note	31 Dec 2016	31 Dec 2015
		\$'000	\$'000
Continuing operations			
Sale of goods		7,655	2,001
Engineering services income		1,069	4,700
Royalty and licence income		372	369
Other revenue	4(a)	77	40
Total Revenue		9,173	7,110
Other income	4(b)	1,999	4,566
Materials and consumables expenses		(2,462)	(480)
Employee benefits expenses	4(c)	(6,851)	(5,018)
Depreciation and amortisation		(296)	(277)
Engineering consumables and contractors		(650)	(3,053)
Occupancy expenses		(687)	(669)
Travel and accommodation		(226)	(80)
Communications and computing		(244)	(220)
Patent costs		(203)	(108)
Insurance costs		(261)	(275)
Audit, compliance and listing costs		(364)	(391)
Finance costs	5	(270)	(939)
Other expenses	4(d)	(344)	(162)
Share of profit from associate	7(a)	-	1,529
(Loss)/Profit before income tax from continuing operations		(1,686)	1,533
Income tax expense	6	(68)	(114)
Net (loss)/profit for the period from continuing operations		(1,754)	1,419
Discontinued operations			
Loss after tax for the period from discontinued operations	12(a)	-	(68)
(Loss)/profit for the period		(1,754)	1,351
Attributable to:			
Equity holders of the Parent		(1,451)	1,489
Non-controlling interests		(303)	(138)
		(1,754)	1,351
Earnings per share			
		cents	cents
Basic, (loss)/profit for the period attributable to ordinary equity holders of the Parent		(3.09)	3.18
Diluted, (loss)/profit for the period attributable to ordinary equity holders of the Parent		(3.09)	3.18
Earnings per share from continuing operations			
Basic, (loss)/profit for the period attributable to ordinary equity holders of the Parent		(2.56)	3.32
Diluted, (loss)/profit for the period attributable to ordinary equity holders of the Parent		(2.56)	3.32

Consolidated Statement of Other Comprehensive Income

Consolidated

For the half year ended 31 December 2016

	Note	31 Dec 2016	31 Dec 2015
		\$'000	\$'000
Net (loss)/profit for the period		(1,754)	1,351
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		6	1,570
Other comprehensive income for the period, net of tax		6	1,570
		(1,748)	2,921
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD			
Attributable to:			
Equity holders of the Parent		(1,445)	3,059
Non-controlling interests	11	(303)	(138)
		(1,748)	2,921
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD			

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Consolidated Statement of Changes in Equity

	Share Capital	Retained Profits/ (Accumulated Losses)	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Contingent Consideration	Consolidation Reserve	Convertible Note Reserve	Total	Non- controlling interests (NCI)	Total Equity
	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2015	20,021	(2,500)	1,807	1,900	-	(670)	248	20,806	1,136	21,942
Profit/ (loss) for the period	-	1,489	-	-	-	-	-	1,489	(138)	1,351
Other comprehensive income	-	-	-	1,570	-	-	-	1,570	-	1,570
Total comprehensive income/ (loss) for the period	-	1,489	-	1,570	-	-	-	3,059	(138)	2,921
Convertible Note conversions	515	-	-	-	-	-	-	515	-	515
Convertible Note interest paid in shares	369	-	-	-	-	-	-	369	-	369
Share based payments	57	-	78	-	-	-	-	135	-	135
Balance at 31 December 2015	20,962	(1,011)	1,885	3,470	-	(670)	248	24,884	998	25,882
At 1 July 2016	30,051	(967)	1,788	-	-	(670)	248	30,450	818	31,268
Loss for the period	-	(1,451)	-	-	-	-	-	(1,451)	(303)	(1,754)
Other comprehensive income	-	-	-	6	-	-	-	6	-	6
Total comprehensive (loss)/income for the period	-	(1,451)	-	6	-	-	-	(1,445)	(303)	(1,748)
Transactions between equity holders – acquisition of non-controlling interests	860	-	-	-	3,440	(3,785)	-	515	(515)	-
Share based payments	195	-	(77)	-	-	-	-	118	-	118
Balance at 31 December 2016	31,106	(2,418)	1,711	6	3,440	(4,455)	248	29,638	-	29,638

Consolidated Statements of Financial Position

As at 31 December 2016	Note	Consolidated	
		31 Dec 2016	30 Jun 2016
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	23,398	24,872
Other financial assets	9(a)	1,024	1,434
Trade and other receivables		5,039	6,009
Inventories		3,071	4,248
Total current assets		32,532	36,563
Non-current assets			
Deferred taxation asset		5,423	5,482
Plant and equipment		1,677	1,925
Intangibles and goodwill		5,218	5,218
Total non-current assets		12,318	12,625
TOTAL ASSETS		44,850	49,188
LIABILITIES			
Current liabilities			
Trade payables and other liabilities		4,028	6,454
Borrowings	9(b)	717	717
Employee benefits		1,739	2,154
Government grants		225	225
Other provisions		217	57
Total current liabilities		6,926	9,607
Non-current liabilities			
Long term borrowings	9(b)	7,832	7,562
Employee benefits		41	42
Government grants		413	524
Other provisions		-	185
Total non-current liabilities		8,286	8,313
TOTAL LIABILITIES		15,212	17,920
NET ASSETS		29,638	31,268
EQUITY			
Share capital	10	31,106	30,051
Reserves		950	1,366
Accumulated Losses		(2,418)	(967)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		29,638	30,450
Non-controlling interests	11	-	818
TOTAL EQUITY		29,638	31,268

Consolidated Statements of Cash Flows

Consolidated

For the half year ended 31 December 2016

31 Dec 2016

31 Dec 2015

\$'000

\$'000

Cash Flows from Operating Activities

Cash receipts from customers	11,554	12,640
Cash paid to suppliers and employees	(13,636)	(14,720)
Cash used by operations	(2,082)	(2,080)
Interest received	77	45
Interest paid	(12)	(115)
Income taxes paid	(117)	(49)

Net cash used in operating activities

(2,134) (2,199)

Cash Flows from Investing Activities

Proceeds from sale of investment in associate	-	24,185
Proceeds from sale of plant and equipment	29	42
Acquisition of plant and equipment	(67)	(56)
Investment in short term deposit	-	(52)
Redemption of short term deposit	410	-

Net cash from investing activities

372 24,119

Net (decrease)/increase in cash and cash equivalents

(1,762) 21,920

Cash and cash equivalents at 1 July	24,872	6,649
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	288	2

Cash and cash equivalents at 31 December

23,398 28,571

Notes to the Financial Statements

For the half year ended 31 December 2016

1. REPORTING ENTITY

Orbital Corporation Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 4 Whipple Street, Balcatta, Western Australia. The consolidated financial report of the Company for the half year ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "Group"). The Company 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 27 February 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This general purpose condensed financial report for the half year ended 31 December 2016 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 2016 and considered together with any public announcements made by the Company during the half year ended 31 December 2016 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 2016. 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.

3. OPERATING SEGMENTS

During the 2015 financial reporting period the Group changed the reportable segments to represent the internal reorganisation of the operating segments in line with Orbital's updated strategy. The acquisition of the REMSAFE business, expansion of the Unmanned Aerial Vehicle engines business and the divestment of the LPG businesses were the main drivers of the change in operating segments. Comparatives have been updated to be presented on a consistent basis. During the 2016 financial reporting period the Group changed the name of three reportable segments, namely; Unmanned Aerial Vehicles (previously Aerospace), Safety & Productivity (previously Mining & Industrial) and Engineering Services (previously Accelerator).

Notes to the Financial Statements

For the half year ended 31 December 2016

3. OPERATING SEGMENTS (continued)

The following table presents revenue and profit information for reportable segments for the half years ended 31 December 2016 and 31 December 2015.

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Engineering Services		Consolidated	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue - external customers	7,656	2,001	395	3,982	372	369	673	718	9,096	7,070
Unallocated other revenue									77	40
Total revenue									9,173	7,110
Segment result¹	1,426	(343)	(1,813)	(450)	187	161	779	(203)	579	(836)
Unallocated expenses (net) ²									(1,994)	(2,082)
Finance costs									(270)	(939)
Gain on sale of investment in associate									-	3,861
Share of profit from associate									-	1,529
Net profit/(loss) before related income tax									(1,685)	1,533
Income tax expense									(68)	(114)
Profit/(loss) after tax from continuing operations									(1,753)	1,419

1. R&D grant income and expenditure has been included within segment results. In the prior period R&D was not allocated to segments. To be consistent with current year allocation of R&D to segments, comparatives have been reclassified to conform with current year presentation.

2. 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 2016 and for the full year ended 30 June 2016.

	Unmanned Aerial Vehicles		Safety & Productivity		Consumer		Engineering Services		Consolidated	
	31 Dec 2016	30 June 2016	31 Dec 2016	30 June 2016	31 Dec 2016	30 June 2016	31 Dec 2016	30 June 2016	31 Dec 2016	30 June 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	5,949	8,259	6,653	7,236	165	290	2,238	1,615	15,005	17,400
Cash									23,398	24,872
Other financial assets									1,024	1,434
Deferred tax assets									5,423	5,482
Consolidated Total Assets									44,850	49,188
Segment liabilities	4,807	6,614	445	1,093	1	124	1,410	1,810	6,663	9,641
Long term borrowings									8,549	8,279
Consolidated Total Liabilities									15,212	17,920
Consolidated Net Assets									29,638	31,268

Notes to the Financial Statements

For the half year ended 31 December 2016

		CONSOLIDATED	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
4.	REVENUE, INCOME AND EXPENSES		
(a)	Other revenue		
	Interest income	77	40
(b)	Other income		
	Automotive grant income	-	12
	Government grant	153	225
	Research and development grant	718	-
	Net foreign exchange gains	844	224
	Rental income from sub-lease	239	244
	Gain on sale of investment in associate	-	3,861
	Other	45	-
		<u>1,999</u>	<u>4,566</u>
(c)	Employee benefits expense		
	Salaries and wages	5,820	4,094
	Contributions to defined contributions superannuation funds	473	453
	Share based payments	117	135
	Decrease in liability for annual leave	(164)	(85)
	Increase in liability for long service leave	68	96
	Other associated personnel expenses	537	325
		<u>6,851</u>	<u>5,018</u>
(d)	Other expenses		
	Administration costs	34	65
	Marketing costs	139	15
	Investor relations	52	35
	Freight & courier	-	10
	Corporate costs	77	-
	Allowance for slow moving inventory	-	13
	Other	42	24
		<u>344</u>	<u>162</u>
5.	FINANCE COSTS		
	Non-cash interest expense WA Government Loan (a)	270	272
	Convertible Note interest expense	-	667
		<u>270</u>	<u>939</u>

- (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 statement of profit or loss over the period of the borrowings on an effective interest basis.

Notes to the Financial Statements

For the half year ended 31 December 2016

	CONSOLIDATED	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
6. TAXATION		
Current income tax		
Withholding tax	-	2
Australian tax	-	-
United States of America Federal and State taxes	(41)	(116)
	<u>(41)</u>	<u>(114)</u>
Deferred tax	<u>(27)</u>	<u>-</u>
Total income tax expense in statement of profit or loss	<u>(68)</u>	<u>(114)</u>

The Group recognised A\$5,376,000 of deferred tax assets after assessing the likelihood of offsetting the carried forward tax losses against future taxable profits. Management has assessed the deferred tax asset as recoverable based on forecasted future taxable profits in the Group's business plan. The Group's business plan has been developed using existing customer contracts for Unmanned Aerial Vehicles as the basis for forecasting future revenues and taxable profits from the supply of high-value UAV Propulsion systems.

Certain State and Federal Income Taxes were payable on portions of the profits generated by Synerject LLC in the prior period from its various operating locations in the United States of America ("USA"). Synerject LLC was a pass-through enterprise for taxation purposes and as such Orbital was assessed for various State income taxes and Federal income taxes (Alternative Minimum Tax). The amount of income tax paid in the USA was reduced through the utilisation of carried forward tax losses at both a State level, and at the Federal level.

7. INVESTMENT IN ASSOCIATE

The Group sold its 30% share in Synerject on 31 October 2015 for US\$17.8 million. Prior to sale, the consolidated entity held a 30% interest in Synerject LLC, a company incorporated in the United States. The principal activities of Synerject LLC are the marketing, sale and manufacture, including research and development in the area of engine management 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 for the period
(1 July – 31 October 2015)

-	1,529 [#]
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(b) Movements in the carrying amount of the Group's interest in Synerject

	CONSOLIDATED	
	31 Dec 2016 \$'000	30 June 2016 \$'000
Balance at the beginning of reporting period	-	17,826
Share of profits after tax	-	1,529
Share of reserves	-	(119)
Dividends received	-	-
Unrealised foreign exchange movements	-	1,051
Sale of interest	-	(20,287)
Balance at the end of reporting period	<u>-</u>	<u>-</u>

Notes to the Financial Statements

For the half year ended 31 December 2016

		CONSOLIDATED	
		31 Dec 2016 \$'000	30 June 2016 \$'000
8.	CASH AND CASH EQUIVALENTS		
	Cash at bank	287	145
	Cash at bank - US dollars	19,185	13,705
	Cash at bank - European currency units	3	3
	At call deposits - financial institutions	3,923	11,019
		<u>23,398</u>	<u>24,872</u>
9.	FINANCIAL ASSETS AND FINANCIAL LIABILITIES		
(a)	Other financial assets		
	Short term deposits		
	Short term deposits – financial institutions	1,024	1,434
	Total other financial assets	<u>1,024</u>	<u>1,434</u>
	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 Group has pledged short term deposits of \$665,000 (30 June 2016: \$665,000) held as collateral for the financing facilities.		
	The bank guarantee has been provided for the benefit of the landlords of the Balcatta premises.		
(b)	Other financial liabilities		
	Financial liabilities and borrowings		
	Current		
	Current portion of loans and advances - secured	717	717
	Total current borrowings	<u>717</u>	<u>717</u>
	Non-current		
	Loans and advances - secured	7,832	7,562
	Total non-current borrowings	<u>7,832</u>	<u>7,562</u>

Notes to the Financial Statements

For the half year ended 31 December 2016

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Other financial liabilities (continued)

Loans and advances - secured

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

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

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

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

Subsequent to initial recognition the loan is carried at amortised cost. Effective interest for the period ended 31 December 2016 was \$270,000 (31 December 2015: \$272,000).

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) 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 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Financial Liabilities				
Loans and advances - secured	8,549	8,279	6,911	6,520
Total	8,549	8,279	6,911	6,520

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

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

- 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 December 2016: 12% (June 2016: 12%).

10. SHARE CAPITAL

	Number of Shares	\$'000
At 1 July 2015	48,979,099	20,021
Convertible Note interest elected to be paid in shares	729,928	369
Convertible Notes converted during the period	1,375,000	515
Shares issued pursuant to employee share plan	95,646	57
At 31 December 2015	51,179,673	20,962
At 1 January 2016	51,179,673	20,962
Convertible Notes converted during the period	22,625,000	8,621
Convertible Note interest elected to be paid in shares	629,424	310
Shares issued under performance rights plan	900,000	158
At 30 June 2016	75,334,097	30,051

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Notes to the Financial Statements

For the half year ended 31 December 2016

10. SHARE CAPITAL (continued)	Number of Shares	\$'000
At 1 July 2016	75,334,097	30,051
Acquisition of remaining 38.5% interest in REMSAFE	1,000,000	860
Shares issued under performance rights plan	900,000	138
Shares issued pursuant to employee share plan	61,785	57
At 31 December 2016	77,295,882	31,106

11. TRANSACTIONS WITH EQUITY PARTICIPANTS

Acquisition of remaining 38.5% interest 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 54.5% with Mr Michael Lane, the founding inventor of REMSAFE, holding the minority 45% share. After initially acquiring 54.5% of the business in February 2015, Orbital increased its interest in REMSAFE to 61.5%. Cash consideration of \$2,000,000 was paid for the additional shares issued by REMSAFE Pty Ltd.

On 13 October 2016 Orbital acquired the remaining 38.5% minority interest in REMSAFE from Mr Michael Lane in consideration for 1,000,000 Orbital shares at an issue price of \$0.86 per share. In addition, a further 2,000,000 Orbital shares will be transferred as consideration should REMSAFE achieve \$25,000,000 accumulated annual sales for any 12 month period; and a further 2,000,000 Orbital shares should REMSAFE achieve \$40,000,000 accumulated annual sales for any 12 month period (refer to "REMSAFE Update" ASX release dated 13 October).

The contingent consideration arrangement has been classified as equity. The Non-controlling interest result in the Statement of Profit or Loss relates to the minority holding interest in REMSAFE's loss for the three months to 30 September 2016.

12. DISCONTINUED OPERATIONS

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

The Group completed the divestment of both the Sprint Gas Australia ("Sprint Gas") business and the Orbital Autogas Systems ("OAS") business by 30 November 2015. The sale of the net assets of Sprint Gas and the sale of the OAS inventory assets were combined to form a single co-ordinated plan to exit the loss-making LPG businesses with minimal cost of closure to the Group. The Sprint Gas business exit was executed through the sale of the net assets of Sprint Gas to the non-controlling shareholder for no consideration. The OAS business exit was executed through the closure of the OAS operations and the transfer of the inventory of the OAS business to Sprint Gas at an agreed value of \$468,000, which is being settled through an 18 month payment arrangement. The results of both the Sprint Gas business and the OAS business were reported as discontinued operations in the comparative period statement of profit or loss.

	CONSOLIDATED	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
(a) The results of the LPG business for the period presented below:		
Revenue	-	2,538
Expenses	-	2,536
Operating income/(loss)	-	2
Finance costs	-	-
Impairment loss recognised on the remeasurement to fair value less cost to sell	-	(70)
Loss before tax from discontinued operations	-	(68)
Tax	-	-
Loss for the period from discontinued operations	-	(68)
(b) The net cash flows incurred by the LPG business are as follows:		
Operating	-	(120)
Investing	-	(35)
Financing	-	5
Net cash (outflow)/inflow	-	(150)

Notes to the Financial Statements

For the half year ended 31 December 2016

13. 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 \$57,000 (2015: \$57,000).

There were 61,785 shares issued under the Employee Share Plan No.1 during the reporting period.

(b) Performance Rights Plan as at 31 December 2016

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 7 November 2016.

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

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

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

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

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

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

Tranche	Performance Condition	Expiry Date	Mr T D Stinson
1	Milestone: the Company having a market capitalisation of A\$125 million and a share price of A\$1.50 per share for a period of 30 consecutive days.	24 months from the date of issue of the Performance Rights	200,000
2	Milestone: the Company having a market capitalisation of A\$200 million and a share price of A\$2.00 for a period of 30 consecutive calendar days.	36 months from the date of issue of the Performance Rights	300,000
Total			500,000

The total expense recognised during the period is \$11,000 (2015: nil).

(c) Performance Rights Plan as at 31 December 2015

Prior to the current Performance Rights Plan, the Company's long term incentive arrangement for senior executives was approved by shareholders on 21 October 2014 and included the same terms and conditions as the current Performance Rights Plan specified above.

The prior year performance conditions were based on market capitalisation with the following performance timeframes and targets:

Notes to the Financial Statements

For the half year ended 31 December 2016

13. SHARE BASED PAYMENTS (Continued)

(c) Performance Rights Plan as at 31 December 2015 (Continued)

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

On 8 September 2016 the Performance Condition for Tranche 3 of the previous Performance Rights Plan as approved by shareholders on 21 October 2014 was met, and 900,000 rights vested as a result of achieving a market capitalisation of \$60,000,000 for a period of 30 consecutive days.

The total expense recognised during the period is \$49,000 (2015: \$78,000).

14. COMMITMENTS AND CONTINGENCIES

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

15. RELATED PARTY DISCLOSURES

(a) Identity of related parties

The Group has a relationship with its subsidiaries and with its key management personnel.

(b) Controlled Entities

During the reporting period, REMSAFE became a fully owned subsidiary when Orbital acquired the remaining 38.5% minority interest from Mr Michael Lane in consideration for 1,000,000 Orbital shares at a deemed issue price of \$0.86 per share. A further 2,000,000 Orbital shares will be transferred as consideration for the minority interest in REMSAFE should the business achieve \$25,000,000 accumulated annual sales for any 12 month period; and a further 2,000,000 Orbital shares should REMSAFE achieve \$40,000,000 accumulated annual sales for any 12 month period (refer to "REMSAFE Update" ASX release dated 13 October).

The contingent consideration arrangement has been classified as equity and the NCI result in the Statement of Profit or Loss relates to the minority holding interest in REMSAFE's loss for the three months to 30 September 2016.

(c) Key Management Personnel

Key management personnel participation in Convertible Note issuance

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

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

On 1 March 2016, Convertible Note holders exercised their right to convert and all Notes outstanding at that date were converted to ordinary shares resulting in the issue of 22,250,000 new ordinary shares in Orbital.

Notes to the Financial Statements

For the half year ended 31 December 2016

15. RELATED PARTY DISCLOSURES (Continued)

(c) Key Management Personnel (Continued)

Key management personnel participation in Convertible Note issuance (Continued)

	Number of Convertible Notes	Amounts owed to KMP		Interest Paid to KMP	
		Dec 2016 \$	June 2016 \$	Dec 2016 \$	Dec 2015 \$
Executive Director					
Mr TD Stinson	1	-	-	-	2,500
Non-Executive Directors					
Mr JP Welborn	5	-	-	-	12,500
Mr JH Poynton	1	-	-	-	2,500
Other KMP					
Mr MC Lane (Managing Director of REMSAFE)	4	-	-	-	10,000
Total	11	-	-	-	27,500

16. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between half-year end 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.

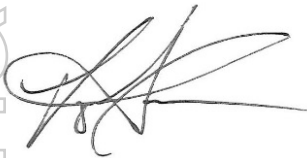
Director's Declaration

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 2016 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,



Terry Stinson
Managing Director

Dated: 27 February 2017
Perth, Western Australia

To the members of Orbital Corporation Limited

Report on the 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 2016, the statement of profit or loss, statement of comprehensive income, 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 half-year 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 2016 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.

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 2016 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



T G Dachs
Partner
Perth
27 February 2017

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John P Welborn, Chairman
Terry D Stinson, Managing Director and Chief Executive Officer
John H Poynton

COMPANY SECRETARY

Todd Alder

SHARE REGISTRY

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Telephone: 61 (08) 9211 6670

SHARE TRADING FACILITIES

Australian Stock Exchange Limited (Code "OEC")

AUDITORS

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