



ORBITAL®

ASX RELEASE

26 February 2018

2018 HALF YEAR FINANCIAL RESULTS

Orbital Corporation Limited (ASX: OEC) ("Orbital" or "the Company") is pleased to present its Appendix 4D and half year financial report for 31 December 2017.

The Company's audited accounts present half year revenue at \$5,941,000 for a net loss after tax of \$1,587,000 and cash and receivables at \$20,900,000. These results are consistent with the preliminary unaudited results released on 13 February 2018.

Todd Alder
Managing Director & Chief Executive Officer
Perth, 26 February 2018

-ENDS-

CONTACTS

Todd Alder

CEO & Managing Director

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About Orbital

ORBITAL invents, builds and delivers superior performance for our clients in the unmanned aerial vehicle sector.

ORBITAL CORPORATION LIMITED ASX:OEC | ABN 32 009 344 058 (Incorporated in Western Australia)

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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 product development, validation, manufacturing and implementation.

Delivering state-of-the-art products and services within the unmanned aerial vehicle sector is what we do.

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.



ORBITAL CORPORATION LIMITED APPENDIX 4D

Company Details

Name of Entity:	Orbital Corporation Limited
ABN:	32 009 344 058
Reporting period:	Half Year ended 31 December 2017
Previous corresponding period:	Half Year ended 31 December 2016

Results for announcement to the market

	Half Year ended		Up/(Down) A\$'000	Movement %
	31 December 2017 A\$'000	31 December 2016 A\$'000		
Total revenue from continuing operations	5,941	8,764	(2,823)	-32%
Net (loss)/profit from continuing operations after tax	(2,281)	86	(2,367)	-2,750%
Net loss for the period attributable to members	(1,587)	(1,451)	(136)	-9%

Net tangible assets per share

	31 December 2017	30 June 2017
Net tangible assets per share (cents)	15.85	17.69

Dividends

There is no proposal to pay dividends for the half year ended 31 December 2017.

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ORBITAL CORPORATION LIMITED

ABN 32 009 344 058

AND ITS CONTROLLED ENTITIES

**31 December 2017
HALF-YEAR FINANCIAL REPORT**

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Your Directors submit their report for the half year ended 31 December 2017.

DIRECTORS

The names of the Group'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) (appointed Chairman 18 March 2015).
Todd Alder	Managing Director and Chief Executive Officer (Executive – Appointed 11 August 2017).
Terry D Stinson	Non-Executive Director (Resigned as Managing Director and Chief Executive Officer and appointed as Non-Executive Director on 11 August 2017).
Steve Gallagher	Non-Executive Director

REVIEW AND RESULTS OF OPERATIONS

Orbital UAV operates within the tactical unmanned aerial vehicle ('UAV') market. The Group provides world leading propulsion system solutions that deliver customer flight endurance, reliability and power-to-weight advantages.

Key milestones achieved during the period include:

- o Establishing a dedicated Orbital UAV facility in the United States;
- o The successful divestment of REMSAFE for \$2,200,000;
- o Power and weight improvements delivered on the Mark II N20 propulsion system; and
- o Receiving US flight clearance for the new Mark II N20 propulsion system.

Financial Review

The Group's consolidated revenue for the period was \$5,941,000 (2016: \$8,764,000) with a comprehensive loss after taxes of \$1,587,000 (2016: \$1,748,000).

At 31 December 2017, cash, term deposits and receivables were \$20,900,000. Net cash used in operating activities during the period was \$3,667,000 (2016: \$2,134,000).

Change in Operations

Orbital secured an exclusive lease over a purpose built facility in Hood River, Oregon in the United States of America ("US Facility"). The new facility will expand existing UAV engine assembly and service capabilities and strengthen key client relationships in the region.

The Group divested its non-core REMSAFE division, for an unconditional cash payment of \$2,200,000. The divestment provides additional working capital and Management the opportunity to focus exclusively on the expanding UAV business. Orbital recognised a gain on sale of discontinued operations of \$1,317,000 (2016: \$nil) recorded in the Statement of Profit or Loss for the half-year ended 31 December 2017.

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

Outlook

The Group's US Facility will be commissioned in the first half of 2018. The US Facility enables greater customer engagement and will accelerate additional business development opportunities. The focus on completing the N20 power and weight upgrades across the half-year ended 31 December 2017 now shifts to ramping N20 production, to meet customer demand in the second half of the financial year.

Audit partner rotation

In June 2017 the Board approved the extension of the lead partner rotation from five years to seven years in accordance with section 324DB of the *Corporations Act 2001* and the Corporations Legislation Amendment (Audit Enhancement) Act 2012.

The reasons why the Board approved the extension included:

- Mr Dachs, the Lead Audit Partner, has a detailed understanding of the Group's business and strategies, its systems and controls and this knowledge is considered to be valuable to the Board at this point in time.
- The existing independence and service metrics in place with EY and Mr Dachs, are sufficient to ensure that auditor independence would not be diminished in any way by such an extension.
- Mr Dachs will continue to abide by the independence guidance provided in APES 110 'Code of Ethics for Professional Accountants' as issued by the Accounting Professional and Ethical Standards Board and EY's own independence requirements.
- The threats of self-interest and familiarity have been mitigated as EY appointed a new Engagement Quality Review Partner.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

- The Board of Directors are of the view that Mr Dachs' continued involvement with the Group as the Lead Audit Partner will not in any way diminish the audit quality provided to the Group.

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

The lead auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2017.

ROUNDING

The Group 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.



Todd Alder
Managing Director & Chief Executive Officer

Perth, 26 February 2018

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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 2017, 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
26 February 2018

STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Notes	CONSOLIDATED	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
Continuing operations			
Sale of goods		4,437	7,655
Engineering services income		1,042	674
Royalty and licence income		358	372
Other revenue	4(a)	104	63
Total Revenue		5,941	8,764
Other income	4(b)	494	2,078
Materials and consumables expenses	4(e)	(1,471)	(2,458)
Employee benefits expenses	4(c)	(4,191)	(5,475)
Depreciation and amortisation expenses		(264)	(268)
Engineering consumables and contractors expenses		(416)	(349)
Occupancy expenses		(644)	(643)
Travel and accommodation expenses		(141)	(180)
Communications and computing expenses		(263)	(203)
Patent expenses		(127)	(115)
Insurance expenses		(270)	(232)
Audit, compliance and listing expenses		(170)	(303)
Finance costs	4(f)	(264)	(270)
Other expenses	4(d)	(495)	(217)
(Loss)/ profit before income tax from continuing operations		(2,281)	128
Income tax expense	5(a)	-	(41)
Net (loss)/ profit for the period from continuing operations		(2,281)	86
Discontinued operations			
Profit/ (loss) after tax for the period from discontinued operations	11(a)	694	(1,840)
Loss for the period		(1,587)	(1,754)
Attributable to:			
Equity holders of the Parent		(1,587)	(1,451)
Non-controlling interests		-	(303)
		(1,587)	(1,754)
Earnings per share			
		cents	cents
Basic loss for the period attributable to ordinary equity holders of the Parent		(2.05)	(2.31)
Diluted loss for the period attributable to ordinary equity holders of the Parent		(2.05)	(2.31)
Earnings per share from continuing operations			
Basic loss for the period attributable to ordinary equity holders of the Parent		(2.95)	0.11
Diluted loss for the period attributable to ordinary equity holders of the Parent		(2.95)	0.11

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Notes	CONSOLIDATED	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Net loss for the period	(1,587)	(1,754)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	-	6
Other comprehensive income for the period, net of tax	-	6
Total comprehensive loss for the period	(1,587)	(1,748)
Attributable to:		
Equity holders of the Parent	(1,587)	(1,445)
Non-controlling interests	-	(303)
Total comprehensive loss for the period	(1,587)	(1,748)

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STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Share Capital	Accumulated Losses	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Contingent Consideration	Consolidation Reserve	Convertible Note Reserve	Total	Non-controlling Interests	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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)
Foreign currency translation	-	-	-	6	-	-	-	6	-	6
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
At 1 July 2017	31,106	(12,915)	1,759	-	3,440	(4,455)	248	19,183	-	19,183
Loss for the period	-	(1,587)	-	-	-	-	-	(1,587)	-	(1,587)
Foreign currency translation	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	(1,587)	-	-	-	-	-	(1,587)	-	(1,587)
Share based payments	38	-	123	-	-	-	-	161	-	161
Balance at 31 December 2017	31,144	(14,502)	1,882	-	3,440	(4,455)	248	17,757	-	17,757

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	CONSOLIDATED	
		31 Dec 2017 \$'000	30 Jun 2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	15,232	17,131
Other financial assets	7(a)	585	2,634
Trade and other receivables		5,757	6,465
Inventories		4,065	3,280
Total current assets		25,639	29,510
Non-current assets			
Deferred taxation asset		5,507	5,507
Plant and equipment		1,405	1,497
Other non-current receivables		700	-
Total non-current assets		7,612	7,004
TOTAL ASSETS		33,251	36,514
LIABILITIES			
Current liabilities			
Trade payables and other liabilities		4,739	6,498
Borrowings	7(b)	860	860
Employee benefits		1,352	1,558
Government grants		225	225
Other provisions		482	477
Total current liabilities		7,658	9,618
Non-current liabilities			
Long term borrowings	7(b)	7,506	7,242
Employee benefits		28	36
Government grants		188	299
Other provisions		115	136
Total non-current liabilities		7,837	7,713
TOTAL LIABILITIES		15,495	17,331
NET ASSETS		17,757	19,183
EQUITY			
Share capital	8	31,144	31,106
Reserves		1,116	992
Accumulated losses		(14,502)	(12,915)
TOTAL EQUITY		17,757	19,183

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STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	CONSOLIDATED	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash flows from Operating Activities		
Cash receipts from customers	6,788	11,554
Cash paid to suppliers and employees	(10,543)	(13,636)
Interest received	104	77
Interest paid	(16)	(12)
Income taxes paid	-	(117)
	<hr/>	<hr/>
Net cash used in operating activities	(3,667)	(2,134)
	<hr/>	<hr/>
Cash flows from Investing Activities		
Net proceeds from sale of share in investment	2,029	-
Net proceeds from sale of property, plant & equipment	29	29
Purchase of property, plant & equipment	(223)	(67)
Redemption of short term deposit	152	410
	<hr/>	<hr/>
Net cash provided by investing activities	1,987	372
	<hr/>	<hr/>
Cash flows from financing activities were nil		
Net decrease in cash and cash equivalents	(1,680)	(1,762)
Cash and cash equivalents at 1 July	17,131	24,872
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	(219)	288
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	15,232	23,398
	<hr/> <hr/>	<hr/> <hr/>

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

1. REPORTING ENTITY

The consolidated financial statements for the half-year ended 31 December 2017 of Orbital Corporation Limited ("the Company" or "the Parent") and its subsidiaries (collectively, "the Group") were authorised for issue by the Company's Directors on 26 February 2018.

The Company is a for-profit company limited by shares domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange ("ASX"). The registered office of the Group is 4 Whipple Street, Balcatta, Western Australia.

The Group is principally engaged in the provision of smart technology that delivers improved performance outcomes in the unmanned aerial vehicle, safety and productivity and consumer sectors. Further information on the nature of operations of the group is provided in the Directors' Report.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of Compliance with IFRS

This general purpose condensed financial report for the half-year ended 31 December 2017 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 2017 and considered together with any public announcements made by the Company during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations of the ASX listing rules.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the AASB.

The consolidated financial statements have also been prepared on the historical cost basis, except for investments in marketable securities which are measured at fair value.

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

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

New Accounting Standards and Interpretations

The accounting policies adopted and methods of computations used are consistent with the most recent annual financial report. From 1 July 2017, the Group has adopted all the standards and interpretations effective as at 1 July 2017. Adoption of these standards and interpretations did not have a material impact on the Group. The Group has not elected to early adopt any new standards or amendments.

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

3. OPERATING SEGMENTS

Identification of reportable segments

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

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

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

Operating segment comparatives have been reclassified to conform with current year presentation, with the "Safety and Productivity" operating segment removed due to the Group's divestment of REMSAFE Pty Ltd (refer to note 11 for further detail).

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

3. OPERATING SEGMENTS (CONTINUED)

The following table presents revenue and profit information for reportable segments for the half-year ended 31 December 2017 and 31 December 2016.

	Unmanned Aerial Vehicles		Consumer		Engineering Services		Consolidated	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment Revenue - external customers	5,308	7,656	317	372	212	673	5,837	8,701
Unallocated other revenue							104	63
Total Revenue							5,941	8,764
Segment result	484	1,426	317	187	(40)	779	762	2,392
Unallocated expenses - net (i)							(2,911)	(1,995)
Finance costs							(264)	(270)
Gain on sale of investment at fair value through profit or loss							132	-
Net (loss) / profit before related income tax							(2,281)	127
Income tax benefit/ (expense)							-	(41)
(Loss)/ Profit after tax from continuing operations							(2,281)	86

(i) 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 at 31 December 2017 and 30 June 2017.

	Unmanned Aerial Vehicles		Consumer		Engineering Services		Consolidated	
	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment Assets	8,501	8,938	186	7	855	1,140	9,542	10,085
<i>Unallocated assets</i>								
Cash							15,232	17,131
Other financial assets							585	2,634
Deferred tax asset							5,507	5,507
Proceeds receivable for sale of subsidiary							1,450	-
Assets associated with discontinued operation							935	1,157
Consolidated Total Assets							33,251	36,514
Segment Liabilities	6,312	7,650	-	19	816	1,204	7,128	8,873
<i>Unallocated liabilities</i>								
Liabilities associated with discontinued operation							-	356
Borrowings							8,366	8,102
Consolidated Total Liabilities							15,494	17,331
Consolidated Net Assets							17,757	19,183

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	CONSOLIDATED	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
4. REVENUE, INCOME AND EXPENSES		
(a) OTHER REVENUE		
Interest revenue	<u>104</u>	<u>63</u>
(b) OTHER INCOME		
Net foreign exchange gains	-	858
Government grant	112	153
Rental income from sub-lease	226	239
Research and development grant	23	783
Gain on sale of investment at fair value through profit or loss	132	-
Others	1	45
	<u>494</u>	<u>2,078</u>
(c) Employee benefits expenses		
Salaries and wages	3,083	4,624
Contributions to defined contributions superannuation funds	315	371
Share based payments	159	105
Annual leave	148	(102)
Long service leave	8	40
Other associated personnel expenses	478	437
	<u>4,191</u>	<u>5,475</u>
(d) Other expenses		
Administration	55	28
Marketing & Investor relations	43	73
Warranty provision	108	-
Fair value movement in quoted equity shares	-	-
Net foreign exchange losses	112	-
Corporate advisory expenses	117	77
Other	60	39
	<u>495</u>	<u>217</u>
(e) Materials and consumables expenses		
Raw materials and consumables	2,256	2,249
Change in inventories	(785)	209
	<u>1,471</u>	<u>2,458</u>
(f) Finance costs		
Non-cash interest expense WA Government Loan (i)	264	270
	<u>264</u>	<u>270</u>

- (i) 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 HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

		CONSOLIDATED	
		31 Dec 2017	31 Dec 2016
		\$'000	\$'000
5.	TAXATION		
	(a) Current income tax		
	United States of America Federal and State taxes	-	(41)
		<u>-</u>	<u>(41)</u>

(b) Deferred tax

The Group recognised \$5,507,000 (30 June 2017: \$5,507,000) of deferred tax assets after assessing the likelihood of offsetting 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.

		CONSOLIDATED	
		31 Dec 2017	30 Jun 2017
		\$'000	\$'000
6.	CASH AND CASH EQUIVALENTS		
	Cash at bank	2,328	3,838
	Cash at bank – US dollars	12,894	12,290
	Cash at bank – European currency units	10	3
	At call deposits – financial institutions	-	1,000
		<u>15,232</u>	<u>17,131</u>

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Other financial assets

Financial assets at fair value through profit and loss

Investment in quoted equity shares	-	1,897
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Short term deposits at amortised cost

Short term deposits	585	737
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Total other financial assets	<u>585</u>	<u>2,634</u>
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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(a) Other financial assets (continued)

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represented the Group's non-controlling interest in equity shares of a listed entity held at 30 June 2017. Fair value of these equity shares were determined by reference to published price quotations in an active market.

During the period, the Group sold its non-controlling interest in equity shares with the change in fair value from 30 June 2017 realised as other income of \$132,000 in the statement of profit or loss.

Short term deposits at amortised cost

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

Due to the short-term nature of the deposits, its carrying value approximates fair value. Short term deposits are only invested with a major financial institution to minimise the risk of default by counter parties.

The Group has pledged \$585,000 (30 June 2017: \$737,000) held as collateral for financing facilities.

(b) Other financial liabilities

Financial liabilities and borrowings

Current

Loans and advances - secured

Total current borrowings

CONSOLIDATED	
31 Dec 2017	30 Jun 2017
\$'000	\$'000

860	860
<u>860</u>	<u>860</u>

Non-current

Loans and advances - secured

Total non-current borrowings

7,506	7,242
<u>7,506</u>	<u>7,242</u>

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 2017 was \$264,000 (31 December 2016: \$270,000). The carrying value as at 31 December 2017 is \$8,366,000 (30 June 2017: \$8,102,000), of which \$860,000 relates to short term borrowings (30 June 2017: \$860,000) and \$7,506,000 relates to long term borrowings (30 June 2017: \$7,242,000).

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

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(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 2017 \$'000	30 Jun 2017 \$'000	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Financial Assets				
Investment in quoted equity shares	-	1,897	-	1,897
Total	-	1,897	-	1,897
Financial Liabilities				
Loans and advances - secured	8,366	8,102	6,981	6,586
Total	8,366	8,102	6,981	6,586

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 values of the quoted equity shares are based on price quotations at the reporting date in active markets.
- 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 2017: 12% (30 June 2017: 12%).

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

8. SHARE CAPITAL

	CONSOLIDATED	
	31 Dec 2017 Number	31 Dec 2017 \$'000
Movement in ordinary shares on issue		
At 1 July 2016	75,334,097	30,051
Acquisition of remaining 38.5% interest in REMSAFE	1,000,000	860
Shares issued pursuant to employee share plan	61,785	57
Shares issued under performance rights plan	900,000	138
At 31 December 2016	<u>77,295,882</u>	<u>31,106</u>
At 1 January 2017	<u>77,295,882</u>	<u>31,106</u>
At 30 June 2017	<u>77,295,882</u>	<u>31,106</u>
At 1 July 2017	77,295,882	31,106
Shares issued pursuant to employee share plan	73,328	38
At 31 December 2017	<u>77,369,210</u>	<u>31,144</u>

During the period there were 73,328 (31 December 2016: 61,875) shares issued under Employee Share Plan No. 1 to eligible employees at a market value on the day of issue of \$38,000 (31 December 2016: \$57,000).

On 13 October 2016 Orbital acquired the remaining 38.5% minority interest in REMSAFE from the Lane Trust in consideration for 1,000,000 Orbital shares at an issue price of \$0.86 per share.

On 8 September 2016, the 2015 KMP performance rights plan vested for three executives resulting in the issue of 900,000 shares in accordance with that plan.

9. COMMITMENTS AND CONTINGENCIES

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

10. RELATED PARTY DISCLOSURES

(a) Identity of related parties

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

(b) Consolidated entity

During the period, the group sold its 100% interest in REMSAFE Pty Ltd. Apart from the changes mentioned below, there have been no other changes to the group structure as disclosed in the most recent annual financial report.

	Note	Class of Shares	Consolidated Entity Interest	
			31 Dec 2017	31 Dec 2016
Ultimate Parent Entity				
- Orbital Corporation Limited				
<i>Controlled Entities, incorporated and carrying on business in:</i>				
Australia				
- REMSAFE Pty Ltd	10(c)	Ord	-	100%
United Kingdom				
- Orbital Engine Company (UK) Ltd	(i)	Ord	-	100%

(i) Company was dissolved during the period ended 31 December 2017. There was no consequence to the Group from the dissolution of the subsidiary.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

10. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Controlled Entity

REMSAFE contingent consideration

On 13 October 2016, the Group increased its interest in REMSAFE to 100% in consideration for 1,000,000 Orbital shares issued at a price of \$0.86 per share. At this date, it was agreed 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 2016). The contingent consideration arrangement was classified as equity.

On 18 December 2017, the Group sold its 100% interest in REMSAFE to the Avidsys Group (refer to note 11 for further detail). Should the REMSAFE business satisfy a milestone pertaining to the contingent consideration arrangement discussed above, Avidsys is obliged to reimburse Orbital for the value of consideration transferred under the arrangement up to a maximum amount of \$2,200,000. No value has been assigned to the reimbursement and therefore the impact on the financial statements is \$nil.

The remaining balance receivable from Avidsys for the sale of REMSAFE is \$1,450,000 to be received in two tranches at December 2018 and June 2019 (refer to note 11 for further detail).

(d) Other related parties

Transactions with other related parties:

Agere Pty Ltd, a company of which Mr. Steve Gallagher is a Director, received \$25,000 (30 June 2017: \$13,167) for Directors fees for his service to the Company. A total of \$5,000 remains due and payable as at 31 December 2017 (30 June 2017: \$5,000).

(e) Key Management Personnel

Refer to Note 12 for details of transactions with Key Management Personnel.

11. DISCONTINUED OPERATIONS

On 18 December 2017, Orbital publicly announced the divestment of its 100% interest in REMSAFE to the Avidsys Group in support of the Group's strategy to strengthen its position in the Unmanned Aerial Vehicle (UAV) market.

Sales consideration of \$2,200,000 will be received from the Avidsys Group in three tranches over 18 months as follows:

- First tranche payment of \$750,000 was received prior to 31 December 2017;
- Second tranche payment of \$750,000 to be received in December 2018;
- Third tranche payment of \$700,000 to be received in June 2019.

The net assets transferred to Avidsys of \$783,000 and transaction costs of \$100,000 associated with the sale resulted in a gain on sale of \$1,317,000 to be recognised in the Statement of Profit or Loss (31 Dec 2016: \$nil).

(a) The results of the REMSAFE business for the period are presented below:

	CONSOLIDATED	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Revenue	517	409
Expenses	(1,140)	(2,222)
Gain on distribution of discontinued operation	1,317	-
Profit before tax from discontinued operations	<u>694</u>	<u>(1,813)</u>
Tax expense	-	(27)
Post-tax profit for the period from discontinued operations	<u><u>694</u></u>	<u><u>(1,840)</u></u>

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

11. DISCONTINUED OPERATIONS (CONTINUED)

(a) The results of the REMSAFE business for the period (continued)

	CONSOLIDATED	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Proceeds on sale of discontinued operation	2,200	-
Carrying amount of assets transferred	(783)	-
Transactions costs on sale of discontinued operation	(100)	-
Gain on distribution of discontinued operation	<u>1,317</u>	<u>-</u>
Earnings per share:		
Basic, profit/(loss) for the period from discontinued operations (in cents)	0.90	(2.43)
Diluted, profit/(loss) for the period from discontinued operations (in cents)	0.90	(2.43)

(b) The net cash flows incurred by the REMSAFE business for the period are as follows:

Cash outflow from operating activities	(448)	(359)
Cash inflow from investing activities	181	508
Net cash (outflow)/ inflow from discontinued operation	<u>(267)</u>	<u>149</u>

12. SHARE BASED PAYMENTS

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

(a) Employee Share Plan No.1

Under the terms of the Company's Employee Share Plan, eligible employees are each offered shares in the Company at no cost to the employees, to the value of \$1,000 per annum. Shares offered are held in escrow for a period of 3 years or until the date the employee ceases employment with the Company.

During the period there were 73,328 (31 December 2016: 61,875) shares issued under Employee Share Plan No. 1 to eligible employees at a market value on the day of issue of \$38,000 (31 December 2016: \$57,000).

(b) Executive Long Term Incentive – 2018 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 27 October 2017.

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

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

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

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

12. SHARE BASED PAYMENTS (CONTINUED)

(b) Executive Long Term Incentive – 2018 Performance Rights Plan (continued)

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 and share price milestones with the following performance timeframes and targets:

Tranche	Performance Condition	Fair Value per right	Expiry Date	Allocation
				Mr T M Alder
1	Milestone: the Company having a 60 day of at least \$0.90 per share between 27 October 2017 and 10 August 2020.	36.5 cents	10 August 2020	340,000
2	Milestone: the Company having a 60 day of at least \$1.20 per share between 27 October 2017 and 10 August 2020.	27.8 cents	10 August 2020	255,000
		Total		595,000

On 11 August 2017, Orbital announced the appointment of Mr T M Alder as Managing Director and Chief Executive Officer. The announcement also set out the material terms of his employment which included the grant of two performance rights for each share acquired by Mr T M Alder during the period 11 August 2017 to 31 December 2017 (“Share Acquisition Performance Rights” or “SAPR’s”). During the relevant period, Mr T M Alder acquired 372,333 Orbital Shares resulting in the maximum entitlement of 647,250 SAPR’s. However, due to a drafting error in the Notice of Meeting to the 2017 Annual General Meeting, the terms of the SAPRs approved by the Shareholders were different from those agreed with Mr T M Alder and announced on 11 August 2017. Consequently: (i) Orbital has not issued any SAPRs to Mr T M Alder pursuant to the shareholder approval at the 2017 Annual General Meeting; and (ii) SAPRs with the correct terms, which are set out below, are still subject to Shareholder approval.

Performance Condition	Orbital Shares purchased by Mr T M Alder	Fair Value per right	Expiry Date	Allocation
				Mr T M Alder
Milestone: the Company having a 30 day VWAP equal to or greater than \$0.62 per share between 11 August 2017 and 10 August 2019.	372,333	56.3 cents	10 August 2019	647,250
		Total		647,250

During the half-year no rights under the plan vested. The total expense recognised during the period is \$96,000 (31 Dec 2016: \$nil).

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

12. SHARE BASED PAYMENTS (CONTINUED)

(c) Executive Long Term Incentive – 2017 Performance Rights Plan

Prior to the current Performance Rights Plan, the Company's long term incentive arrangement set market capitalisation and share price milestones for the previous Managing Director and CEO, Mr T D Stinson, as approved by shareholders on 7 November 2016.

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

Tranche	Performance Condition	Fair Value per right	Expiry Date	Allocation
				Mr T D Stinson
1	Milestone: the Company having a market capitalisation of \$125 million & and share price of \$1.50 per share for a period of 30 consecutive days.	50.0 cents	24 months from the date of issue of the Performance Rights (7 November 2018)	200,000
2	Milestone: the Company having a market capitalisation of \$200 million and a share price of \$2.00 for a period of 30 consecutive calendar days.	42.0 cents	36 months from the date of issue of the Performance Rights (7 November 2019)	300,000
		Total		500,000

During the half-year no rights under the plan vested. The total expense recognised during the period is \$46,000 (31 Dec 2016: \$14,000).

13. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

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

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 2017 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,



T.M. Alder
Managing Director and Chief Executive Officer

Perth, Western Australia
Dated: 26 February 2018.

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Independent auditor's review report to the members of Orbital Corporation Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Orbital Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2017, 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial 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*.

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 control as the directors determine is 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, anything has come to our attention that causes us to 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 Group's consolidated financial position as at 31 December 2017 and its consolidated financial 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 the Group, 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*.



Ernst & Young



T G Dachs
Partner
Perth
26 February 2018

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S.B. Gallagher

T.D. Stinson

COMPANY SECRETARY

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