



ORBITAL HALF YEAR REPORT

31 December 2004



ORBITAL
CORPORATION LIMITED

ABN 32 009 344 058

Key Features

- Total revenue down 46% to \$5.4 million
- Net loss after tax of \$1.5 million compared to a profit of \$2.1 million for the same period last year
- The continued rise in the profitability of Synerject, Orbital's joint venture with Siemens-VDO
- The announcement of start of production of OCP based products in both India and Taiwan, scheduled for calendar year 2005

STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	2004 A\$'000	2003 A\$'000
Revenue		
Engineering services	3,690	6,141
Royalty and licencing income	927	1,947
Foreign exchange gain	388	808
Interest income	282	287
Other	91	744
Total revenue	5,378	9,927
Expenses		
Employee expenses	(4,277)	(4,487)
Depreciation and amortisation	(743)	(947)
Engineering consumables and contractors	(526)	(653)
Travel and accommodation	(518)	(409)
Communication and computing	(389)	(487)
Audit, compliance and listing costs	(285)	(192)
Insurance costs	(269)	(307)
Patent costs	(241)	(298)
Licence costs	-	(422)
Systems warranty (expense)/credit	73	307
Borrowing costs	(5)	(11)
Other expenses from ordinary activities	(673)	(695)
Property, plant and equipment writedown	-	(844)
Surplus lease space (expense)/credit	-	832
Total expenses	(7,853)	(8,613)
Share of net profit of Synerject LLC	936	896
Profit/(loss) from ordinary activities before related income tax	(1,539)	2,210
Income tax (expense)/benefit relating to ordinary activities	16	(102)
Net profit/(loss) after related income tax	(1,523)	2,108

Orbital's CEO, Peter Cook, said "Given our recent track record of steadily improving results each half year, these results are disappointing, but we expect to achieve our 3 year plan".

"We remain on track to return to profitability in the June half."

Mr Cook said there had been timing issues with new powertrain engineering orders during the first half and the year on year licence difference was to be expected given the success in India with Bajaj and UCAL in the last year.

"Synerject, our joint venture with Siemens-VDO, returned a creditable performance in the first half, recognising the strengthening Australian dollar, with our share of joint venture profits up 4% on the previous corresponding half year," he said.

"The measures we have implemented over the last three years have positioned Orbital to benefit from the changes precipitated by the introduction of the Kyoto Protocol and the inevitable move towards lower emissions and improved fuel consumption standards globally.

Our focus on Asia Pacific has created an encouraging forward pipeline."

Financial Summary

Total revenue for the half year ended 31 December 2004 fell 46% to \$5.4 million, primarily due to the timing of engineering services revenue from new powertrain engineering orders, the reduction of \$1.0 million of non recurring revenue in the half year ended 31 December 2003, including ACIS credits and foreign exchange movements, as well as reduced licence income.

Total expenses fell 9% to \$7.9 million due to lower employee expenses, reduced depreciation and lower engineering contractor costs associated with the reduced level of engineering services work during the half year. The expenses, which include a doubling of R&D expenditure, recognise the need for resources to deliver the forward engineering workload and licences and royalties inherent in our 3 year plan.

Orbital's reported share of Synerject's profit rose 4% to \$0.9 million for the half year, despite the strengthening Australian dollar.

Orbital continues to have a strong balance sheet, with a cash balance of \$9.2 million, despite cash outflows from operating activities of \$2.5 million for the half year ended 31 December 2004.

Detailed comments on Orbital's three revenue streams are as follows:

Powertrain Engineering Services

Orbital's Powertrain Engineering Services (PES) provides professional powertrain engineering consultancy services to engine manufacturers, OEMs and their suppliers, and governments in the Asia-Pacific region, Europe and the USA.

During the half, PES continued its program of building its reputation outside its traditional OCP base and cementing its relationships with major customers. The importance of PES is that it creates a third revenue and profit stream for the company and allows Orbital to work closely with OEMs on their advanced powertrain applications and developments and remain at the cutting edge of innovation. Indirectly, it can create licence opportunities for OCP.

Engineering Services' revenue fell 40% to \$3.7 million for the half year ended 31 December 2004, mainly due to timing delays in powertrain engineering orders. However, a focus on Asia Pacific has created an encouraging forward pipeline.

At 31 December 2004, PES's forward order book stood at \$4.9 million.

In the second half, PES's priorities will continue to focus on Asia Pacific with a further building of its reputation in the region's automotive markets.

Royalties and Licences

Orbital licences its patented direct injection technology (OCP) to OEMs and suppliers. Royalties and licence fees are derived from a wide range of customers in the marine, motorscooter, personal watercraft and autorickshaw sectors.

Licensing and royalty revenue declined 53% from the previous corresponding period to \$0.9 million for the half year. Significant licence income, from India and Japan, was earned in the previous corresponding period, although associated royalties will not begin to flow from these licences until later in calendar 2005. Also contributing to the decline has been the reduced royalties from the European scooter market where industry consolidation and regulatory change have induced consumer uncertainty.

Opportunities continue to exist for wider application of OCP in several niche markets and discussions are under way with a number of potential licensees. These opportunities have been actively supported by an increase in R&D expenditure.

The recently announced licence to Bajaj for the application of OCP to their autorickshaws, which are planned to commence production in December 2005, represents a significant future royalty stream. The continued penetration of Mercury's Optimax range of outboards should also provide significant royalty growth.

Synerject

Synerject, Orbital's 50%-owned joint venture with Siemens-VDO Automotive Corporation, operates from facilities in both USA and Europe, manufacturing air/fuel injectors, fuel rail assemblies and related components. Synerject specialises in electronic fuel systems in the non-automotive market, where it is able to deliver the low volume, unique specification components required for these applications.

Synerject has an annual turnover in excess of US\$40 million, generates significant cash flow from operations and neither its revenue nor cash flows are consolidated into Orbital's financial statements. However, Orbital's accounts reflect its 50% share of Synerject's profit.

Orbital's share of Synerject's profit rose 4% to \$0.9 million for the half year, despite the stronger Australian dollar. In constant dollar terms, Synerject's profits improved 10%.

Synerject's performance was due to improved overhead efficiency, product mix and reduced interest expense.

Outlook

The actions taken by Orbital over the last three years including diversification of engineering services and targeted R&D have positioned its businesses well for the future. The Kyoto Protocol and moves towards tougher emissions standards worldwide are expected to be beneficial to all of Orbital's businesses over time.

Orbital continues to seek opportunities to create value for shareholders through further licence agreements, powertrain engineering growth particularly in Asia Pacific and selective acquisitions of businesses that meet specific financial criteria and complement Orbital's existing business.

The Board of Orbital expects a return to profitability in the second half. This expectation is based on current strong powertrain engineering interest and volume increases from new or recent product releases from Kymco, Aprilia and Mercury Marine. In addition, Synerject's results should benefit from the seasonal influences that typically deliver better results in the second half.

*Orbital CEO, Peter Cook, said
"The measures we have implemented over the last three years have positioned Orbital to benefit from the changes precipitated by the introduction of the Kyoto Protocol and the inevitable move towards lower emissions and improved fuel consumption standards globally."*



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Note that in order to further reduce costs, a half year report will not be issued to shareholders in future. All announcements by the company are available on the Orbital website www.orbitalcorp.com.au