

CEO Newsletter #8 (Nov 2010)

Welcome to Orbital's website, and to the "From the CEO" newsletter.

I would like to take this opportunity to provide an update since the last newsletter, a recap of the year past and an update on Orbital's Strategic Plan. Many of the slides come from my AGM presentation and this letter will provide background consistent with that presented to shareholders at the Annual General Meeting held 28 October, in Perth.

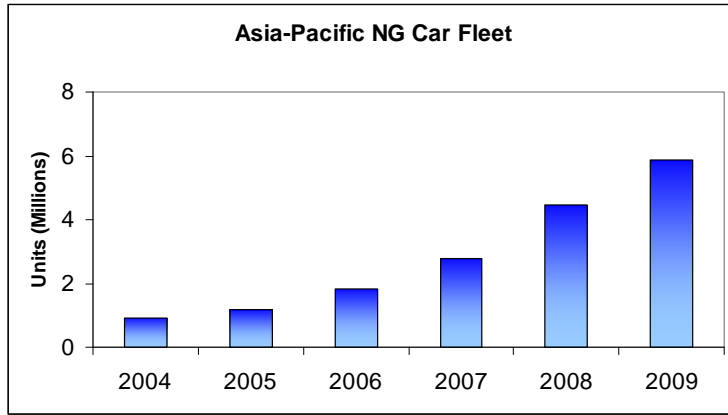
Our turnaround in the 2nd half of the year and the achievement of an underlying operating profit for this period was a significant accomplishment for the team. The net profit for the year of \$4.5 million was based on our ability to rebound from the effects of the GFC and the profit from restructuring of a West Australian Government loan.



Continuous improvement initiatives delivered results over the past 12 months. We implemented and maintained tight cost control through the year, at all levels including Corporate. This was necessary to achieve our target of being profitable in the 2nd half of the year. On a company wide basis, our team is leaner and more efficient. This trend will continue and we need to deliver improved efficiency without compromising our ability to deliver on customer programs and our strategic plan. For example, our Orbital Consulting Services (OCS) achieved greater operating efficiency last year and in the first quarter of this year. OCS is a smaller group delivering higher revenues.

The Ford program and the announcement from Holden Special Vehicles (HSV) show that our new business Orbital Autogas Systems (OAGS) is getting a few runs on the board. The overall Autogas business suffered from a drop in the LPG market over the past year. The Australian LPG aftermarket is at a very low point due to low petrol prices and reduction in rebates. Our primary focus is the Original Equipment (OE) business in Australia. Business from Ford and HSV will work to offset currently depressed aftermarket sales. The strong Australian dollar and low petrol prices are projected to continue to negatively impact this market for the near term. Offsetting this, the rebate of \$2000 for new OE cars factory fitted with LPG will further help to stimulate the OE market

In January this year, we announced the restructure of the West Australian Government loan. The original loan called for repayment of \$19 million in 2014. Under the restructure, the original loan has been terminated and replaced by a new interest free loan of \$14.35 million repayable over the next 15 years. The reduction of the loan principal, the extension of the loan period to 2025 and the fact that it is interest free for the next 15 years, resulted in a benefit of \$7.7 million being recorded in the 2010 financial statements.



Asia Pacific Natural Gas Fleet Source INGVA

Our key strategic thrust is in Alternative Fuels. We continue to actively pursue our Alternative Fuels Strategy with continued development on our product roadmap by establishing key business relationships in the field, and by cultivating future customers and alliance partners. The alternative fuel global market continues to grow. The recent announcement by Senator Carr regarding Australia's Vision 2020 program should also reinforce support for growth in gaseous fuels applications for automotive in Australia. Gaseous fuels are one of the key initiatives outlined in the plan.

	PI Gasoline/NG 2W and 3W	DI Gasoline Motorcycle, 3W	DI Gasoline Recreational	Liquid LPG Pass Car	Pass. Car CNG	DI LPG, CNG Pass Car	Heavy Duty Truck LNG (Dual Fuel)
System Integration	Orbital	Orbital	Orbital	Orbital	Orbital	Orbital	Orbital
Injectors							
ECU Hardware	Multiple Suppliers	Multiple Suppliers	Multiple Suppliers			Manufactured to Orbital Specification	Orbital
Operating System	Orbital	Orbital	Orbital For OE	Orbital	Orbital Or Supplier	Orbital	Orbital
Fuel Tanks	OEM supply	OEM supply	OEM supply				
Other key components	Synerject Continental UCAL Others	Synerject Continental UCAL Others	Synerject Continental Others	Vialle Continental Motonic Others	Continental Nikki Others	Synerject Continental Motonic Nikki Others	Nikki Continental Woodward Others

Orbital's Product Roadmap

Orbital will need additional funding to support future growth. Our attempt to raise capital earlier this year proved to be too expensive to shareholders due to the volatility in the share market at the time. As a result, and in the best interest of existing shareholders, we pulled out of the raising. The reason for the capital raising was to acquire a company that would fit with our strategy. The company was profitable and cash flow positive, and would have been a good fit with our strategic growth plan in alternative fuels. The timing and deteriorating general share market conditions worked against us at the same time that the opportunity matured. This particular opportunity has passed. Missing the opportunity was unfortunate but does not deter us from following our plan; we plan to use the proceeds from the sale and lease-back of our building and land to be ready to deliver on the next opportunity. Those of you that have followed our business know that to deliver on shareholders' expectations, Orbital needs to grow.

Delivering on our EMS product strategy is in process and is targeted to carry us into sustained profitability for the coming years. Through this strategy, Orbital retains our technological edge and we move from an engineering consulting company into a supply side business for speciality products.

I will now briefly review Orbital's business sectors, and will then discuss the overall company, our markets, and where we are going.



Our first step into the Alternative Fuel market started with the purchase of Boral Alternative Fuel Systems in 2008, and this acquisition has expanded as Orbital Autogas Systems. This has been a year of investment for Orbital Autogas Systems, in LPG products and infrastructure. We had two clear objectives for the last year. The first was to deliver on program objectives for the liquid LPG systems for Ford Motor Company, and to develop and deliver a system to HSV, a version of our "Liquid" system for application to their high performance product line. Both initiatives have been successful. Ford's program is on track and HSV recently announced the release of Orbital's "Liquid" LPG system on their new product line. Our new systems enable OE and aftermarket retrofit vehicles to meet the recently implemented 79/02 Australian Emission requirements. The second objective is in the development of some 28 aftermarket kits to suit popular Australian vehicle models.



The Orbital Autogas Systems "Liquid" LPG aftermarket kit offers seamless performance compared to the base petrol fuelled vehicle, and even with today's low petrol costs, "Liquid" can offer fuel costs savings of over \$1000 a year for a family sedan. The feedback from customers is positive.

HSV's adoption of Liquid LPG systems across their line, including the Grange, was a big win for this business and will help to promote our aftermarket business. The volume for HSV will be low but the profile is high. This profile will begin the process of changing the attitude of Australian consumers toward LPG. LPG is about half the cost of petrol and "Liquid" offers this saving with no loss of performance. LPG is Australia's fuel for transportation. We have abundance of LPG reserves and by using Australian LPG in our cars; we don't need to depend on foreign imports of petrol and diesel. In the future, fuel security and reduction in Greenhouse gas emissions will play a more significant role in decision making for car owners and commercial transport operators. Orbital Autogas Systems will be ready to take advantage of this change along with providing a low cost alternative when petrol prices rise again.



OAGS Arndell Park Facilities

To support the supply infrastructure required for the "Liquid" LPG systems to supply Ford Australia, Holden Special Vehicles and the aftermarket, we opened an expanded facility in Arndell Park, Sydney. Product development work and emissions and fuel economy testing for both the automotive manufacturers and the aftermarket kits has used our engineering base here in Perth.

The Australian LPG market has remained subdued this year. Sales are the worst they have been for many years. We believe this is due to the relatively low petrol costs, the reduction in the aftermarket installation rebate, and the scheduled implementation of fuel excise in 2011. We have changed our plans and resized Orbital Autogas Systems operations to adapt to current market conditions. Historically, the ups and downs of the LPG industry in Australia follow the price of petrol and the rate of change in petrol price. The key is to be in a position to grow

market share and volume when the cost of crude oil increases and the LPG OEM and Aftermarket sectors again take off. I have converted my own cars to "Liquid" and make it a point to drive cars fitted with our products and technology. The product performs well and I am pleased with the performance and the savings. Knowing also that this technology is better for the environment than the petrol equivalent provides additional incentive.



Synerject, our Joint Venture Company with Continental AG, services the non auto market with Engine Management Systems (EMS) products. Synerject produced a positive result, even during the global financial crisis, and significantly increased revenue as the markets recovered in FY10. Synerject successfully released new products in the high end recreational and motorcycle markets to offset some of the reduction from their traditional marine products. Taiwan's stringent emission requirements requiring in-field conformity are driving two wheel vehicle manufacturers to incorporate Synerject EMS. We expect continued growth and profitability from Synerject in the coming year. We watch closely as China and India, the two biggest markets for motorcycles, consider implementation plans and levels for their new emissions regulations. These markets create a huge opportunity for Synerject as more stringent emission legislations are implemented.



Orbital Consulting Services, our professional engineering arm, showed increased revenue in FY10, a particularly good result considering the market challenges. Winning new customer programs or orders for our Australian based engineering consulting business was made much more difficult as the Australian dollar strengthened throughout the year. Along with the effect of the reduced value of the US dollar, our OCS pricing became less competitive. Two years ago, soon after I joined the company, the exchange rate was in our favour and contracts were easier to win, especially in China. Major programs underway, such as the FlexDI™ program with Changan in China, and the LNG EMS development program with Mitchell Corporation here in Perth, provide work for our consulting business and are well aligned with our alternative fuel and EMS growth strategies. We were awarded a Green Car Innovation Grant from the Australian Government to support the R&D for the Changan program, as we are breaking new technology areas with this work and opening potential for new FlexDI™ applications in the Chinese automotive market. With success in the Mitchell



Corporation program, this business could grow beyond Mitchell's. Orbital's goal is to win additional LNG application work with other Australian transport companies and possibly the resources sector. The cost savings to the transport operator are significant. In addition, the transport company will achieve an up to 15% reduction in their carbon footprint, which will become more important in the future. This is especially true as Emission Trading Scheme (ETS) or derivatives are being discussed again in Canberra.

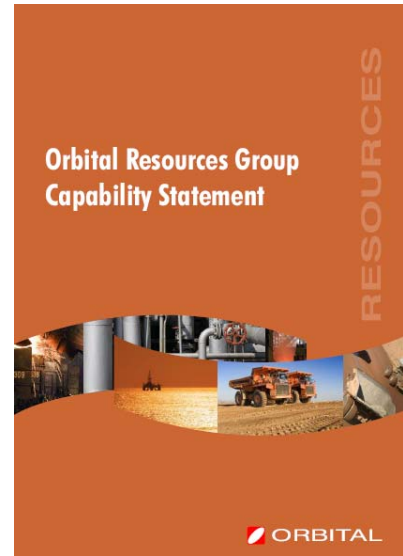


UAV Engine

A new market area for OCS is in the heavy fuel EMS systems for Unmanned Aeronautical Vehicles (UAV's). The ability to use a common 'heavy' fuel such as kerosene, or Av-Gas and improved fuel economy/range are key features offered by the Orbital FlexDI™ systems. There is considerable interest from potential long term customers in the application of Orbital's EMS systems for these specific applications. As background, Departments of Defence around the world are establishing new rules related to the fuels that they use. They are targeting fewer fuels

to improve logistics and use of less volatile fuels to reduce risk. Countries like the USA are moving toward one fuel for all their applications. Orbital's unique FlexDI™ technology is proving to be the technology of choice for heavy fuel application for light weight and high performance engine and vehicle applications.

Last year we pulled together a small team within OCS and formed the Orbital Resources Group. The goal is to develop a value equation and to offer our specialised services tailored to the requirements of the Australian Resources Sector. This is new for Orbital and will hopefully bear fruit in the future. We are located in Perth which is the centre of the resources industry in Australia. We have a state of the art facility and qualified engineering staff. The service providers in this sector are well established and breaking in may prove difficult. Nevertheless, the business is in our back yard, the resources sector is spending a significant amount of money on contract engineering and this is an opportunity that cannot be ignored. We will work to expand our scope to include support for the booming Western Australian resource and gas industries and with patience, our efforts should yield profitable results. I am confident that we will find our niche in this industry.



Licensing and Royalty showed improvement during the year due to recovery in the marine market over the North American summer. This was offset however by the increasing value for the Australian Dollar relative to the US Dollar and the ensuing exchange rate effect on our bottom line profit. We can expect some further improvements in Orbital's royalty bearing markets as the world economies recover and Orbital's customers expand their applications, however we predict this will still be short of the pre global financial crisis market for the foreseeable future.



To conclude the Year in Review, I would like to restate our vision, summarise what we have learned over the past year, and provide an update on our traditional markets.

Orbital's vision has expanded slightly from last year. EMS continues to be our strategic focus, added to this is an emphasis on Alternative fuels. Specialized Engine Management Systems and Alternative Fuels effectively go hand in hand. Our vision is to be the:

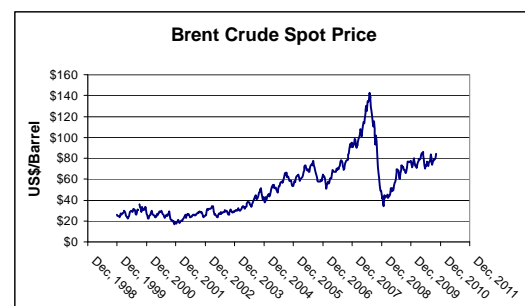
"Leader in Engine Management Systems for Alternative Fuels and Specialised Markets"

What have we learned over the year?

- Our core businesses today, the OCS and Licensing/Royalty, offer, at best, small revenue growth prospects in the short to medium term. There is potential for future organic growth; however, this must be in response to market demands. Orbital is not currently planning significant investments in OCS.
- The market opportunities in the field of alternative fuels continue to grow worldwide. We have the skill set, the market pull is increasing, and we are working to establish supply and commercial partners in this market. As this market grows, stronger and bigger players are beginning to turn their attention to the opportunity and may create a challenge for Orbital. This was overcome with Synerject and we can repeat this result building on our strong team and continued shareholder support.
- Organic growth in alternative fuels and EMS is too slow and investing in Greenfield is too risky. Orbital does not have the cash reserves to support the financial bathtub cycle required to launch a substantial new alternative fuels business. We must invest to grow and this investment needs to be in acquiring aligned and profitable businesses and/or establishing joint ventures or strategic alliances. We have established one such alliance with the company Motonic in Korea. Motonic is the largest supplier in the world of OE LPG components and has won awards from its key customer Hyundai for quality and service performance. Motonic and Orbital are closely cooperating to support and supply to Ford Australia for advanced LPG systems.
- We learned that we need to find different ways and approaches to raising capital for investment. We also need to rebuild shareholder and share market confidence. As you are aware, we are now in the process of utilising our building assets to support investment. My belief is that once we are on a roll with our strategy, the current and potential new shareholders will get onboard with the strategy and in the future will be willing to support and fund our plan for profitable growth. As Orbital delivers in the short to medium term, shareholder confidence will grow and Orbital will become more attractive to new investors.

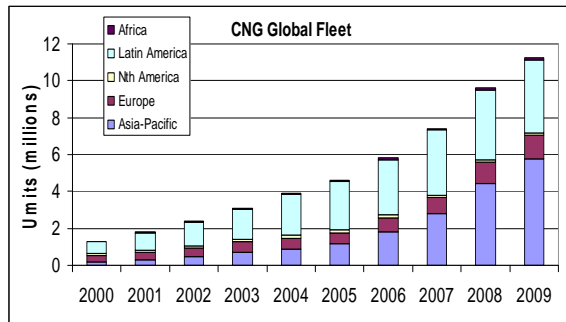
What is happening to our market?

- As discussed, the domestic LPG market remains subdued, primarily as today petrol is cheap plus the reduction in aftermarket rebates. History indicates that this market will change in the future as crude oil costs go back up and as longer term fuel



Source: www.EIA.gov

sustainability becomes an increasing concern.

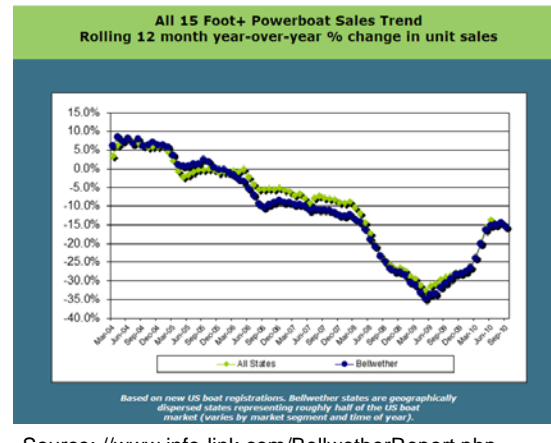


NG Global Fleet Source INGVA

- o The automotive Natural Gas market continues to expand, in both Asia, and in Europe. Significant Natural Gas distribution infrastructure investments are being made in these countries, and Germany recently announced continuation of attractive rebates for Natural Gas vehicles.

- o Ethanol remains a strong market in Brazil. The ethanol Heavy Duty engine R&D project is continuing and FlexDI™ shows great promise for Vale Solucoes Energia (VSE) power generation applications. The program should move from single cylinder R&D into multi-cylinder development within the next calendar year. With continued success, engine production is projected for 2014.

- o Our recreation market has improved, however given that much of this market is based on available discretionary income, in key markets such as the USA, there is still a long way to go to recover to the pre global financial crisis market conditions. Recent indications are that the recreational market recovery rate is now softening a little, relative to the second half of financial year 2010.



Source: //www.info-link.com/BellwetherReport.php

- o As discussed earlier, the requirement for heavy fuel capable engines for the UAV market is an emerging market and a potential key new growth area for Orbital. We see good potential for this market to improve over the next period.
- o Consulting engineering has been a challenge. Good news is we are receiving inquiries from Europe regarding advanced engineering work for both petrol and gaseous fuel systems. We may be able to win some business from some of our old customers, and a few new ones in Europe. The bulk of work has resulted from implementing new marketing initiatives in India, China and in our own domestic Resources Sector. We do not expect to see significant recovery from our other traditional markets of North America and Japan in the immediate future given their current fiscal situations and the markets our customers serve. We will continue to scan for new opportunities in these markets; however it is expensive to support significant initiatives in North America and Japan.

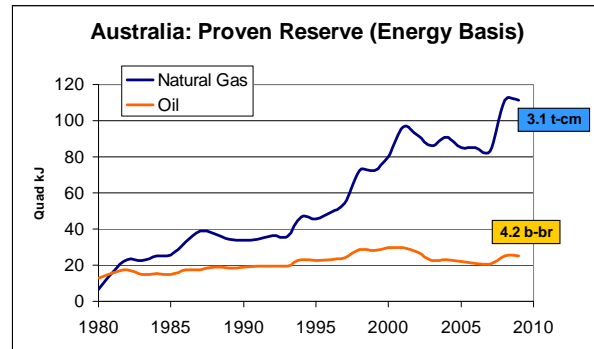
- o Carbon Tax and Emission Trading Schemes. There have been significant discussions over the last year for the Australian approach to carbon control. The technologies, the systems and the alternative fuels we are developing and implementing all have positive reduction in CO₂, the main greenhouse gas. From my view, it is not a question of “if” for a Carbon Tax, or an ETS, it is more a question of “when”. We watch the debate with great interest. Successfully applied, Orbital’s products and technology can deliver a reduced carbon footprint for our customers and our nation.

ORBITAL CORPORATION LIMITED Your Executive Team, along with the Board of Directors, have focused efforts on strategic development as this is fundamental to the future growth prospects of your company. We cannot continue as we have in the past. Our growth area is alternative fuels and Specialized EMS. The market drivers are lower fuel costs to the end user, Greenhouse Gas reduction/control, and Fuel Security for Australia.

Even with today’s low petrol pricing, a fuel costs saving of over \$1000 per year can be realised on the typical Australian family car. Use of Liquid Natural Gas (LNG), either as a substitution fuel with diesel, or as a dedicated fuel with high pressure direct injection, can save significant costs in our Australian heavy transport industry. Given the long freight distances in Australia and the much higher payloads than in Europe and USA, use of LNG, a fuel which Australia has in abundance, presents a compelling commercial case to the heavy haulage industry.

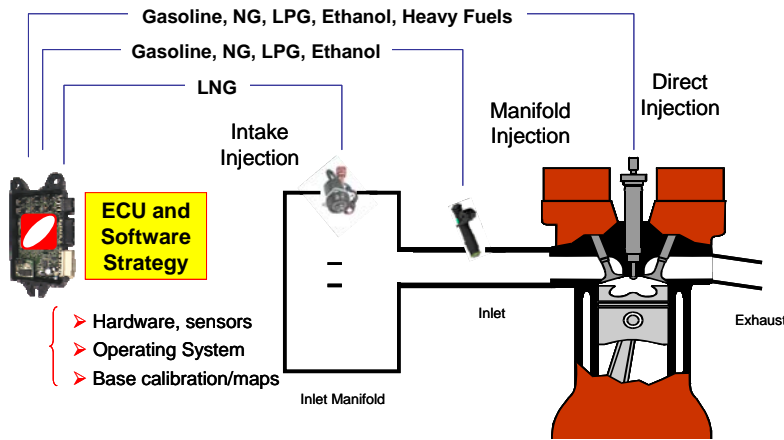
Use of alternative fuels brings Greenhouse Gas emission reductions, ranging from around up to 13% for LPG and up to 25% for Natural Gas compared to petrol in automotive applications.

As discussed earlier, Australia has an abundance of natural gas, with a Proven Reserve to production ratio of around 63 years. Crude oil and condensates ratio, by comparison, is less than 20 years. Translating this into energy, Australia has many more times the energy reserves with natural gas as compared to oil.



Australian Proven Reserves Source: BP Statistical Review of World Energy June 2010

Other companies expanding in the alternative fuels market, such as Fuel Systems Solutions and Westport Innovations, are showing good growth and increasing market presence. This is the market Orbital is targeting. The technology for this market is also well aligned with our skill base and facilities infrastructure.



EMS Systems – Common across Product

EMS and alternative fuels go hand in hand. Independent of the fuel type and where the fuel goes into the engine, there is commonality of the EMS systems needed to make the combustion and hence the engine work. Whether it is direct injection, or manifold injection for petrol, Natural Gas or LPG fuels; or for LNG substitution for diesel compression ignition engines – they all share the base Electronic Control Unit

and Operating Software. ECU and Operating Systems - these are the heart of Orbital's specialties and expertise.

Orbital has considerable experience with introduction of new EMS product to the market – not just with the Orbital FlexDI™ systems but also with manifold injection and turbo charged engine production applications across a wide spectrum of engine and vehicle applications, including turn-key responsibility in the automotive applications. The EMS expertise, along with the quality supplier and customer relationships developed over the years is just a part of the value that Orbital can bring to a new product, or a partnership.

The key aspect to a strategy is in the implementation of the strategy. Orbital has defined Target Market sectors, ranging from Automotive, to Heavy Duty Engines/Transport, to the Non Auto EMS, Consulting Services and the Licensing/Royalty markets. Our targets include LPG, NG and ethanol fuelled systems, along with further gasoline application of our FlexDI™ systems.

Sector	Automotive	Heavy Duty Transport	Non Auto EMS	Consulting Services	IP Revenue
Applications					
Business Unit					
Business Unit Summary	<ul style="list-style-type: none"> Supplier of LPG Vapouriser systems Developer and supplier of Liquid LPG systems Orbital well positioned to expand into auto CNG 	<ul style="list-style-type: none"> Developer of Dual Fuel Systems for heavy duty engine application R&D for Ethanol and other renewable fuel for HD and Industrial engine market 	<ul style="list-style-type: none"> Supplier of DI and PI EMS systems to Global Non Auto market 	<ul style="list-style-type: none"> Services to the global engine and vehicle OEM's, Governments R&D support to Corporation and FlexDI applications/customers Developing UAV DI engines and systems 	<ul style="list-style-type: none"> IP for existing non auto products Future potential in auto products (Changan) Future potential in Alt. Fuels

Orbital's Target Market

To support the overall strategy implementation, and to assist Orbital in its advanced planning with existing and potential new suppliers, customers and partners, Orbital has prepared Product Plans to optimise the commonality of the Orbital EMS systems across a wide range of applications.

To enable our strategic plan, we are targeting acquisitions and strategic partnerships. This is the lowest cost/lowest risk way to achieve growth with the quickest returns. It enables us to increase our product base and range of services by

leveraging on complimentary skills of companies that we align with this strategy, brings along new customers, customers that want the new products and the existing customers from acquisitions or partners. It gives us opportunity to increase purchasing power, and to share administration costs over a larger operation.

The focus for partnership/acquisition is on companies where Orbital's' expertise can value add, and enable fast return in investment. The value equation needs to be right for the target partnership and for Orbital shareholders. This is a continuous process and we are in discussions with a number of potential targets.

For EMS in India and South America, we see partnerships as the logical way forward due to local presence and local manufacturing. Some areas that are very specific to Orbital's in-house operations such as LNG, UAV and domestic retail LPG opportunities we see as being Orbital specific.

I would like to finish off by reviewing what is needed to implement the strategy.

Delivering on the Strategy

- Markets ✓
- Products ✓
- Skill base and facilities ✓
- Partners or acquisitions (speed to market) ✓
- Funding ✓

We have the market, we have a plan to develop the products and systems, and we have the skill set and facilities to support business growth.

I hope that this update is of interest to you, and I will plan to update early in 2011. May I wish all the best for the Christmas Season, and for the New Year.

Thank you.