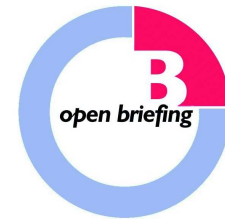


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Date of lodgement: 03-Mar-2009

Title: Open Briefing® . Orbital Corp. CEO & CFO on H1 Results & Outlook

Record of interview:

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Orbital Corporation Limited recently reported a net loss of \$2.6 million for the first half ended December 2008, in line with your guidance. The result compares with a loss of \$0.4 million in the previous corresponding period. You expect relatively improved trading in the second half but continue to expect a loss for the full year ending June 2009. What are the main risks to profitability in the current second half?

CEO Terry Stinson

Our primary concern for the second half is the continuing deterioration in the North American markets, which is affecting our royalty income and also Synerject. These markets haven't stabilised yet and it's difficult to predict when a turnaround will take place.

Nevertheless our Engineering Services business has improved over the last few months in spite of the economic downturn. This is partially due to our new marketing initiatives and to the favourable Australian dollar exchange rate.

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Orbital had net cash outflow from operations of \$2.2 million in the first half, compared with outflow of \$2.7 million in the previous corresponding period. Cash flow was boosted by a \$3.0 million increase in payables over the six months to

\$10.3 million. What's behind this increase and what's the outlook for cash flow over the remainder of the year?

CFO Keith Halliwell

A significant portion of the increase in payables relates to the non-cash retranslation of our US\$4 million liability to Continental, our joint-venture partner in Synerject. We have the option of paying Continental this amount in order to maintain our 50-percent holding in Synerject. The positive cash impact of the increase in payables was approximately \$1.3 million which related to an increase in revenue received in advance. That's in fact offset by a similar increase in receivables.

We expect the tough economic conditions to continue in the second half, although our trading conditions should improve. We expect that improvement to be reflected in our operating cash flow in the second half.

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Orbital had cash on hand of \$10.6 million at the end of December, up from \$8.8 million six months earlier, with cash outflow from operations offset by the \$0.8 million dividend received from Synerject, your 50:50 joint venture with Continental, and a \$2.8 million government grant. What's the outlook for cash at 30 June 2009?

CFO Keith Halliwell

As I just mentioned, we anticipate an improvement in cash flow from operations, but we'll be completing the construction of the heavy duty engine test facility for which we received a government grant in the first half, and that will consume approximately \$2 million. However we have sufficient cash to meet those requirements and to meet our operating requirements. Our expectation is that the testing facility will be commissioned before 30 June.

CEO Terry Stinson

We expect the heavy duty test facility to generate revenue fairly quickly following commissioning projected for mid calendar year 2009. We're building the facility at the behest of the Commonwealth Government, and there is already interest and inquires for test and development services from the government and from private-sector customers. We also have R&D work planned for the facility centred on our alternative fuels initiatives.

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The Synerject cash dividend was down from \$1.0 million received in the previous corresponding period, in spite of Orbital's share of the net profit of Synerject being \$0.7 million, up from \$0.4 million. Is the Synerject dividend sustainable at this level?

CFO Keith Halliwell

Orbital's reported share of Synerject's net profit is impacted by exchange rates and differences in accounting standards between the US and Australia. To understand the sustainability of the dividends, you need to look at Synerject's underlying profit and cash flow and they both improved in the half year to December 2008.

Synerject's operating cash flow improved by approximately \$2 million compared with the half year ended December 2007 in particularly tough trading conditions.

We expect to see a regular dividend from Synerject. In fact, Synerject will be paying us an interim dividend this month of approximately \$400,000 based on first half profit. This will be the first time we'll have received an interim dividend from Synerject.

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Synerject benefited from sales of its new M3 electronic control unit (ECU) in the Taiwan market, which offset the sharp downturn in the North American marine recreation market, one of its traditional core markets. Can sales into Asian markets continue to offset further weakening in the traditional markets?

CEO Terry Stinson

I believe sales in Asia can partially provide an offset. Sales of the M3 into Taiwan have been driven by changes in emissions regulations, so these sales have been less affected by what's happening in the world economy. Even in these down times, sales of motorcycles are generally holding up fairly well in Taiwan. Taiwan's emissions legislation for motorcycles is the most stringent in the world and it's driving the move to fuel injection for motorcycles and scooters. We're hoping Taiwan will lead the way in Asia for setting tighter emissions standards in countries like China where there are more motorcycles than scooters.

In US dollar terms, Synerject's first-half revenue was up 9 percent over last year. Synerject is profitable and its market is growing. Synerject is a real success story.

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Orbital Gas Products (OGP) booked pre-tax profit of \$0.3 million on revenue of \$3.6 million in the first half, the first period in which it has contributed to results. To what extent is this indicative of its expected contribution going forward?

CFO Keith Halliwell

We're very pleased with OGP's contribution in its first reporting period since acquisition. On an annualised basis the result represents a 20 percent return on our investment. OGP is the exclusive Australian supplier of LPG systems manufactured by Vialle LPG Systems in Holland, so it buys in euros and is therefore exposed to the euro-Australian dollar exchange rate. If the euro remains relatively strong, margins will be under pressure in the second half but we'll be managing this very carefully in the next six months.

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You've indicated you've invested in R&D for the next generation liquid propane injection fuel (LPi) system for OGP's markets and that the product will be available this calendar year. What's the expected market for this product and how are margins expected to compare with the existing product range supplied by Vialle?

CEO Terry Stinson

Initially, the main markets for the next generation LPi system will be in the after-market, retro-fit and in fleet applications. We'll also work to win business from original equipment (OE) customers like Ford, Holden and Toyota. Note that OGP has been selling current generation LPG systems to Ford for several years.

Our preliminary testing suggests the new LPi system will reduce harmful greenhouse gas emissions by up to 10 percent compared with a standard gasoline application; this is while improving performance and reducing operating cost compared with gasoline. We believe that these results will create excellent consumer market pull.

The margin on the product should be similar to the existing products on a percentage basis; however this is a more advanced LPG system so it will be more expensive.

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What further R&D opportunities do you see within OGP?

CEO Terry Stinson

As I've stated in many of our public releases, our focus and strategy is centred on growing our business in alternative fuels. Alternative fuels is an area where we can both save customers money on fuel costs, provide a reduction in the level of harmful greenhouse gases and help improve the environment. Orbital is developing a next generation LPi port injection system, a next generation direct injected LPG system, new direct and port injected ethanol systems and direct and port injection for LNG and CNG applications.

For us the key deliverable is turning our R&D efforts into profits as quickly as possible. As an example, a bit over a year ago we presented a paper in Brazil on our Flex DI technology evolution into ethanol applications, earlier this month we announced a project to co-develop an ethanol system in Brazil with Sygma Motors.

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Orbital's Engineering Services business booked revenue of \$4.1 million in the first half, down from \$6.6 million in the previous corresponding period. This is the lowest six-month revenue result since the first half of 2006. With continuing tough operating conditions, can the business survive in its current form?

CEO Terry Stinson

Yes it can survive. We expect the business to make it through this difficult time and we plan to be prepared to grow as economies around the world rebound. We have sufficient levels of cash to continue operations for the immediate future and as noted before, the second half is looking better than the first. The new Sygma Motors program is providing a good base load for the business and we've also recently secured an engine design and development program from a customer in China. There are also several programs in the pipeline that show high potential.

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You've said the order book stood at \$5.2 million at the end of January, up from \$5.0 million six months earlier. How does the scope of these orders compare with that of orders in more "normal" times and to what extent will the orders translate into revenue in the current second half?

CFO Keith Halliwell

In normal times we have a mix of orders – they utilise different engineering resources and facilities, some relate to our core IP and others don't, and some are long term and others short term. Today's profile is no different. Based on today's project schedules we expect to generate increased engineering revenue in the second half compared with the first half.

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Orbital's Royalty and Licence income was \$0.7 million in the first half, down 34 percent from the previous corresponding period, reflecting weaker marine volumes. What is the outlook for royalty income from your newer markets?

CEO Terry Stinson

Penetration into the Indian market is happening slowly and royalty revenue per vehicle is less than the average product in the US market as the royalty is indexed to power. We expect the Indian market will continue to grow as our customers gain confidence with their fleet trials. We have other customer applications that are in the early stages of development but it's too early to project the royalty impact at this time.

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You've indicated the alternative fuel industry provides Orbital with its best opportunities for long-term earnings growth. How are you seeking to tap these opportunities and what degree of demand visibility do you have beyond the current year?

CEO Terry Stinson

The market for LPG has grown steadily in Australia with its popularity rising or falling with the price of petrol. LPG typically costs 40 to 50 percent less than petrol, and that continues to drive growth in sales of the fuel for automobile applications. Using our established LPG business as a foundation, we're going to launch our new LPi system targeting fleets, private car owners and OEs. LPi offers improved fuel efficiency and reduced emissions, and we believe it's ready for market. The LPG automotive fuel market has steadily grown in Australia due to the availability of fuel, low fuel price compared with petrol, good fuelling infrastructure and government support. We believe LPG is here to stay and on an annualised basis, LPG applications in Australia are increasing.

Natural gas is also an excellent alternative which is steadily gaining a foothold in markets across the world. Australia is perfectly positioned to adopt it. We've already completed transport work in Western Australia and we have LNG and CNG projects here and in other countries. It's a growing market in need of new technology to meet both consumer demand and emissions targets.

The other alternative fuel we're in is ethanol. Our applications are growing worldwide, and we picked Brazil as the right market to penetrate first as it has an incredible track record in renewable energy. Sygma Motors has selected our technology for direct injection of ethanol for a family of large engine applications, and if we can make ethanol work in these engines, there's no reason we can't make it work in others.

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Thank you Terry and Keith.

For more information about Orbital, please visit www.orbitalcorp.com.au or call Terry Stinson on (+61 8) 9441 2462

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