

Financial Summary

Orbital's result for the year is summarised as follows: -

	June 2003	June 2003		June 2002
	Full Year A\$'000	1st Half A\$'000	2nd Half A\$'000	Full Year A\$'000
Revenue				
System Sales	29,304	23,236	6,068	35,748
Engineering	10,089	4,856	5,233	8,765
Royalties	3,192	1,529	1,663	2,693
Licence income	699	91	608	3,758
	<u>43,284</u>	<u>29,712</u>	<u>13,572</u>	<u>50,964</u>
Other Income				
Proceeds on sale of fixed assets	441	80	361	138
Foreign Exchange gain	1,894	249	1,645	1,393
Other	593	65	528	106
	<u>2,928</u>	<u>394</u>	<u>2,534</u>	<u>1,637</u>
Total Revenue (excluding interest)	46,212	30,106	16,106	52,601
System purchases	(27,582)	(21,696)	(5,886)	(33,227)
Licence costs	(549)	-	(549)	(477)
	<u>18,081</u>	<u>8,410</u>	<u>9,671</u>	<u>18,897</u>
Gross Contribution	18,081	8,410	9,671	18,897
Overhead expenses	(19,460)	(10,562)	(8,898)	(25,449)
Restructuring costs	352	17	335	(5,418)
Share of Synerject net profit/(loss)	1,351	664	687	(3,068)
Provision Texmaco investment	-	-	-	(6,446)
	<u>324</u>	<u>(1,471)</u>	<u>1,795</u>	<u>(21,484)</u>
Earnings before interest, tax, depreciation & amortisation	324	(1,471)	1,795	(21,484)
Depreciation & amortisation	(1,807)	(1,158)	(649)	(2,752)
Amortisation of prepaid marketing	(484)	(484)	0	(2,319)
Net interest income	227	147	80	680
	<u>(1,740)</u>	<u>(2,966)</u>	<u>1,226</u>	<u>(25,875)</u>
Operating loss before tax	(1,740)	(2,966)	1,226	(25,875)
Income tax (expense) credit	(125)	67	(192)	(901)
	<u>(1,865)</u>	<u>(2,899)</u>	<u>1,034</u>	<u>(26,776)</u>
Operating Loss after tax attributable to members	(1,865)	(2,899)	1,034	(26,776)

Revenue

Whilst revenue for the year of \$46.2 million fell 12% compared to the prior year, the reduction was primarily due to the restructure of Synerject incorporating the transfer of Orbital's marine and recreation systems sales business to Synerject with effect from 1 April 2003. The transfer will have full effect in F2004 with all systems sales being reported by Synerject.

Engineering revenue increased 15% to \$10.1 million over the prior year as Orbital expanded its customer base beyond its traditional technology focus.

Additionally, royalty revenue increased 19% to \$3.2 million over the prior year, reflecting the first full year of motorcycle royalties and the launch of additional new products including Mercury's 3 cylinder Optimax™ product range and Peugeot's Jetforce scooter.

Licence income, typically volatile period to period, was \$0.7 million compared to \$3.8 million last year. As announced in February 2003, the Indian component manufacturer, UCAL, was licensed to supply Orbital fuel systems to the very prospective Indian motorcycle market.

Expenses

Orbital has continued its restructuring, aggressively commenced in F2001. Overheads for the year of \$19.5 million were \$6.0 million lower than 2002, which in turn was \$5.5 million lower than 2001. Overhead savings have been generated primarily through staff reductions, however savings have been achieved across all cost centres. Offices in the United Kingdom and the United States were closed during the year and the associated functions either transferred to Synerject or centralised in Perth, Australia. Further savings in the year ended 30 June 2004 are forecast as the annualised benefits of the cost saving initiatives introduced during the year are realised.

Synerject

Synerject consolidated the turnaround demonstrated in recent reporting periods, with Orbital's share of Synerject's profit for the year increasing to \$1.4 million compared to a loss of \$3.1 million last year. Synerject turnover increased by 52% to US\$39 million. The increase is primarily a result of the first full year of production of direct injection products for Piaggio motorcycles and Peugeot Motocycles, together with port injection products for Sanyang and Kymco in Taiwan. Sale volumes to Mercury also increased including the introduction of direct injection fuel systems to Mercury's 3 cylinder Optimax range of engines. Mercury introduced the 115hp engine in April 2003 and this will be followed by the 90hp and 75hp engines later this calendar year.

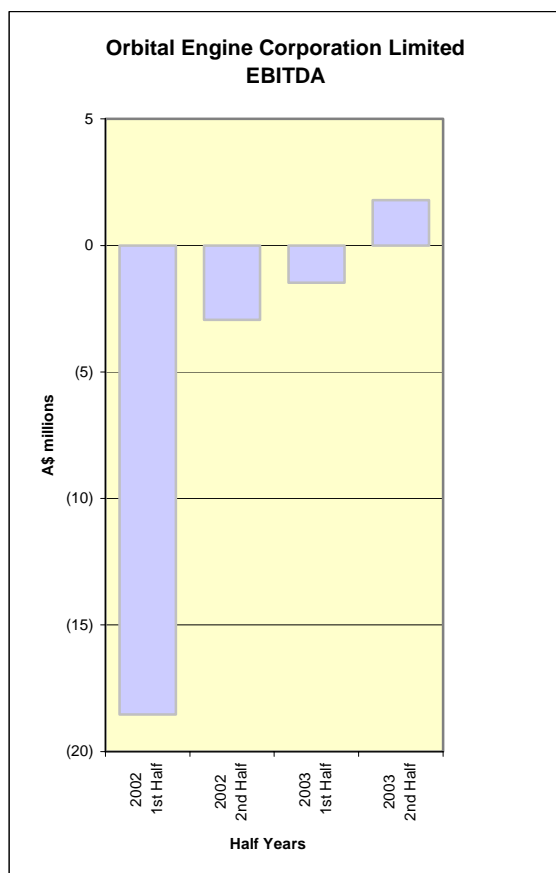
The restructure of Synerject announced in January 2003 transferred the benefit of Orbital's marine and recreation system sales and Siemens-VDO's non-automotive systems business to Synerject with effect from 1 April 2003.

As previously advised, Synerject's finance arrangements were renegotiated during the year with loans now in place until September 2006. Synerject was cashflow positive during the financial year, meeting all terms and conditions of the restructured finance.

Improving Results

The second half-year profit of more than \$1.0 million benefited from foreign exchange gains but was ahead of expectations.

The following graphical presentation of EBITDA over the past four half years illustrates that the strategy put in place in the last 18 months has dramatically improved the cash flow profile of Orbital.



Cash

Net operating cash outflow was \$7.2 million for the year, however \$6.3 million was in the first half, reducing to \$0.9 million in the second half. Approximately \$2.5 million cash payments were made during the year in respect of redundancies and annual and long service leave for staff reductions. A further \$2.0 million working capital increase arose from early receipt of trade receivables in the last year.

In June 2003 Orbital received a net \$2.6 million arising out of the successful placement of shares with a number of existing and new institutional investors.

Cash at the end of the financial year was \$9.0 million.

Further, during July 2003 a successful share purchase plan closed oversubscribed, raising a further net \$3.3 million.

Commercial Update

Orbital's sales and marketing efforts have been focused on delivering continued and sustained growth in sales of engineering services. Non-Orbital Combustion Process (OCP) related engineering services now account for approximately one third of all engineering revenue of \$10.1 million. The new customers and expanded engineering services achieved provide confidence that growth targets forecast for engineering services revenue this financial year can be met.

Orbital continues to support OCP programs in all its markets, and in particular within the automotive sector where currently two advanced engineering programs are being progressed with Original Equipment Manufacturers (OEMs).

The number of engines now incorporating OCP technology has grown to 30 with the introduction of 5 new models in the marine sector and 1 new model in the motorcycle sector in the last 12 months. Within the marine sector, Mercury released the 115hp model of the 1.5 litre Optimax™ 3 cylinder engine, the first of three new models scheduled for introduction in the northern hemisphere summer of 2003.

Peugeot Motorcycles released its Jetforce scooter for sale in April 2003. This northern hemisphere summer will be the first full year of sales of the 4 scooter models released by Piaggio and Peugeot last year. Aprilia's two models released several years ago continue to perform well in the market.

Orbital continues to work with Indian scooter and motorcycle manufacturers to meet emissions legislation to be introduced in 2005. Orbital's OCP™ direct injection is a proven solution enabling 2-stroke engines to meet these requirements while also providing fuel savings for the end user.

Outlook

Growth in core revenue streams of engineering services and royalties, with costs continuing to decrease as the full benefits of our restructuring are realised, provides a basis for optimism.

The annualised benefit from the restructure of Synerject should result in a further profit improvement enhancing the value of Orbital's investment in Synerject during F2004.

Orbital is confident that it will be able to continue to build on the good foundation which it has established.

ENDS

Orbital is an international developer of engine and related technologies, providing research, design and development services for the worlds producers of powertrains and engine management systems for application in motorcycles, marine and recreational vehicles, automobiles and trucks. Orbital's principal operations in Perth, Western Australia, provide a world class facility with capabilities in design, manufacturing, development and testing of engines and powertrains unparalleled in the Asia Pacific region. Orbital provides its customers with leading edge, world class, engineering expertise. Headquartered in Perth, Western Australia, Orbital stock is traded on the Australian Stock Exchange (OEC), the New York Stock Exchange (OE) as well as the Berlin (ORE) and Frankfurt (OREA) Exchanges

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