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## ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2001

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated.

### BOARD OF DIRECTORS AND ITS COMMITTEES

The key role of the Board of Directors is to ensure that corporate management is continually and effectively striving for above-average performance, taking account of risk and protecting shareholders interests. The Board of Directors is responsible for the overall Corporate Governance of the consolidated entity including guidance and approval of strategic direction and assisting management in the establishment and monitoring of goals. The Board has established a number of Committees to assist in the execution of its responsibilities and to provide a framework for the management of the consolidated entity including a system of internal controls and the establishment of appropriate ethical standards.

The agenda for meetings is prepared in conjunction with the Chairman and Chief Executive Officer. Standing items include the Chief Executive Officer's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and Directors have other opportunities, including visits to operations, for contact with a wider group of employees.

#### Composition of the Board

Details regarding the composition of the Board are set out on page 16.

#### Directors Dealing in Company Shares

The Company's policy with respect to Directors and Officers dealing in the Company's shares or options states that:

- Directors and Officers are prohibited from dealing in the Company's securities at any time when they possess information that, if publicly disclosed, would be likely to affect the market price of the Company's securities;
- Directors and Officers are prohibited from short term trading in the Company's securities;
- Directors must obtain the written approval of the Chairman before undertaking any transactions involving the Company's securities; and
- Directors and Officers are prohibited from undertaking transactions in the Company's securities during the period from one month prior to the proposed release of the Company's annual or half year result until two days after that release.

#### Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's constitution Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned must not be present at the meeting whilst the item is considered or vote on the matter. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

#### Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior approval of the Chairman, may seek independent professional advice at the consolidated entity's expense.

#### Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board on the remuneration packages and policies applicable to the Chief Executive Officer, senior executives and Directors themselves. It also plays a role in evaluation of the performance of the Chief Executive Officer and management succession planning. This role also includes responsibility for share schemes, incentive performance packages, superannuation entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract and retain the most qualified and experienced Directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The Remuneration Committee meets as and when required. Current members are Mr R W Kelly (Chairman), Mr A J Castleman and Mr K C Schlunke. The Chief Executive Officer, Mr K C Schlunke, does not attend discussions relating to his own remuneration.

Total remuneration for all non-executive Directors was last voted upon by shareholders at the 1994 Annual General Meeting and is not to exceed \$250,000 per annum. When setting fees and other compensation for non-executive Directors, the Board seeks independent advice and applies Australian and international benchmarks.

Further details of Directors' remuneration, superannuation and retirement payments are set out in Note 30 to the financial statements.

## **ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2001**

### **Audit Committee**

The role of the Audit Committee is to give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies for inclusion in the financial report.

Members of the Audit Committee during the year were Mr J G Young (Chairman), Mr A J Castleman and Mr R S Forbes. The external auditors, Chief Financial Officer, Company Secretary and other financial and accounting staff are invited to Audit Committee meetings at the discretion of the Committee.

The responsibilities of the Audit Committee include, liaising with the external auditors and ensuring that the annual and half-year statutory audits/reviews are conducted in an effective manner; reviewing and ensuring that management implement appropriate and prompt remedial action for any deficiencies identified; monitoring compliance with Australian and international taxation requirements, the Australian and United States Corporations Laws, and Stock Exchange Listing Rules; and improving the quality of the accounting function.

The Audit Committee reviews the performance of the external auditors on an annual basis and meets with them to discuss audit planning matters, statutory reporting and as required for any special reviews or investigations deemed necessary by the Board.

### **Finance Committee**

The Finance Committee reviews and makes recommendations to the Board on policies dealing with, and specific transactions of, material items or arrangements of a financial nature. All Directors are members of the Finance Committee.

The Finance Committee meets as and when required.

### **INTERNAL CONTROL FRAMEWORK**

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, an organisational structure that provides an appropriate division of responsibility, and the careful selection and training of qualified personnel.

The consolidated entity has policies and procedures to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules. A comprehensive process is in place to identify matters that may have a material effect on the price of the Company's securities and to notify the Company Secretary of them. The Chief Executive Officer, Chief Financial Officer and Company Secretary are responsible for interpreting the Company's policy and, where necessary, informing the Board. The Company Secretary is responsible for all communications with the ASX.

### **BUSINESS RISKS**

The Board recognises that it is in a business with high-risk exposures which, when minimised, should assist greatly in achieving high returns for its shareholders. The Board works with management to undertake business risk assessments to identify and resolve key business risks.

### **ETHICAL STANDARDS**

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

### **SHAREHOLDERS**

The Board of Directors aims to ensure that shareholders are informed of all major developments affecting the consolidated entity's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders worldwide (unless a shareholder has specifically requested not to receive the document) and includes relevant information about the operation of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to other disclosures required by the Corporations Act 2001 and US Securities Law;
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year financial report is prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001 and is lodged with Australian and United States regulatory bodies and stock exchanges. Financial reports are sent to any shareholder who requests them;
- As from June 1996, the Corporation has instigated the practice of distributing twice yearly to shareholders (as at June and December) a review of operations for the preceding quarter; and
- There is continuous disclosure of material information to the stock exchanges, media outlets and via the Internet.

The Board encourages participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting for the election of Directors.

## ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2001

The Directors present their report together with the financial report of Orbital Engine Corporation Limited (the Company or Orbital) and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2001 and the auditors' report thereon.

### Directors

Refer to page 16 of this annual report and Note 30 to the financial statements for details of the Directors of the Company including their qualifications, attendance at meetings, remuneration, share and option holdings in the Company, and indemnification and insurance of officers.

### Principal Activities

The principal activity of the consolidated entity during the course of the financial year was to facilitate the ongoing commercialisation of the OCP technology.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

### Consolidated Result

The consolidated loss after income tax for the year attributable to the members of Orbital was \$26.837 million (2000: \$9.929 million loss).

### Review and Results of Operations

A comprehensive review of the operations of the consolidated entity is set out in pages 1 to 15 of this annual report.

### Environmental Regulation

Orbital holds a number of permits, licences and registrations for environmental regulation under both Australian Commonwealth and State legislation. These permits, licences and registrations are primarily for the storage of fuels and chemicals and the disposal of waste and are reviewed by Orbital on an on-going basis. The Directors are not aware of any significant breaches during the period covered by this report.

### Dividends

No dividend has been paid or proposed in respect of the current financial year.

### State of Affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- The consolidated entity acquired the special purpose research and development company formed under the Genesis Syndicate. Refer to Notes 24 and 33.
- The consolidated entity purchased the minority shareholding in controlled entity, OEC Pty Ltd, relating to the Technology Investment Transaction I. Refer to Notes 23 and 25.

### Events Subsequent to Balance Date

On 23 August 2001 the Company entered into a technical transfer and licence agreement with Delphi Automotive Systems. Under the agreement Delphi has acquired rights to manufacture and sell Orbital's air assisted direct fuel injection technology as part of Delphi's complete fuel and engine management system. It is not possible to reliably estimate the financial effect of this event on the Company.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature that is likely, in the opinion of the Directors of the Company, to significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

### Likely Developments

Information as to the likely developments in the operations of the consolidated entity is set out in other sections of this report. Further information as to the likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because to include such information would be likely to result in unreasonable prejudice to the consolidated entity.

### Share Purchase Plan

The Company operated a share purchase plan for shareholders which terminated on 31 December 2000. During the financial year there were 48,602 shares issued under this plan.

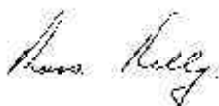
### Options

Refer to Note 30.6 for details of the options issued to Directors and the five most highly remunerated officers. Refer to Note 20.1 for details of Employee Share Plan options on issue and to Note 20.4 for details of warrants on issue.

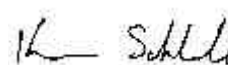
### Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the 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:



R W KELLY  
Chairman



K C SCHLUNKE  
Chief Executive Officer

Dated at Perth, Western Australia this 3<sup>rd</sup> day of September, 2001

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
Licence income		1,398	12,206	-	-
Royalty income		3,537	1,541	-	-
Engineering services income		14,736	16,097	-	-
System sales		37,939	17,537	-	-
Other revenues from ordinary activities	2	4,041	3,966	805	245
<b>Total revenue</b>		<b>61,651</b>	<b>51,347</b>	<b>805</b>	<b>245</b>
Cost of system sales		(35,352)	(17,342)	-	-
Gross margin and other revenues		26,299	34,005	805	245
Employee expenses	3.1	(21,067)	(19,724)	(1,972)	(1,743)
Borrowing costs	3.2	(69)	(389)	(941)	(938)
Other expenses from ordinary activities	3.3	(19,697)	(21,439)	(25,539)	(9,154)
Total overhead expenses from ordinary activities	3.4	(40,833)	(41,552)	(28,452)	(11,835)
Share of net loss in business undertaking		(12,834)	(5,335)	-	-
<b>Loss from ordinary activities before related income tax</b>		<b>(27,368)</b>	<b>(12,882)</b>	<b>(27,647)</b>	<b>(11,590)</b>
Income tax benefit relating to ordinary activities	4.1	807	2,998	765	1,706
<b>Net loss after related income tax</b>		<b>(26,561)</b>	<b>(9,884)</b>	<b>(26,882)</b>	<b>(9,884)</b>
Net profits attributable to outside equity interests		(276)	(45)	-	-
<b>Total changes in equity from non-owner related transactions attributable to members of the parent entity</b>		<b>(26,837)</b>	<b>(9,929)</b>	<b>(26,882)</b>	<b>(9,884)</b>
Basic earnings/(loss) per share (in cents)	5	(7.6)	(3.1)		
Diluted earnings/(loss) per share (in cents)	5	(7.6)	(3.1)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 23 to 53.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>Current Assets</b>					
Cash	6	32,735	52,855	27,542	3,078
Receivables	7.1	10,647	14,739	28	44
Inventories	8	801	962	-	-
Other	9.1	2,426	2,582	43	41
<b>Total Current Assets</b>		<b>46,609</b>	<b>71,138</b>	<b>27,613</b>	<b>3,163</b>
<b>Non-Current Assets</b>					
Receivables	7.2	3,508	-	22,832	65,654
Other financial assets	10	6,446	6,446	-	-
Property, plant & equipment	11	15,534	19,032	94	147
Deferred tax assets	4.5	2,627	2,367	1,119	494
Research and development syndication assets	12.1	36,158	96,507	-	-
Other	9.2	907	3,230	-	-
<b>Total Non-Current Assets</b>		<b>65,180</b>	<b>127,582</b>	<b>24,045</b>	<b>66,295</b>
<b>Total Assets</b>		<b>111,789</b>	<b>198,720</b>	<b>51,658</b>	<b>69,458</b>
<b>Current Liabilities</b>					
Accounts payable	13.1	8,505	17,119	1,435	1,089
Interest-bearing liabilities	14.1	384	298	27	25
Current tax liabilities	4.3	390	528	-	-
Provisions	17.1	2,254	2,462	109	93
Other	18.1	3,978	2,760	-	-
<b>Total Current Liabilities</b>		<b>15,511</b>	<b>23,167</b>	<b>1,571</b>	<b>1,207</b>
<b>Non-Current Liabilities</b>					
Interest-bearing liabilities	14.2	541	431	16,708	13,168
Non interest-bearing liabilities	15	19,000	19,000	19,000	19,000
Deferred tax liabilities	4.4	2,375	3,419	8	13
Provisions	17.2	3,445	3,009	300	278
Research and development syndication liabilities	12.2	36,158	96,507	-	-
Other	18.2	20,688	17,395	-	-
<b>Total Non-Current Liabilities</b>		<b>82,207</b>	<b>139,761</b>	<b>36,016</b>	<b>32,459</b>
<b>Total Liabilities</b>		<b>97,718</b>	<b>162,928</b>	<b>37,587</b>	<b>33,666</b>
<b>Net Assets</b>		<b>14,071</b>	<b>35,792</b>	<b>14,071</b>	<b>35,792</b>
<b>Equity</b>					
Contributed equity	20	210,840	205,679	210,840	205,679
Reserves	21	-	-	-	-
Accumulated losses	22	(196,769)	(169,932)	(196,769)	(169,887)
Total parent entity interest		14,071	35,747	14,071	35,792
Outside equity interests	23	-	45	-	-
<b>Total Equity</b>		<b>14,071</b>	<b>35,792</b>	<b>14,071</b>	<b>35,792</b>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 23 to 53.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>Cash Flows Used In Operating Activities</b>					
Cash receipts in the course of operations		60,290	51,148	38	-
Cash payments in the course of operations		(72,028)	(63,367)	(5,163)	(4,304)
Borrowing costs paid		(69)	(389)	(10)	(50)
Income taxes paid		(603)	-	-	-
Net cash (used in) operating activities	35.2	(12,410)	(12,608)	(5,135)	(4,354)
<b>Cash Flows From Investing Activities</b>					
Interest received		2,338	1,193	760	210
(Loans to) / repayment from controlled entities		-	-	23,227	(41,754)
Proceeds from sale of property, plant & equipment		939	640	23	35
Payments for property, plant & equipment		(573)	(1,545)	(3)	(26)
Payments for minority interests	23	(700)	-	-	-
Payments for investments in controlled entities (net of cash acquired)	33	141	-	-	-
Payments for investment in business undertaking		(8,324)	-	-	-
Advances to/from business undertaking	7.2,13.1	(8,171)	-	-	-
Net cash provided by / (used in) investing activities		(14,350)	288	24,007	(41,535)
<b>Cash Flows Used In Financing Activities</b>					
Proceeds from issue of shares		5,161	32,670	5,161	32,670
Share buy-back		-	(496)	-	(496)
Finance lease payments		(364)	(372)	(25)	(20)
Net cash provided by/(used in) financing activities		4,797	31,802	5,136	32,154
<b>Net increase/(decrease) in cash held</b>		(21,963)	19,482	24,008	(13,735)
Cash at the beginning of the financial year		52,855	32,186	3,078	16,527
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1,843	1,187	456	286
<b>Cash at the end of the financial year</b>	35.1	<u>32,735</u>	<u>52,855</u>	<u>27,542</u>	<u>3,078</u>

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out in pages 23 to 53.

## ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

#### 1.1 Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. It has been prepared on the basis of historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

#### 1.2 Reclassification of Financial Information

Some line items and sub-totals reported in the previous financial year have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB 1018 *Statement of Financial Performance*, AASB 1034 *Financial Report Presentation and Disclosures* and the new AASB 1040 *Statement of Financial Position*.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing accumulated losses from the face of the statement of financial performance to Note 22.

The following assets and liabilities have been removed from previous classifications and are now disclosed as separate line items on the face of the statement of financial position:

- deferred tax assets, previously presented within other non-current assets;
- current tax liabilities, previously presented within current provisions; and
- deferred tax liabilities, previously presented within non-current provisions.

#### 1.3 Principles of Consolidation

##### (a) *Controlled Entities*

The financial statements of controlled entities are included from the date control commences until the date control ceases. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

##### (b) *Transactions Eliminated on Consolidation*

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

#### 1.4 Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

##### (a) *Revenue from Sale of Goods and Rendering of Services*

Revenue from sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Revenue from rendering services is recognised in the period in which the service is provided having regard to the stage of completion of the contract. Revenue earned under various licence, royalty and other agreements is recognised upon the satisfactory completion of contracted technical specifications and/or other obligations.

##### (b) *Interest Income*

Interest income is recognised as it accrues.

##### (c) *Asset Sales*

The gross proceeds of asset sales are included as revenue of the consolidated entity. The profit or loss on disposal of assets is brought to account at the date that an unconditional contract of sale is signed. The profit or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

##### (d) *Marketing and Engineering Development Fees*

The revenue recognition policy for income earned pursuant to the Research and Development Syndicates is set out in Note 1.15. The revenue recognition policy for income earned pursuant to the Technology Investment transactions is set out in Note 1.16.

##### (e) *Foreign Exchange Gains*

The revenue recognition policy for foreign exchange gains is set out in Note 1.13.

## **ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **1.5 Income Tax**

The consolidated entity adopts the liability method of accounting for income tax.

Income tax expense is calculated on the operating result adjusted for permanent differences between taxable income and accounting profit. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a deferred tax liability.

Future income tax benefits including future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

#### **1.6 Recoverable Amount of Non-Current Assets valued on a Cost Basis**

The carrying amounts of all non-current assets valued on a cost basis are regularly reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

#### **1.7 Investments**

##### *(a) Controlled Entities*

Investments in, and receivables from, controlled entities are carried in the Company's financial statements at the lower of cost, written down value and recoverable amount (being the underlying net asset position of the controlled entities).

##### *(b) Business Undertakings*

The consolidated entity's interest in business undertakings is carried at cost, adjusted for the consolidated entity's share of losses of the business undertakings.

##### *(c) Other Companies*

Investments in other listed entities are measured at the lower of cost and recoverable amount (refer Note 10).

#### **1.8 Property, Plant and Equipment**

##### *(a) Acquisition*

Items of property, plant and equipment are recorded at cost and depreciated as outlined below.

The cost of assets constructed by controlled entities includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads. Expenditure, including that on internally generated assets, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate and the costs can be measured reliably.

##### *(b) Depreciation and Amortisation*

Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated/amortised on a straight line basis over their estimated useful lives. The depreciation rates used for each class of asset are as follows: Buildings 2.22% to 2.5%; Leasehold Improvements 6.67% to 50%; Plant and Equipment 6.67% to 50%.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

##### *(c) Subsequent Additional Costs*

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset, will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

##### *(d) Valuation*

Land and buildings are independently valued every three years on a market value basis of valuation. The Directors then use these valuations to assess the recoverable amount of land and buildings.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**1.8 Property, Plant and Equipment (continued)**

(e) *Leased Assets*

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

(i) *Finance Leases*

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of the principal. The interest components of the lease payments are expensed.

(ii) *Operating Leases*

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

**1.9 Research and Development Expenditure**

Research and development costs are expensed as incurred.

**1.10 Patents, Licences and Technologies**

Patents, licences and technology costs are expensed as incurred.

**1.11 Pre-production Expenditure**

Pre-production costs represent costs incurred in enhancing the OCP technology to enable commercial production. Pre-production costs are expensed as incurred.

**1.12 Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of both variable and fixed costs.

**1.13 Foreign Currency**

(a) *Transactions*

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

(b) *Translation of Controlled Foreign Entities*

The assets and liabilities of controlled foreign entities that are integrated operations are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transaction occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

**1.14 Borrowing Costs**

Borrowing costs include interest, lease finance charges, facility fees and ancillary costs incurred in connection with the arrangement of borrowings.

Borrowing costs are expensed as incurred.

**1.15 Research and Development Syndicates**

(a) *Genesis Syndicate*

On 25 May 1995, a controlled entity, Orbital Engine Company (Australia) Pty Ltd (OECA), entered into a Research and Development Syndication arrangement to fund the introduction of a limited number of OCP-powered vehicles in Australia.

On 30 May 2001, following the exercise of a put option, OECA acquired 100% of Investment Development Funding Pty Ltd, a member of the Genesis Syndicate. Funds for the transaction were sourced from the research and development restricted security deposit.

## ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 1.15 Research and Development Syndicates (continued)

##### (b) OCP-4S Syndicate

A second Research and Development Syndicate was registered with the Industry, Research and Development Board in February 1997 to fund the development of the next generation direct fuel injection combustion and engine technologies for automotive applications. The main features of the Syndicate are set out in Note 24.

##### (c) The syndication arrangements are in substance financing transactions and as such the following accounting treatment has been adopted:

- (i) Amounts received from the Syndicates for contracted research and development were initially treated as deferred revenue and were brought to account as income progressively, as work was completed. The monies received for contracted research and development were initially deposited in research and development restricted access deposits. The deposits are now fully drawn down;
- (ii) Similarly the costs of the contracted research and development were brought to account as incurred and matched with the contracted research and development revenue;
- (iii) The amounts which may ultimately become payable through the exercise of the put options have been discounted to their present values and recognised as liabilities. The monies to meet the liability arising from the OCP-4S Syndicate have been deposited in a research and development restricted security deposit and are funded from the core technology licence fee, the markup on the research and development contract sum and the interest earned on the research and development restricted access deposits. Accordingly, no revenue is recognised in relation to the core technology fees, or in respect of interest that accrues on the amounts placed on deposit, other than set out in Note 24. Equally, no expense is recognised with respect to the put option obligation that exists. The core technology licence fees will only be recognised as revenue if either the put option obligation lapses or as royalties are received progressively. Refer to (v) below;
- (iv) Interest on the research and development restricted security deposit is accumulated in the accounts as earned and matched by corresponding increases in the present value of the put option liability; and
- (v) In the event that royalty payments are made to the OCP-4S Syndicate members prior to 13 May 2003, the after-tax amount of these payments will be applied to reduce the put option obligations. The reduction in the present value of the put option liability as a result of these royalty payments will be recognised in the year in which they become payable.

#### 1.16 Technology Investment Transactions

On 31 October 1997 OECA entered into a technology investment transaction. On 31 December 1997 a controlled entity, Orbital Fluid Technologies, Inc. also entered into a technology investment transaction. Both transactions aim to increase the prospect, rate and timing of high volume penetration of the OCP technology in the non-automotive markets. The main features of the Technology Investment transactions are set out in Note 25 to the financial report. The Technology Investment transactions are in substance financing transactions and as such the following accounting treatment has been adopted:

- (i) The amount received under Transaction I, less the amount described in (iii) below, was brought to account as licence revenue. The amounts received under Transaction II for contracted marketing and development were initially treated as deferred revenue and brought to account as income progressively. The deferred income is now fully drawn down;
- (ii) Similarly, the costs of the contracted marketing and development are brought to account as incurred and matched with the contracted marketing and development revenue;
- (iii) The amounts ultimately payable through the exercise of the put options were discounted to their present values and recognised as liabilities. The monies to meet the liabilities from the Technology Investment transactions were funded from the core technology licence fees and were placed in restricted security deposits. Accordingly, no revenue was recognised in relation to these amounts. Equally, no expense was recognised with respect to the put option obligations that existed. The put obligations were exercised on 15 January 2000;
- (iv) Interest on restricted security deposits was accumulated in the accounts as earned and matched by corresponding increases in the present value of the put option obligations;
- (v) Where royalty payments were made to the Investors prior to 15 January 2000, the after-tax amount of these payments was applied to reduce the put obligations. The reduction in the present value of the subscription obligation liabilities as a result of these royalty payments was recognised in the year they accrued.

#### 1.17 Derivative Financial Instruments

The consolidated entity is exposed to fluctuations in interest rates and foreign exchange rates from its activities. The consolidated entity may use forward foreign exchange contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes.

#### 1.18 Warranties

Provision is made for the consolidated entity's estimated liability on all products still under warranty.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**1.19 Employee Entitlements**

(a) *Wages, Salaries and Annual Leave*

The provisions for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the balance date, calculated at discounted amounts based on current wage and salary rates including related on-costs.

(b) *Long Service Leave*

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to balance date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on the consolidated entity's experience with staff departures and is discounted using the rates attached to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

(c) *Superannuation Plan*

Amounts paid to the defined contribution employee superannuation funds by the Company and the controlled entities are charged against income as they are made. Refer to Note 27.

**1.20 Receivables**

Receivables are carried at amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

**1.21 Accounts Payable**

Liabilities are recognised for amounts due to be paid in the future for goods or services received.

**1.22 Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

	NOTE	CONSOLIDATED		THE COMPANY	
		2001	2000	2001	2000
		\$000's	\$000's	\$000's	\$000's
<b>2. OTHER REVENUE FROM ORDINARY ACTIVITIES</b>					
Marketing & engineering development fees	25.2	-	1,840	-	-
Interest income from non-related parties		2,338	1,293	760	210
Proceeds on sale of property, plant and equipment		939	626	23	35
Other income		764	207	22	-
		<u>4,041</u>	<u>3,966</u>	<u>805</u>	<u>245</u>
<b>3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>					
Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:					
<b>3.1 Employee expenses</b>					
Salaries, wages, superannuation and other employee payments		19,613	19,457	1,904	1,832
Redundancy payments		1,872	-	30	-
Net expense from movements in employee provisions		(418)	267	38	(89)
		<u>21,067</u>	<u>19,724</u>	<u>1,972</u>	<u>1,743</u>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE (CONTINUED)</b>				
<b>3.2 Borrowing costs</b>				
Finance charges on capitalised leases	69	80	10	10
Interest paid to related business undertaking	-	269	-	-
Interest payable to controlled entity	-	-	931	888
Convertible debenture	-	40	-	40
	<u>69</u>	<u>389</u>	<u>941</u>	<u>938</u>
<b>3.3 Other expenses from ordinary activities</b>	<u>19,697</u>	<u>21,439</u>	<u>25,539</u>	<u>9,154</u>
Other expenses include the following individually significant and disclosable expenses:				
Depreciation and amortisation				
- Buildings	81	82	-	-
- Leasehold improvements	264	262	-	-
- Plant and equipment	2,422	2,274	14	33
- Finance leased assets	271	404	42	36
	<u>3,038</u>	<u>3,022</u>	<u>56</u>	<u>69</u>
Goodwill written off	379	-	-	-
Amounts set aside to provision for bad and doubtful debts	(11)	480	-	-
Amounts set aside to provision for writedown in carrying value of investments in controlled entities	-	-	22,940	6,145
Amounts set aside to provision for diminution in carrying value of plant and equipment	700	-	-	-
Net expense from movements in warranty provisions	646	70	-	-
Net expense from movements in other provisions	-	(276)	-	-
Net foreign exchange losses	1,903	746	(100)	209
Operating lease payments - premises	419	913	-	-
Operating lease payments - plant and equipment	801	379	-	-
Prepaid marketing expenses - amortised	2,319	1,836	-	-
Patent application, renewal and enforcement costs	1,635	1,150	-	-
Partnership dissolution costs	-	951	-	-
	<u></u>	<u></u>	<u></u>	<u></u>
Net (profit) / loss on disposal of property, plant and equipment:				
Plant and equipment	4	97	-	(35)
Leased Assets	(50)	-	(23)	-
	<u>(46)</u>	<u>97</u>	<u>(23)</u>	<u>(35)</u>
<b>3.4 Supplementary information on total overhead expenses from ordinary activities by function:</b>				
Research and development expenditure (expensed as incurred)	<u>11,318</u>	<u>13,630</u>	<u>-</u>	<u>-</u>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>4. INCOME TAX CREDIT</b>					
<b>4.1 Prima facie income tax credit</b>					
Calculated at 34% on the operating loss (2000: 36%)		9,305	4,638	9,400	4,172
(Decrease)/increase in income tax credit due to non tax deductible items					
- Non-resident controlled entities results not tax effected		(3,604)	(2,449)	-	-
- Non-assessable income		532	-	-	-
(Decrease)/increase in income tax credit due to:					
- Withholding tax		(173)	(415)	-	-
- Non-deductible legal fees and settlement costs		2	(68)	2	(68)
- Depreciation and amortisation		(11)	(10)	-	(3)
- Convertible debenture expenses		-	(14)	-	(14)
- Capital gain on sale of land		(58)	-	-	-
- Purchased goodwill written off		(129)	-	-	-
- Other (non-deductible)/non-assessable amounts		(29)	(2)	(22)	10
Increase in income tax credit due to:					
- Research and development allowance		449	565	-	-
- Recoupment of foreign tax credits		-	144	-	-
Income tax credit on operating loss before individually significant income tax items		6,284	2,389	9,380	4,097
Individually significant income tax items:					
- Technology Investment Transactions	25				
- interest on restricted security deposit		-	(246)	-	-
- royalty payment		-	501	-	-
- Australian tax losses not brought to account		(5,731)	-	(700)	-
- Provision against carrying value of investments in subsidiaries		-	-	(7,799)	(2,211)
- Restatement of deferred tax balances due to change in company tax rate		(115)	123	(112)	(67)
		(5,846)	378	(8,611)	(2,278)
Income tax credit for current year		438	2,767	769	1,819
Income tax over/(under) provided in prior year		369	231	(4)	(113)
Income tax credit on operating loss		807	2,998	765	1,706
<b>4.2 Total income tax credit is made up of:</b>					
Current income tax provision		(693)	(759)	-	-
Over/(under) provision in prior year		369	231	(4)	(113)
Transfer of current year losses to group companies		-	-	139	1,211
Withholding tax		(173)	(415)	-	-
Deferred income tax provision		1,044	3,535	5	493
Future income tax benefit		260	406	625	115
		807	2,998	765	1,706

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>4. INCOME TAX CREDIT (CONTINUED)</b>				
<b>4.3 Current tax liabilities</b>				
<i>Provision for current income tax</i>				
Movements during the year:				
Balance at beginning of year	528	-	-	-
Addition through acquisition of controlled entities	141	-	-	-
Income tax paid	(603)	-	-	-
(Over)/under provision in prior year	(369)	(231)	-	-
Current year's income tax expense on operating profit/(loss)	693	759	-	-
	<u>390</u>	<u>528</u>	<u>-</u>	<u>-</u>
<b>4.4 Deferred tax liabilities</b>				
<i>Provision for deferred income tax</i>				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% (2000: 34% or 30%, depending on when the liability was expected to be realised) on the following items:				
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	2,274	2,923	-	-
Addition through acquisition of controlled entities	-	301	-	-
Income tax payable deferred due to change in tax period for controlled entities	-	53	-	-
Unrealised foreign exchange	54	-	-	-
Sundry items	47	142	8	13
	<u>2,375</u>	<u>3,419</u>	<u>8</u>	<u>13</u>
<b>4.5 Deferred tax assets</b>				
<i>Future income tax benefit</i>				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2000: 34% or 30%, depending on when the benefit was expected to be realised) on the following items:				
Provisions and accrued employee entitlements not currently deductible	1,148	1,364	123	115
Accrued other expenses not currently deductible	452	344	134	85
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	20	45	31	45
Unrealised net foreign exchange losses	981	523	830	240
Sundry items	26	91	1	9
	<u>2,627</u>	<u>2,367</u>	<u>1,119</u>	<u>494</u>
<i>Future income tax benefit not taken to account</i>				
<u>Australia</u>				
Potential future income tax benefits of the company and its Australian resident controlled entities, arising from tax losses which have not been recognised as an asset because recovery of tax losses is not virtually certain:				
Tax losses carried forward (30%)	5,057	-	618	-

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**4. INCOME TAX CREDIT (CONTINUED)**

**4.5 Deferred Tax Assets (continued)**

The potential future income tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

USA

Tax carry forward losses of approximately \$108.588 million (US\$55.380 million) (2000: \$80.265 million (US\$47.926 million)) are available to certain controlled entities in the United States and have not been recognised as an asset because recovery is not virtually certain.

Under the tax laws of the United States, tax losses that cannot be fully utilised for tax purposes during the current year may be carried forward, subject to some statutory limitations, to reduce taxable income in future years. At 30 June 2001, the \$108.588 million of tax carry forward losses available expire between the years 2013 and 2019.

**4.6 Dividend Franking Account**

Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements and after deducting franking credits to be used in payment of the above dividends and those dividends required to be treated as interest expense:

Class C (30%) - franking credits

	CONSOLIDATED		THE COMPANY	
	2001	2000	2001	2000
	\$000's	\$000's	\$000's	\$000's
	4,417	3,753	2,041	2,041

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

**5. EARNINGS / (LOSS) PER SHARE**

Weighted average number of ordinary shares outstanding used in the calculation of basic loss per share

Weighted average number of ordinary and potential ordinary shares

	CONSOLIDATED	
	2001	2000
	353,720,361	324,685,590
	363,161,706	331,265,860

Options to purchase ordinary shares held under the Employee Share Plan are included in calculating the weighted average number of potential ordinary shares. Refer to Note 20.1 for details of outstanding options. Inclusion of the options has an anti-dilutive effect, hence the weighted average number of potential ordinary shares is not used in calculating the diluted earnings/(loss) per share.

**6. CASH**

Cash at bank

Cash at bank - US Dollars

Cash at bank - Other foreign currencies

At call deposits with financial institutions

Bank bills

	CONSOLIDATED		THE COMPANY	
	2001	2000	2001	2000
	\$000's	\$000's	\$000's	\$000's
	793	893	114	9
	11,187	10,790	6,763	2,672
	90	38	-	-
	1,517	41,134	1,517	397
	19,148	-	19,148	-
	32,735	52,855	27,542	3,078

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>7. RECEIVABLES</b>					
<b>7.1 Current</b>					
Trade debtors		7,031	12,431	-	-
Trade debtors - related business undertaking		2,069	1,478	-	-
Less: Provision for doubtful trade debtors		-	(164)	-	-
		<u>9,100</u>	<u>13,745</u>	<u>-</u>	<u>-</u>
Other debtors		1,547	994	28	44
		<u>10,647</u>	<u>14,739</u>	<u>28</u>	<u>44</u>
<b>7.2 Non-Current</b>					
Loans to controlled entities		-	-	83,970	103,852
Provision for diminution in carrying value of controlled entities		-	-	(61,138)	(38,198)
Loan to related business undertaking		3,508	-	-	-
		<u>3,508</u>	<u>-</u>	<u>22,832</u>	<u>65,654</u>
<b>8. INVENTORIES</b>					
Raw materials and stores - at cost		1,063	1,222	-	-
Provision for obsolescence		(262)	(260)	-	-
		<u>801</u>	<u>962</u>	<u>-</u>	<u>-</u>
<b>9. OTHER ASSETS</b>					
<b>9.1 Current</b>					
Prepayments		2,426	2,582	43	41
		<u>2,426</u>	<u>2,582</u>	<u>43</u>	<u>41</u>
<b>9.2 Non-current</b>					
Prepayments		483	2,802	-	-
Other		424	428	-	-
		<u>907</u>	<u>3,230</u>	<u>-</u>	<u>-</u>
<b>10. OTHER FINANCIAL ASSETS</b>					
Investment in PT Texmaco Perkasa Engineering Tbk					
- at cost		6,446	6,446	-	-
Investments in controlled entities - at cost	32	-	-	346,913	346,913
Less: provision against carrying value of investments in controlled entities		-	-	(346,913)	(346,913)
		<u>6,446</u>	<u>6,446</u>	<u>-</u>	<u>-</u>

The consolidated entity holds a 0.51% interest in PT Texmaco Perkasa Engineering Tbk, a company incorporated in Indonesia and listed on the Indonesian Stock Exchange. The principal activities of PT Texmaco Perkasa Engineering Tbk are the manufacture of industrial equipment and machinery including the development and manufacture of automotive and heavy vehicle engines.

The market value of the Texmaco investment as at 30 June 2001 was \$5,079,261 (Indonesian Rupiah 29,414,000,000).

The investment is carried at original cost of \$6,446,467. Orbital has been provided with a guarantee from PT Multikasa Investama, the holding company and major shareholder (69.08%) to re-purchase Orbital's shares in PT Texmaco Perkasa Engineering Tbk at the request of Orbital prior to 18 December 2008 subject to certain conditions. The guarantee is for the original price paid by Orbital less any dividend distributions made prior to the repurchase.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>					
<i>Freehold land</i>					
At Directors' valuation 1996	11.1	1,091	1,733	-	-
<i>Buildings</i>					
At Directors' valuation 1996		3,057	3,057	-	-
Less: accumulated depreciation		(407)	(326)	-	-
	11.1	2,650	2,731	-	-
<i>Leasehold improvements</i>					
At cost		4,005	3,995	-	-
Less: accumulated depreciation		(2,825)	(2,561)	-	-
		1,180	1,434	-	-
<i>Plant and equipment</i>					
At cost		31,491	31,959	520	813
Less: accumulated depreciation		(21,928)	(19,625)	(497)	(779)
		9,563	12,334	23	34
<i>Leased assets</i>					
At cost		1,387	1,495	167	167
Less: accumulated amortisation		(455)	(864)	(96)	(54)
		932	631	71	113
<i>Capital works in progress</i>					
At cost		118	169	-	-
Total property, plant and equipment - net book value		15,534	19,032	94	147
<b>Reconciliations</b>					
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:					
<i>Freehold land</i>					
Carrying amount at beginning of year		1,733	1,783	-	-
Additions		18	-	-	-
Disposals		(660)	(50)	-	-
Carrying amount at end of year		1,091	1,733	-	-

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)</b>				
<b>Reconciliations (continued)</b>				
<i>Buildings</i>				
Carrying amount at beginning of year	2,731	3,052	-	-
Disposals	-	(239)	-	-
Depreciation	(81)	(82)	-	-
Carrying amount at end of year	2,650	2,731	-	-
<i>Leasehold improvements</i>				
Carrying amount at beginning of year	1,434	1,693	-	-
Additions	10	3	-	-
Amortisation	(264)	(262)	-	-
Carrying amount at end of year	1,180	1,434	-	-
<i>Plant and equipment</i>				
Carrying amount at beginning of year	12,334	13,448	34	41
Additions and transfers	581	1,512	3	26
Disposals and provisions	(930)	(352)	-	-
Depreciation	(2,422)	(2,274)	(14)	(33)
Carrying amount at end of year	9,563	12,334	23	34
<i>Leased assets</i>				
Carrying amount at beginning of year	631	939	113	75
Additions	575	121	-	75
Disposals	(3)	(25)	-	-
Amortisation	(271)	(404)	(42)	(37)
Carrying amount at end of year	932	631	71	113
<i>Capital works in progress</i>				
Carrying amount at beginning of year	169	260	-	-
Net transfers to property, plant and equipment	(51)	(91)	-	-
Carrying amount at end of year	118	169	-	-

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**11.1 Interests in Land and Buildings - Australia**

*Directors' Valuation*

The value at 30 June 1999 of interest in certain land and buildings held by a controlled entity is \$3,760,000, based upon an independent valuation. The valuation was carried out as at 2 July 1999, by S Gill (AAPI) on the basis of open market value of the properties concerned in their existing use. During the current year, the freehold land was sub-divided and a portion sold on the open market.

The carrying value of the land and buildings referred to above is \$3,740,747 (2000: \$4,463,967). As the land and buildings are held for long term use, the Directors do not believe there has been any permanent diminution in value to the consolidated entity and believe that the recoverable amount of the land and buildings, given the review undertaken in accordance with Note 1.6, is in excess of the carrying value.

This valuation is in accordance with the Company's policy of obtaining an independent valuation of land and buildings every three years.

	NOTE	CONSOLIDATED		THE COMPANY	
		2001	2000	2001	2000
		\$000's	\$000's	\$000's	\$000's
<b>12. RESEARCH AND DEVELOPMENT SYNDICATION ASSETS AND LIABILITIES</b>					
<b>12.1 Non-Current Assets</b>					
Research and development restricted security deposits	24.4	36,158	96,507	-	-
<b>12.2 Non-Current Liabilities</b>					
Future put obligations - research and development syndication	24.4	36,158	96,507	-	-
Net research and development syndication assets		-	-	-	-
<b>13. ACCOUNTS PAYABLE</b>					
<b>13.1 Current</b>					
Trade creditors and accruals		5,839	6,255	1,435	1,089
Trade creditors - related business undertaking		2,666	6,201	-	-
Other payables - related business undertaking		-	4,663	-	-
		8,505	17,119	1,435	1,089
<b>14. INTEREST BEARING LIABILITIES</b>					
<b>14.1 Current</b>					
Lease liabilities	26.3	384	298	27	25
<b>14.2 Non-Current</b>					
Loans and advances - controlled entities		-	-	16,623	13,056
Lease liabilities	26.3	541	431	85	112
		541	431	16,708	13,168

(a) A first ranking mortgage debenture with fixed and floating charges over the whole of the assets (excluding patents, licences and technologies and research and development deposits) has been granted to the Company's banker for the establishment of credit facilities totalling \$2,215,196 (2000: \$1,993,690).

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>14. INTEREST BEARING LIABILITIES (CONTINUED)</b>				
<b>14.3 Financing Arrangements</b>				
The consolidated entity has standby arrangements with banks to provide support facilities:				
<b>Total facilities available</b>				
Performance guarantee facility	69	85	-	-
Corporate credit card facility	1,119	1,163	211	222
Multi-option credit facility	850	700	250	200
Letter of credit	490	419	-	-
	<u>2,528</u>	<u>2,367</u>	<u>461</u>	<u>422</u>
<b>Facilities utilised at balance date</b>				
Performance guarantee facility	69	85	-	-
Corporate credit card facility	129	184	12	23
Multi-option credit facility	-	-	-	-
Letter of credit	490	419	-	-
	<u>688</u>	<u>688</u>	<u>12</u>	<u>23</u>
<b>Facilities not utilised at balance date</b>				
Performance guarantee facility	-	-	-	-
Corporate credit card facility	990	979	199	199
Multi-option credit facility	850	700	250	200
Letter of credit	-	-	-	-
	<u>1,840</u>	<u>1,679</u>	<u>449</u>	<u>399</u>

These facilities have been arranged with the consolidated entity's bankers with the general terms and conditions being set and agreed to from time to time. The standby letter of credit is a committed non-interest bearing facility, available to be drawn down until final expiration on 7 April 2004.

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>15. NON INTEREST BEARING LIABILITIES</b>				
Loans and advances - secured	<u>19,000</u>	<u>19,000</u>	<u>19,000</u>	<u>19,000</u>

The Government of Western Australia has provided the Company with a fully utilised loan facility of \$19,000,000 under the terms of a "Development Agreement". Repayment of this facility will be in full on the date which is 25 years after the date on which the first advance is made (May 1989), or in any year prior to that date if the aggregate number of OCP engines produced, calculated on a worldwide basis, exceeds 5,000,000, by equal annual payments, each of one fifth of the loan, on 1 July in the year commencing 1 July following the year in which such production is achieved. No interest accrues on this facility until such time as the loan becomes payable.

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

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**16. AMOUNTS RECEIVABLE/PAYABLE IN FOREIGN CURRENCIES**

The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies at the year end exchange rate are as follows:

	WEIGHTED AVERAGE RATE		CONSOLIDATED		THE COMPANY	
	2001	2000	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>16.1 United States Dollars</b>						
<i>Amounts Receivable</i>						
Current	0.5105	0.5992	6,391	11,716	-	-
<i>Amounts Payable</i>						
Current	0.5100	0.5971	3,611	14,326	-	190
<b>16.2 United Kingdom Pounds Sterling</b>						
<i>Amounts Receivable</i>						
Current	0.3623	0.3946	14	13	-	-
<i>Amounts Payable</i>						
Current	0.3623	0.3960	29	54	-	53
<b>16.3 Euro Dollars</b>						
<i>Amounts Receivable</i>						
Current	0.6018	0.6309	568	551	-	-
<i>Amounts Payable</i>						
Current	-	0.6464	-	146	-	-
<b>17. PROVISIONS</b>						
<b>17.1 Current</b>						
Employee entitlements - including on-costs			2,209	2,417	109	93
Other			45	45	-	-
			<u>2,254</u>	<u>2,462</u>	<u>109</u>	<u>93</u>
<b>17.2 Non-Current</b>						
Provision for product warranty			819	173	-	-
Employee entitlements - including on-costs			1,871	2,081	300	278
Other			755	755	-	-
			<u>3,445</u>	<u>3,009</u>	<u>300</u>	<u>278</u>
The present value of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:						
Assumed rate of increase in wage and salary rates			4.00%	4.00%	4.00%	4.00%
Discount rate			6.00%	6.00%	6.00%	6.00%
Settlement term (years)			10	10	10	10
<b>Number of employees</b>						
Number of employees at year end			<u>214</u>	<u>265</u>	<u>15</u>	<u>14</u>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>18. OTHER LIABILITIES</b>					
<b>18.1 Current</b>					
Unearned income		3,978	2,760	-	-
<b>18.2 Non-Current</b>					
Unearned income		295	3,689	-	-
Liability for share of net asset deficiency in related business undertaking	19, 28	20,393	13,706	-	-
		<u>20,688</u>	<u>17,395</u>	<u>-</u>	<u>-</u>

**19. INTERESTS IN RELATED BUSINESS UNDERTAKINGS**

As at 30 June 2001, the consolidated entity holds a 50% interest in Synerject LLC.

The principal activity of Synerject LLC (a joint undertaking with Siemens Automotive Corporation) is to design, develop, manufacture, distribute and sell fuel rail assemblies incorporating Orbital technology. In November 1998, the operations of Synerject LLC were expanded to enable Synerject to service motorcycle and scooter customers with air assisted direct injected systems. This includes engine management systems and all peripheral components and system integration services in addition to supply of the fuel rail assembly.

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>20. CONTRIBUTED EQUITY</b>					
<b>Issued and paid-up capital</b>					
354,698,274 (2000: 350,127,973) ordinary shares, fully paid		210,840	205,679	210,840	205,679
<b>Ordinary Shares</b>					
Balance at the beginning of year		205,679	409,588	205,679	409,588
Shares issued:					
- 4,521,699 (2000: 3,607,600) shares issued pursuant to the exercise of employee options		5,087	3,007	5,087	3,007
- 48,602 (2000: 56,227) shares issued pursuant to shareholders share purchase plan		74	44	74	44
- Nil (2000: 23,437,500) shares issued pursuant to share placement		-	29,619	-	29,619
Shares bought back:					
- Nil (2000: 914,183) shares		-	(496)	-	(496)
Transfer from Capital Reduction Reserve	21	-	(236,083)	-	(236,083)
		<u>210,840</u>	<u>205,679</u>	<u>210,840</u>	<u>205,679</u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**20. CONTRIBUTED EQUITY (CONTINUED)**

**20.1 Employee Share Plan**

The names of the persons who currently hold options are entered in the register of options kept by the Company pursuant to Section 170 of the Corporations Act 2001. The register may be inspected free of charge.

At the date of this report, the following options over unissued ordinary shares were outstanding under this plan.

Year	SERIES A			SERIES B			Total Outstanding
	Number Outstanding	Exercise Price \$	Expiration Date	Number Outstanding	Exercise Price \$	Expiration Date	
1996	518,000	0.94	1 Nov 2001	1,152,051	1.04	1 Nov 2001	1,670,051
1997	504,000	0.74	19 Sep 2002	1,299,900	0.82	19 Sep 2002	1,803,900
1998	516,500	0.59	25 Sep 2003	541,200	0.66	25 Sep 2003	1,057,700
1999	423,500	0.53	23 Sep 2004	255,850	0.59	23 Sep 2004	679,350
2000	948,000	1.61	28 Sep 2005	995,700	1.79	28 Sep 2005	1,943,700
	2,910,000			4,244,701			7,154,701

These options do not entitle the holder to participate in any share issue of any other corporation.

The market value of shares under these options at 30 June 2001 was \$0.73 (30 June 2000: \$1.83).

During the year the Company issued 972,000 2000 Series A options and 1,013,600 2000 Series B options for nil consideration. The Series A options are exercisable at \$1.61, being a discount of 10% from the market price of the ordinary shares at the date of offer of the options, any time up to 28 September 2005. The Series B options are exercisable at \$1.79 after the hurdle price of \$2.42 has been reached any time up to 28 September 2005. All permanent employees who have served 12 months as at the date of offer are eligible to participate.

During the year 4,521,699 ordinary shares were issued by the Company as a result of the exercise of options under its Employee Share Plan. The weighted average market value of these shares on issue totalled \$8,850,876, and the total amount received by the company from employees was \$5,087,405.

**20.2 Shareholders Share Purchase Plan**

The following shares were issued by the Company under the Shareholders Share Purchase Plan during the year:

Date	Number of Shares Issued	Share Issue Price
30 September 2000	9,275	\$1.60
31 December 2000	39,327	\$1.50
	48,602	

In accordance with the notice to shareholders dated 22 September 2000, the Shareholders Share Purchase Plan was cancelled effective 31 December 2000.

**20.3 Share Buy-Back**

During the year ended 30 June 2000 the Company purchased 914,183 of its fully paid ordinary shares from its shareholders for consideration amounting to \$495,620: an average consideration of \$0.54 per share. These shares have been cancelled in accordance with the requirements of the Australian Corporations Act 2001.

**20.4 Warrants**

During the year ended 30 June 2000 the Company issued 375,000 warrants for Orbital's American Depositary Receipts (one American Depositary Receipt represents eight fully paid ordinary shares) as part of the redemption of the convertible debenture issued in August 1998. These warrants may be exercised at any time before 15 January 2003 when they will expire. Of the total 375,000 warrants, one third are exercisable at US\$3.00, one third at US\$3.50 and the remainder at US\$4.00.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>21. RESERVES</b>				
<b>Capital Reduction Reserve</b>				
Balance at beginning of year	-	(236,083)	-	(236,083)
Transfer to contributed equity	-	236,083	-	236,083
Balance at end of year	-	-	-	-

(a) *Capital Restructure*

As part of the capital restructure that was approved by shareholders on 30 October 1995 and completed during the year ended 30 June 1999, investments and receivables from controlled entities of \$236.083 million representing Patents, Licences and Technologies of the controlled entities were fully amortised and transferred to the Capital Reduction Reserve. In October 1999 shareholder approval was given to reduce the share capital by applying the Capital Reduction Reserve of \$236.083 million against the Share Capital Account.

	CONSOLIDATED		THE COMPANY	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
<b>22. ACCUMULATED LOSSES</b>				
Accumulated losses at beginning of the year	169,932	160,003	169,887	160,003
Net loss attributable to members of the parent entity	26,837	9,929	26,882	9,884
Accumulated losses at end of the year	196,769	169,932	196,769	169,887
<b>23. OUTSIDE EQUITY INTERESTS</b>				
Outside equity interest in controlled entities comprise:				
Interest in retained profits at the beginning of the financial year	45	-	-	-
Interest in operating profit after tax	276	45	-	-
Purchase during the year	(321)	-	-	-
Total outside equity interests	-	45	-	-

(a) On 29 June 2001 the consolidated entity purchased the minority interest in OEC Pty Ltd for \$700,000 such that OEC Pty Ltd became a wholly owned controlled entity. The financial effect of this transaction is detailed below.

	2001 \$000's
Cash consideration	700
Less: Fair value of net assets purchased	
- Minority interest in controlled entity	321
Goodwill	379

(b) On 15 January 2000 in accordance with the Technology Investment Transactions (refer to Note 25.1 (b)), the consolidated entity acquired a majority shareholding in OEC Pty Ltd and Axiom Invest No. 2 Pty Ltd. This resulted in the above outside equity interests at 30 June 2000.

## **ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

### **24. RESEARCH AND DEVELOPMENT SYNDICATES**

#### **24.1 Genesis Syndicate**

The Genesis Syndicate was entered into in May 1995 and was used to fund the introduction of a limited number of OCP-powered vehicles in Australia. Under the syndicate arrangement, an amount of \$56,384,478 was received on 30 June 1995. This payment was represented by a core technology fee of \$40,380,000 and a research and development contract sum of \$16,004,478.

On 30 May 2001 the Investor exercised their rights under a put option (refer to Note 24.3(b)) and Orbital Engine Company (Australia) Pty Ltd (OECA) acquired all the issued shares in the Genesis special purpose research and development company. (Refer to Note 24.3(b)).

#### **24.2 OCP Four-Stroke (OCP-4S) Syndicate**

In May 1996, two controlled entities entered into a joint venture research and development syndication arrangement with an external investor (the Investor) to fund the development of the next generation direct fuel injection combustion and engine technologies for automotive engine applications. The syndicate was registered with the Industry Research and Development Board in February 1997. Under the OCP-4S Syndicate arrangement, a total of \$39,962,170 was received from the Investor. The payment comprised a core technology fee of \$23,040,000 and a research and development contract sum of \$16,922,170.

#### **24.3 Key Features**

(a) The key features of the Syndicates are as follows:

- (i) OECA granted non-exclusive licences to the Syndicate in respect of the OCP-4S technology (OCP-4S Syndicate) and OCP technology (Genesis Syndicate) for automotive applications;
- (ii) In the Genesis Syndicate, the Investor had a 86.11% stake until 30 May 2001, at which time the Investor exercised their rights under a put option (refer to Note 24.3(b)), as a result of which this special purpose research and development company is now wholly owned by OECA;
- (iii) In the OCP-4S Syndicate, the Investor has a 90% stake with the remaining 10% being owned by OECA;
- (iv) The Syndicates appointed OECA to undertake research and development on their behalf. The Genesis Syndicate research and development program was completed on 31 March 1998 and the OCP-4S research and development program was completed on 30 June 1999;
- (v) All new technologies, patents and know-how resulting from the research and development program belong to the Syndicates, however OECA have rights to such developments, allowing such benefits to be made available to existing and future licensees;
- (vi) The research and development restricted access deposits were interest bearing and OECA was able to withdraw monies in advance, in accordance with an agreed schedule, to fund the research and development programs; and
- (vii) The Company has guaranteed the obligations of OECA under the Syndicates, principally to ensure all payments that may become owing to the financier will be satisfied.

(b) *Put Option and Royalty Payments*

Under the Genesis Syndicate arrangements, the Investor had the right to exercise a put option in respect of their shareholding in the special purpose investment subsidiary. That option was exercisable on 30 June 2002, or earlier if agreed between the parties. By agreement between the parties, the option was exercised on 30 May 2001. As a consequence, the relevant special purpose research and development company is now wholly owned by OECA. (Refer to Note 33.) Total consideration for the transaction was \$60,348,493 being the accumulated balance of the restricted security deposit.

OECA has effective ownership of all intellectual property developed by the Genesis Syndicate and is now entitled to all royalties payable to the Syndicate.

Under the OCP-4S Syndicate arrangements, the Investor has the right to exercise a put option in respect of their shareholding in the special purpose investment subsidiary on 13 May 2003, or earlier if agreed or in the event of an early termination of the research and development program or in the event of a default by OECA. The exercising of the put option requires OECA to acquire all of the issued shares in the relevant special purpose research and development subsidiary for total consideration equal to the accumulated balance on the restricted security deposit.

If the put option is exercised under the OCP-4S Syndicate agreement, OECA will have effective ownership of all intellectual property developed by the Syndicate and will be entitled to all royalties payable to the Syndicate.

(c) *Marketing Rights*

OECA has been granted an exclusive licence by the Syndicate members of their interest in the research results to undertake the commercialisation and further development of the technology.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**24 RESEARCH AND DEVELOPMENT SYNDICATES (CONTINUED)**

**24.3 Key Features (continued)**

(d) *Termination and Default*

The OCP-4S Syndicate may be terminated in a number of circumstances. These include:

- (i) failure of the Investor to be registered or ceasing to be registered under Section 39P of the Industry Research and Development Act in relation to the project or failure to comply with other conditions subsequent;
- (ii) cancellation of the research and development programs in accordance with the transaction documents; or
- (iii) the occurrence of any event of default on the part of OECA. The specified events of default include predominantly standard provisions regarding failure to pay, breach of obligations under the transaction documents, representations, warranties or statements proving to be untrue in any material respect, the occurrence of the events in a winding up or an insolvency context, and any other event which in the reasonable opinion of the Investors has affected or is likely to affect the ability of OECA to comply with all or any of its obligations under the transaction documents.

**24.4 Accounting Treatment**

The Syndication arrangements have been accounted for as financing transactions. The effect on the consolidated statement of financial performance and statement of financial position of each of the syndicates is as follows:

	NOTE	GENESIS SYNDICATE		OCP-4S SYNDICATE	
		2001	2000	2001	2000
		\$000's	\$000's	\$000's	\$000's
(a) <i>Statement of Financial Performance</i>					
Revenue earned from the syndicate for completed contract work		-	-	-	-
Interest revenue on the research and development restricted access deposits		-	-	-	-
		-	-	-	-
Research and development expenditure incurred on behalf of the syndicate to the end of the financial year		-	-	-	-
Net effect		-	-	-	-
(b) <i>Statement of Financial Position</i>					
<i>Other Non-Current Assets</i>					
Research and development restricted security deposit	12.1	-	60,349	36,158	36,158
<i>Other Non-Current Liabilities</i>					
Future put option obligation - research and development syndication	12.2	-	60,349	36,158	36,158

(c) *Acquisition of controlled entities*

100% of the issued shares in Investment Development Funding Pty Ltd (Genesis Syndicate) were acquired on exercise of the put option. Refer to Note 24.3(b). The financial effect of this transaction is detailed at Note 33.

**25. TECHNOLOGY INVESTMENT TRANSACTIONS**

During the year ended 30 June 1998 Orbital entered into two technology investment transactions with Deutsche Morgan Grenfell (DMG) to increase the prospect, rate and timing of high volume penetration of the OCP technology in the non-automotive markets.

Both transactions involved the granting of non-exclusive licences by Orbital to DMG wholly owned subsidiaries (Investor I and Investor II) in respect of OCP technology for non-automotive applications. Orbital received taxable licence fees of \$47,750,000 and \$25,080,000 from Transaction I and Transaction II respectively. Under Transaction II, Investor II entered into a marketing and development contract with Orbital whereby Orbital received contract payments totalling \$6,500,000 over the period of the transaction to market the OCP technology in the non-automotive markets on behalf of the Investor. As at 30 June 2000 all contract payments had been received.

## ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

### 25. TECHNOLOGY INVESTMENT TRANSACTIONS (CONTINUED)

#### 25.1 Key Features

(a) *The key features of the Technology Investment transactions are:*

- (i) Orbital granted non-exclusive licences to the Investors in respect of the OCP technology in the non-automotive markets;
- (ii) The licences were granted for an initial two-year period, with two, three year licence period renewals. The licences expire on 30 January 2006;
- (iii) Under Transaction II Orbital was contracted to market and develop the OCP technology;
- (iv) Ownership of the technology remains with Orbital. The Investors were granted the right to use the technology within the agreed fields;
- (v) All new technologies, patents and know-how resulting from the use of the technology by the Investors belong to Orbital, allowing such benefits to be made available to existing and future licensees;
- (vi) Under Transaction I, Orbital received a licence fee of \$47,750,000 from the Investor. An amount of \$35,744,318, being the present value of the sum required to fund a subscription option granted to DMG in relation to the shares in Investor I, was immediately placed in a restricted security deposit. The balance of \$12,005,682 was available to Orbital as working capital;
- (vii) Under Transaction II, Orbital received a licence fee of \$25,080,000 from the Investor. An amount of \$22,380,000, being the present value of the sum required to fund the subscription option granted to DMG in relation to the shares in Investor II, was immediately placed in a restricted security deposit. After the payment of withholding tax, \$192,000 was available to Orbital as working capital. In addition to the licencefee, Investor II paid a marketing and development contract sum of \$6,500,000 to Orbital systematically over two years. At 30 June 2000 all payments under the marketing and development contract had been received by Orbital, all of which has been derived;
- (viii) Under Transaction I, Orbital is required to pay the Investor a royalty represented by a percentage of the non-automotive licence and royalty income that Orbital received during the licence period; and
- (ix) Under Transaction II, Orbital is required to pay the Investor a royalty represented by a percentage of the distributions received by Orbital from commercialisation arrangements it is party to in the non-automotive area.

(b) *Subscription Option*

Under both Transactions, DMG had the right to exercise a subscription option in respect of the unissued shares in Investor I and Investor II on 15 January 2000, or earlier in the event of default by Orbital. This right was exercised on 15 January 2000 for both transactions. This required Orbital, through its wholly owned subsidiary ST Management Ltd (STM) to subscribe for shares in Investor I and Investor II for consideration equal to the lesser of the outstanding debt of the Investors, or the accumulated balance of the security deposit.

The after-tax amount of royalties paid by Orbital to the Investors was applied to reduce the Investors' debt, and accordingly Orbital's subscription price. On exercise of these subscription options, STM became the majority shareholder in the Investors and is therefore entitled to distributions from the Investors.

(c) *Acquisition of Shares*

On 29 June 2001, STM purchased DMG's shares in Investor I. Investor I is now a wholly owned subsidiary of STM. (Refer to Note 23(a).)

(d) *Put Option*

Under Transaction II, DMG has the right to exercise a put option in respect of the shares that it holds in Investor II on 30 January 2006, or earlier in certain circumstances, including default by Orbital. The exercising of the put option requires Orbital to acquire all or part of DMG's shareholding in Investor II.

If the put option is exercised at the end of the licence period, 30 January 2006, Orbital will acquire the balance of issued shares in Investor II.

If DMG does not exercise the put option, DMG will retain its shareholding in Investor II. The licence agreement expires on 30 January 2006.

(e) *Exercise of Option and Default*

DMG may exercise the put option on the following events of default:

- (i) failure by the parties to the transaction to make any payments required under the Transaction Agreements;
- (ii) failure by any of the parties to the transaction to perform any of its obligations under the Transaction Agreements;
- (iii) the making of an untrue or misleading representation, warranty or statement by any of the parties to the transaction;
- (iv) the winding up or dissolution of any of the parties to the transaction, including the cessation or suspension by one of the parties of all or a material part of their business; and
- (v) the insolvency or appointment of a receiver/manager to any of the parties to the transaction.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**25. TECHNOLOGY INVESTMENT TRANSACTIONS (CONTINUED)**

**25.2 Accounting Treatment**

The Technology Investment Transactions have been accounted for as financing transactions. The effect on the consolidated statement of financial performance and statement of financial position of each transaction is outlined below. Refer to Note 4 for the income tax expense effect.

	TRANSACTION I		TRANSACTION II	
	2001	2000	2001	2000
	\$000's	\$000's	\$000's	\$000's
(a) Operating (loss) before related income tax				
Marketing and development contract income	-	-	-	1,840
Royalty payment	-	(408)	-	-
Marketing and development expenditure incurred to the end of the financial year	-	-	-	(1,840)
Net effect	-	(408)	-	-
(b) Statement of financial position	-	-	-	-

	NOTE	CONSOLIDATED		THE COMPANY	
		2001	2000	2001	2000
		\$000's	\$000's	\$000's	\$000's
<b>26. COMMITMENTS</b>					
<b>26.1 Capital Expenditure Commitments</b>					
Contracted for but not provided for		47	345	-	-
<b>26.2 Operating Lease Commitments</b>					
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:					
- Not later than one year		1,115	391	-	-
- Later than one year but not later than five years		2,293	1,211	-	-
- Later than five years		250	550	-	-
		3,658	2,152	-	-
<b>26.3 Finance Lease Commitments</b>					
Finance lease rentals are payable as follows:					
- Not later than one year		434	347	34	35
- Later than one year but not later than five years		594	462	90	125
		1,028	809	124	160
- Less: Future lease finance charges		(103)	(80)	(12)	(23)
		925	729	112	137
Lease liabilities provided for in the financial statements					
- Current	14.1	384	298	27	25
- Non-current	14.2	541	431	85	112
Total lease liabilities		925	729	112	137

The consolidated entity leases motor vehicles and equipment under finance leases expiring in 1 to 4 years. At the end of the lease term the consolidated entity has the option to replace the asset financed with a new asset or pay out the residual balance. The consolidated entity leases property under operating leases that expire in 1 to 7 years. Leases generally provide the consolidated entity with a right of renewal and allow for adjustment to the lease payments for movements in the Consumer Price Index.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**27. SUPERANNUATION COMMITMENTS**

Orbital contributes to a defined contribution plan for the provision of benefits to Australian employees on retirement, death or disability. Employee and employer contributions are based on various percentages of gross salaries and wages. Apart from the contributions required under the Superannuation Guarantee Levy from 1 July 1992, there is no legally enforceable obligation on the Company or its controlled entities to contribute to the superannuation plan.

Orbital Holdings (USA) Inc. (a wholly controlled entity) has adopted a defined contribution plan that covers substantially all full time United States employees. The benefits provided under the plan are based on contributions made for and by each employee. Employees and the employer contribute various percentages of gross salary and wages.

**28. CONTINGENT LIABILITIES**

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The Directors are not aware of any circumstance or information that would lead them to believe that these liabilities will crystallise. However, the Company has provided \$20.393 million in the financial statements with respect to the Company's guarantees noted below for the obligations of Synerject LLC.

**28.1** Siemens Capital Corporation and Synerject LLC. entered into an agreement in June 1997 to provide loan funds for use as working capital for Synerject LLC. As part of this arrangement Orbital Engine Corporation Limited (which holds a 50% interest in Synerject LLC.) entered into an agreement with Siemens Capital Corporation whereby Orbital has guaranteed 50% of the obligations of Synerject LLC arising under the loan agreement. At 30 June 2001, this obligation amounted to \$23.801 million (US\$12.138 million) [2000: \$19.577 million (US\$11.690 million)].

**28.2** Siemens Credit Corporation and Synerject LLC. entered into a lease agreement in June 1998 for the lease of fixed assets. As part of this arrangement Orbital has guaranteed 50% of the obligations of Synerject LLC. arising under the lease agreement. At 30 June 2001 outstanding lease payments amounted to \$1.192 million (US\$0.608 million) [2000: \$1.737 million (US\$1.037million)].

**28.3** There are no contingent liabilities for termination benefits under the service agreements with Directors or other persons who take part in the management of any entity within the consolidated entity.

	CONSOLIDATED		THE COMPANY	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>29. REMUNERATION OF AUDITORS</b>				
Amounts received or due and receivable for audit services by:				
- Auditors of the Company - KPMG	150,000	135,000	99,000	99,000
- Other KPMG member firms	-	17,234	-	-
	150,000	152,234	99,000	99,000
Amounts received or due and receivable for other services by:				
- Auditors of the Company - KPMG	82,435	200,726	8,854	140,146
- Other KPMG member firms	57,288	43,263	4,287	7,093
	139,723	243,989	13,141	147,239
Total auditors' remuneration	289,723	396,223	112,141	246,239

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**30. DIRECTORS**

**30.1 Composition of the Board**

Details of the Directors of the Company at any time during or since the end of the financial year are set out on page 16.

**30.2 Directors' Meetings**

The number of Directors' meetings (including meetings of the committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are as follows:

Director	Directors' Meetings		Audit Committee Meetings		Finance Committee Meetings		Remuneration Committee Meetings	
	No. of Meetings Attended*	No. of Meetings Held	No. of Meetings Attended*	No. of Meetings Held	No. of Meetings Attended*	No. of Meetings Held	No. of Meetings Attended*	No. of Meetings Held
R W Kelly	7	7	-	-	1	1	2	2
K C Schlunke	7	7	-	-	1	1	2	2
J W Beech	7	7	-	-	1	1	-	-
A J Castleman	7	7	5	5	1	1	2	2
R S Forbes	7	7	5	5	1	1	-	-
K N Johnsen	6	7	-	-	1	1	-	-
J R Marshall	7	7	-	-	1	1	-	-
J G Young	7	7	5	5	1	1	-	-

\* includes meetings attended by teleconference

**30.3 Directors' and Senior Executives' Emoluments**

The remuneration committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is consistent with current industry practice. Executive Directors and senior executives may receive bonuses based on the achievement of goals related to the performance of the consolidated entity.

Details of the nature and amount of each major element of the emoluments of each Director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest emoluments are:

	Total \$	Directors' Fees \$	Base Emolument \$	Bonuses (f) \$	Other Benefits (a) \$	Superannuation Contributions \$	Options Issued (e) No.
<b>Directors</b>							
R W Kelly	75,000	69,444	-	-	-	5,556	-
K C Schlunke	341,892	-	238,073	16,000	48,456	39,364	65,000
J W Beech (b)	253,639	-	159,367	13,000	55,275	25,997	35,000
K N Johnsen	235,123	-	158,814	9,000	41,426	25,883	35,000
A J Castleman	40,000	37,037	-	-	-	2,963	-
R S Forbes	40,000	37,037	-	-	-	2,963	-
J R Marshall	35,000	35,000	-	-	-	-	-
J G Young	42,000	38,889	-	-	-	3,111	-
<b>Officers</b>							
<i>The Company</i>							
B A Fitzgerald (b)	347,329	-	164,311	16,022	141,915	25,081	25,000
C M Norman (c)	346,431	-	292,290	13,109	22,511	18,521	25,000
D Cesari (b)	275,031	-	181,678	18,532	62,818	12,003	17,000
R A Houston (b)	257,309	-	129,124	6,000	100,803	21,382	17,000
P W Simons (d)	206,410	-	152,903	-	44,333	9,174	9,400

(a) Where applicable, other benefits include expatriate and living away from home allowances, non-cash benefits such as housing and ancillary costs associated with the relocation of the Director/Officer and his family, the provision of motor vehicles and leave entitlements.

(b) During the year this Officer was located overseas under expatriate conditions.

(c) During the year this Officer was employed in the United States under local market conditions.

(d) During the year this Officer was employed in the United Kingdom under local market conditions.

(e) The options for each Executive Director and senior executive consist of 4,000 Year 2000 Series A options with the relevant balance being Year 2000 Series B options. The estimated value of these options at the date of issue is \$1.03 and \$0.98 for the Year 2000 Series A and Series B options respectively. These values have been calculated using a Black-Scholes model. All options issued expire on 28 September 2005, and each option entitles the holder to purchase one ordinary share in the Company. Further details of options granted during the year are set out in Note 30.6.

(f) Bonuses paid during the current year are in respect of the year ended 30 June 2000.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**30. DIRECTORS (CONTINUED)**

**30.3 Directors' and Senior Executives' Emoluments (continued)**

Directors' disclosure for the consolidated entity is the same as that for the Company.

	CONSOLIDATED		THE COMPANY	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>30.4 Directors' Remuneration *</b>				
Total income received, or due and receivable, by all Directors of the Company from the Company, or related bodies corporate (includes Directors' fees of \$232,000 (2000: \$232,000))			1,062,654	1,139,725
The number of Directors of the Company whose income from the Company or related bodies corporate falls within the following bands:			No.	No.
\$ 30,000 - \$ 39,999			1	1
\$ 40,000 - \$ 49,999			3	3
\$ 70,000 - \$ 79,999			1	1
\$220,000 - \$229,999			-	1
\$230,000 - \$239,999			1	-
\$250,000 - \$259,999			1	1
\$340,000 - \$349,999			1	-
\$430,000 - \$439,999			-	1
			<u>8</u>	<u>8</u>
Total income received, or due and receivable, by all Directors of each entity in the consolidated entity from the Company, related bodies corporate or controlled entities (includes Directors' fees of \$232,000 (2000: \$232,000))	2,575,163	2,426,448		
The number of Directors of each entity in the consolidated entity whose income from the Company, related bodies corporate or controlled entities is included in the above disclosure	No.	No.		
	<u>14</u>	<u>14</u>		

	CONSOLIDATED		THE COMPANY	
	2001	2000	2001	2000
	\$	\$	\$	\$
<b>30.5 Executives' Remuneration *</b>				
The remuneration of executives who work wholly or mainly outside Australia is not included in this disclosure. Executive officers are those officers involved in the management of the Company or consolidated entity.				
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income exceeds \$100,000.	1,498,882	1,924,069	1,161,575	1,924,069

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

	CONSOLIDATED		THE COMPANY	
	2001 No.	2000 No.	2001 No.	2000 No.
<b>30. DIRECTORS (CONTINUED)</b>				
<b>30.5 Executives' Remuneration * (continued)</b>				
The number of executive officers whose income from the Company or related bodies corporate falls within the following bands:				
\$140,000 - \$149,999	-	1	-	1
\$150,000 - \$159,999	2	2	1	2
\$160,000 - \$169,999	-	1	-	1
\$170,000 - \$179,999	1	1	1	1
\$180,000 - \$189,999	1	-	-	-
\$210,000 - \$219,999	-	1	-	1
\$220,000 - \$229,999	-	1	-	1
\$230,000 - \$239,999	1	-	1	-
\$250,000 - \$259,999	1	1	1	1
\$340,000 - \$349,999	1	-	1	-
\$430,000 - \$439,999	-	1	-	1
	<u>7</u>	<u>9</u>	<u>5</u>	<u>9</u>

\* Directors' and executives' income does not include premiums paid by the Company or related bodies corporate in respect of directors' and officers' insurance contracts as the insurance policies do not specify premiums paid in respect of individual Directors. Further details are set out in Note 30.8. Executives' remuneration includes the remuneration of all Executive Directors which is also shown at Note 30.4.

**30.6 Options**

During the financial year the Company granted options over unissued ordinary shares to the following Directors and the five most highly remunerated officers as part of their remuneration:

	2000 Series A		2000 Series B		Expiry Dates of Series A and Series B Options
	Number of Options Granted	Exercise Price	Number of Options Granted	Exercise Price	
<b>Directors</b>					
K C Schlunke	4,000	\$1.61	61,000	\$1.79	28 September 2005
J W Beech	4,000	\$1.61	31,000	\$1.79	28 September 2005
K N Johnsen	4,000	\$1.61	31,000	\$1.79	28 September 2005
<b>Officers</b>					
B A Fitzgerald	4,000	\$1.61	21,000	\$1.79	28 September 2005
C M Norman	4,000	\$1.61	21,000	\$1.79	28 September 2005
D Cesari	4,000	\$1.61	13,000	\$1.79	28 September 2005
R A Houston	4,000	\$1.61	13,000	\$1.79	28 September 2005
P W Simons	4,000	\$1.61	5,400	\$1.79	28 September 2005

No options have been granted since the end of the financial year.

2000 Series B hurdle price of \$2.42 had not been reached at the date of this report.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**30. DIRECTORS (CONTINUED)**

**30.7 Directors' Interests**

The relevant interest of each Director in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

Director	Ordinary Shares	Options Over Ordinary Shares
R W Kelly	41,045	-
K C Schlunke	20,931	163,500
J W Beech	25,000	35,000
A J Castleman	85,000	-
R S Forbes	954,238	-
K N Johnsen	103,893	67,700
J R Marshall	25,214	-
J G Young	69,906	-
	1,325,227	266,200

**30.8 Indemnification and Insurance of Officers**

To the extent permitted by law, the Company indemnifies every officer of the Company against any liability incurred by that person:

- (a) in his or her capacity as an officer of the Company; and
- (b) to a person other than the Company or a related body corporate of the Company unless the liability arises out of conduct on the part of the officer which involves a lack of good faith.

During the year the Company paid a premium in respect of a contract insuring all Directors, Officers and employees of the Company (and/or any subsidiary companies of which it holds greater than 50% of the voting shares) against liabilities that may arise from their positions within the Company and its controlled entities, except where the liabilities arise out of conduct involving a lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

**31. REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS**

**31.1 Geographical Segments**

	Australia		United States of America		Europe		Eliminations		Consolidated Entity	
	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
Revenue outside the consolidated entity	21,688	31,239	39,963	20,108	-	-	-	-	61,651	51,347
Inter-segment revenue	1,031	987	-	2,423	1,051	562	(2,082)	(3,972)	-	-
Total revenue	22,719	32,226	39,963	22,531	1,051	562	(2,082)	(3,972)	61,651	51,347
Segment operating profit/(loss) before tax	(16,769)	(6,082)	(2,510)	(3,575)	(8,089)	(3,225)	-	-	(27,368)	(12,882)
Total assets	170,580	372,801	22,631	46,868	81	18	(81,503)	(220,967)	111,789	198,720

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**31. REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS (CONTINUED)**

**31.2 Industry Segments**

The consolidated entity operates predominantly in the automotive, marine and industrial engine markets. Revenue is derived predominantly from the sale of the right to intellectual property to the OCP technology and the provision of engineering services.

**31.3 Inter-Segment Pricing**

Inter-segment pricing is determined on an arms length basis.

**32. PARTICULARS IN RELATION TO CONTROLLED ENTITIES**

Orbital Engine Corporation Limited	Class of Shares	Consolidated Entity Interest	
		2001 %	2000 %
<i>Controlled Entities, incorporated and carrying on business in:</i>			
<b>Australia</b>			
Orbital Engine Company (Australia) Pty Ltd	Ord	100	100
ST Management Limited	Ord	100	100
OFT Australia Pty Ltd	Ord	100	100
Orbital Australia Manufacturing Pty Ltd	Ord	100	100
Axiom Invest No. 2 Pty Ltd	Ord	71.3	71.3
OEC Pty Ltd	Ord	100	74
Investment Development Funding Pty Ltd	Ord	100	-
Orbital Employees Superannuation Fund Pty Ltd (a)	Ord	100	100
<b>United States of America</b>			
Orbital Holdings (USA) Inc.	Ord	100	100
Orbital Engine Company (USA) Inc.	Ord	100	100
Orbital Fluid Technologies Inc.	Ord	100	100
Orbital SEFIS Company LLC	Ord	100	100
Meteor I	Ord	100	100
<b>United Kingdom</b>			
Orbital Engine Company (UK) Ltd	Ord	100	100

(a) Orbital Engine Corporation Limited owns 100% of the issued capital of Orbital Employees Superannuation Fund Pty Ltd (OESF) and must act in the best interest of members of the fund at all times. Accordingly, control does not exist and OESF is not consolidated.

**33. ACQUISITION OF CONTROLLED ENTITIES**

(a) On 30 May 2001 the consolidated entity purchased 100% of the issued shares in Investment Development Funding Pty Ltd, the special purpose company set up in relation to the Genesis research and development syndicate (refer to Note 24). The operating results of this controlled entity have been included in the consolidated results from this date.

	2001 \$000's
<i>Consideration:</i>	
Security Deposit	60,349
Less: Put obligation liability extinguished	(60,349)
	-
<i>Fair value of net assets acquired:</i>	
Cash	141
Current income tax liability	(141)
	-
Inflow of cash	141
Goodwill on acquisition	-

(b) On 15 January 2000, the consolidated entity acquired shareholdings of 74.0% and 71.3% in OEC Pty Ltd and Axiom Invest No.2 Pty Ltd respectively under the Technology Investment Transactions. (Refer to Note 25.)

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**34. RELATED PARTIES**

**34.1 Controlled Entities**

Details of interests in controlled entities are set out in Note 32. Details of dealings with controlled entities are set below:

(a) *Intercompany Loans*

The aggregate amounts receivable from/payable to wholly owned controlled entities by the Company at balance date:

	THE COMPANY	
	2001 \$000's	2000 \$000's
<i>Receivables</i>		
Non-current	22,832	65,654
<i>Borrowings</i>		
Non-current	16,623	13,056

During the year an interest expense amounting to \$0.931 million (2000: \$0.888 million) was recognised by the Company in relation to these loans. The interest rate charged during the year was between 5.8% and 6.5% (2000: 6.8% and 7.6%).

(b) *Transactions*

During the year the Company and controlled entities purchased goods and services from other entities within the wholly-owned group. These transactions are in the ordinary course of business and on normal commercial terms and conditions.

**34.2 Other Related Parties – Business Undertakings**

Details of dealings with other related parties, being Synerject LLC, are set out below:

(a) *Receivables and Payables*

The aggregate amounts receivable from/payable to business undertakings by the consolidated entity at balance date are:

	CONSOLIDATED	
	2001 \$000's	2000 \$000's
<i>Receivables</i>		
Current	5,577	1,478
<i>Payables</i>		
Current	2,666	10,864

(b) *Transactions*

During the year the consolidated entity provided engineering services to Synerject LLC \$5.564 million (2000: \$5.595 million) and purchased goods and services to the value of \$30.491 million (2000: \$15.043 million) from Synerject LLC. All transactions are in the ordinary course of business and on normal commercial terms and conditions.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

**35. NOTES TO THE STATEMENTS OF CASH FLOWS**

**35.1 Reconciliation of Cash**

For the purposes of the Statements of Cash Flows, cash includes cash on hand, cash at bank and short term deposits at call (net of outstanding bank overdrafts). Cash as at the end of the financial year, as shown in the Statements of Cash Flows is reconciled to the related items in the statements of financial position as follows:

	NOTE	CONSOLIDATED		THE COMPANY	
		2001 \$000's	2000 \$000's	2001 \$000's	2000 \$000's
Cash		32,735	52,855	27,542	3,078
<b>35.2 Reconciliation of (loss) from ordinary activities after income tax to net cash (used in) operating activities</b>					
(Loss) from ordinary activities after income tax		(26,561)	(9,884)	(26,882)	(9,884)
<i>Add/(less) items classified as investing/financing activities:</i>					
Interest received		(2,338)	(1,193)	(760)	(210)
Loss/(profit) on sale of property, plant and equipment		(46)	97	(23)	(35)
<i>Add/(less) non-cash items:</i>					
Amounts set aside to provisions		1,346	61	-	(89)
Depreciation	3.3	2,767	2,618	14	33
Amortisation of leased assets	3.3	271	404	42	36
Goodwill written off	3.3	379	-	-	-
Share of losses in business undertaking		12,834	5,335	-	-
Net foreign exchange (gains)/losses		334	(1,245)	(100)	(286)
(Decrease) in net taxes payable		(1,583)	(3,112)	(764)	(495)
Provision against carrying value of investments in and receivables from subsidiaries		-	-	22,940	6,145
Net cash (used in) operating activities before changes in assets and liabilities		(12,597)	(6,919)	(5,533)	(4,785)
<i>Changes in assets and liabilities during the year:</i>					
Decrease/(increase) in receivables		4,092	1,245	16	(19)
Decrease in inventories		161	241	-	-
(Increase)/decrease in prepayments		2,475	(4,960)	(2)	(11)
Decrease/(increase) in technology investment restricted security deposits		-	236	-	-
Decrease/(increase) in other non-current assets		4	(414)	-	-
(Decrease)/increase in trade creditors		(3,951)	(105)	346	461
(Decrease) in unearned income		(2,176)	(1,932)	-	-
(Decrease)/increase in employee provisions		(418)	-	38	-
		187	(5,689)	398	431
Net cash (used in) operating activities		(12,410)	(12,608)	(5,135)	(4,354)

## **ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

### **36. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

#### **36.1 Foreign Exchange Risk**

The consolidated entity enters into forward exchange contracts to hedge certain firm sale and purchase commitments denominated in foreign currencies (principally United States dollars). The terms of these derivatives and commitments are rarely more than one year. As at 30 June 2001 no forward exchange contracts were held.

#### **36.2 Credit Risk**

Credit risk represents the accounting loss that would be recognised if counterparties failed to perform as contracted. The risk that counterparties to derivative financial instruments might default on obligations is monitored.

The credit risk on financial assets, excluding investments of the consolidated entity that have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries.

#### **36.3 Interest Risk**

Interest risk on bank accounts is carried at prevailing market rates. The weighted average effective interest rate for all bank accounts and cash deposits as at 30 June 2001 was 5.87% (2000: 5.78%).

Receivables and trade creditors are non-interest bearing.

Interest is charged on lease liabilities at prevailing market rates at the time of entering into the lease contract. The weighted average effective interest rate on lease liabilities as at 30 June 2001 was 7.11% (2000: 8.39%).

Employee entitlements to long service leave have been calculated using the average interest rates represented by the discount rates disclosed at Note 17.

All other financial assets and liabilities are not interest bearing.

#### **36.4 Net Fair Values of Financial Assets and Liabilities**

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers or due to suppliers. The carrying amounts of receivables, investments, trade creditors, employee entitlements and lease liabilities approximate net fair value.

### **37. EVENTS SUBSEQUENT TO BALANCE DATE**

On 23 August 2001 the Company entered into a technical transfer and licence agreement with Delphi Automotive Systems. Under the agreement Delphi has acquired rights to manufacture and sell Orbital's air assisted direct fuel injection technology as part of Delphi's complete fuel and engine management system. It is not possible to reliably estimate the financial effect of this event on the Company.

The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2001.

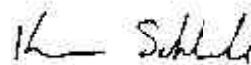
## DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2001

1. In the opinion of the Directors of Orbital Engine Corporation Limited:
  - (a) the financial statements and notes, set out in pages 20 to 53 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2001 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards 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.

Signed in accordance with a resolution of Directors:



R W KELLY  
Chairman



K C SCHLUNKE  
Chief Executive Officer

Dated at Perth, Western Australia this 3<sup>rd</sup> day of September, 2001

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ORBITAL ENGINE CORPORATION LIMITED

### Scope

We have audited the financial report of Orbital Engine Corporation Limited for the financial year ended 30 June 2001, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 37, and the directors' declaration set out on pages 20 to 54. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit opinion

In our opinion, the financial report of Orbital Engine Corporation Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2001 and of their performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.



KPMG

Perth  
3 September 2001



B C FULLARTON  
Partner

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
**IN ACCORDANCE WITH UNITED STATES GAAP**  
**FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	2001 A\$000's	2000 A\$000's	1999 A\$000's
<b>1. RECONCILIATION OF ACCOUNTS TO US GAAP</b>				
<b>1.1 Profit and Loss Account</b>				
Net (loss) reported under AUS GAAP		(26,837)	(9,929)	(87,214)
Deferred pre-production expenditure and start-up costs amortised under AUS GAAP previously written off under US GAAP	4 (a)	-	-	26,980
Licences and technologies amortised under AUS GAAP previously written off under US GAAP	4 (a)	-	-	3,049
Licences and technologies arising from corporate restructuring, amortised under AUS GAAP and previously eliminated under US GAAP	4 (b)	-	-	52,453
Net tax effects of the US GAAP adjustments	4 (c)	(1,058)	(1,057)	(8,727)
Stock option compensation	4 (d)	(584)	(3,826)	(74)
Licence and marketing agreements	4 (f)	2,319	(5,121)	-
Net (loss)/profit according to US GAAP		<u>(26,160)</u>	<u>(19,933)</u>	<u>(13,533)</u>
(Loss)/profit per ordinary share - US GAAP (A cents)	(a)			
- Basic		(7.40)	(6.14)	(4.18)
- Diluted		(7.40)	(6.14)	(4.18)
(Loss)/profit per American Depositary Share (ADS) - US GAAP (A cents)	(a)			
- Basic		(59.16)	(49.12)	(33.44)
- Diluted		(59.16)	(49.12)	(33.44)
Number of ordinary shares in calculation (000's)				
- Basic		353,720	324,686	323,845
- Diluted		353,720	324,686	323,845

(a) The options exercisable under the Company's Employee Share Plan have been excluded from this calculation as their effect is anti-dilutive.

This arises as a result of a net loss under US GAAP. If such options had been included in the calculation, the number of diluted ordinary shares would have been 363,161,706.

**1.2 Shareholders' Equity**

Shareholders' equity reported per AUS GAAP financial statements		14,071	35,792	13,502
Tax effect of US GAAP adjustments	4 (c)	858	1,916	2,973
Investments	4 (e)	(1,367)	-	-
Licence and marketing agreements	4 (f)	(2,802)	(5,121)	-
Shareholders' equity according to US GAAP		<u>10,760</u>	<u>32,587</u>	<u>16,475</u>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
**IN ACCORDANCE WITH UNITED STATES GAAP**  
**FOR THE YEAR ENDED 30 JUNE 2001**

	NOTE	2001 A\$000's	2000 A\$000's	1999 A\$000's
<b>1. RECONCILIATION OF ACCOUNTS TO US GAAP (CONTINUED)</b>				
<b>1.3 Consolidated Balance Sheets</b>				
Total assets reported per AUS GAAP financial statements		111,789	198,720	237,683
Future income tax benefit written off/reclassified	4 (c)	(2,627)	(2,368)	(1,961)
Investments	4 (e)	(1,367)	-	-
Licence and marketing agreements	4 (f)	(2,802)	(5,121)	-
Total assets according to US GAAP		<u>104,993</u>	<u>191,231</u>	<u>235,722</u>

		2001 A\$000's	2001* US\$000's
<b>2. SUMMARY FINANCIAL DATA PREPARED IN ACCORDANCE WITH US GAAP</b>			
<b>2.1 Statement of Earnings Data</b>			
Total revenue		58,824	30,000
Net loss		26,160	13,342
<b>2.2 Balance Sheet Data at Year End</b>			
Current assets		44,290	22,589
Total assets		104,993	53,546
Current liabilities		15,511	7,911
Total long-term debt		19,541	9,966
Total shareholders' equity		10,760	5,488

\* Balance Sheet and Profit and Loss items have been translated at Westpac Banking Corporation's published buy rate for telegraphic transfers which was US\$0.5100 = A\$1.00 on 30 June 2001. Such translations are provided for information purposes only.

**3. DIFFERENCES BETWEEN ANNUAL FINANCIAL STATEMENTS AND AUSTRALIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (AUS GAAP)**

The accompanying financial report has been prepared in accordance with the requirements of the Australian Corporations Act 2001. For the purposes of filing in the United States of America the financial report is prepared in accordance with AUS GAAP. As such, the accompanying financial report differs in certain respects from US GAAP as follows:

A difference totalling \$2.827 million (2000: \$2.798 million; 1999: \$1.262 million), arises from the adoption of equity accounting. The AUS GAAP income statements include Orbital's equity in the gross revenue of an associated business undertaking as revenue from ordinary activities in the current year.

**4. SIGNIFICANT DIFFERENCES BETWEEN AUS GAAP AND US GAAP**

The consolidated financial report of the Orbital Group has been prepared in accordance with AUS GAAP which differ in some respects from US GAAP. The significant differences between AUS GAAP and US GAAP affecting the statement of financial performance and contributed equity are summarised below:

(a) *Deferred Pre-production and Start-up Costs*

From 1 July 1995, the consolidated entity has adopted a policy of expensing as incurred all pre-production and start-up costs. Prior to 1 July 1995 these pre-production costs were deferred. From 1 January 1996, the consolidated entity has commenced amortisation of these previously capitalised amounts. (Refer to Note 1.11.) These amounts became fully amortised at 30 June 1999.

For US GAAP purposes, all pre-production and start-up costs have been expensed as incurred. Amortisation of amounts previously capitalised that is now expensed under AUS GAAP will be reflected as a credit in the US GAAP result to the extent that such pre-production expenditure now being amortised has been written off in previous financial periods under US GAAP.

(b) *Patents, Licences and Technologies*

Prior to 1 January 1996, costs incurred in registering and maintaining patents worldwide were capitalised under AUS GAAP. Prior to Orbital's restructuring in fiscal 1989, these patent costs were amortised in the financial statements of Orbital Engine Company (Australia) Pty Ltd over their life. Upon Orbital's restructuring, this policy was discontinued by the subsidiary in order to be consistent with Orbital's amortisation policy established for the asset classified as "Patents, Licences and Technologies", as detailed in Note 1.10. Under US GAAP, all costs associated with the registration and maintenance of patents have been expensed in prior periods.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
**IN ACCORDANCE WITH UNITED STATES GAAP**  
**FOR THE YEAR ENDED 30 JUNE 2001**

**4. SIGNIFICANT DIFFERENCES BETWEEN AUS GAAP AND US GAAP (CONTINUED)**

(b) *Patents, Licences and Technologies (Continued)*

As a result of the restructuring of Orbital in 1989, expenses of licences and technologies were capitalised under AUS GAAP. Under US GAAP such costs are not eligible to be capitalised and have been eliminated.

From 1 January 1996, the consolidated entity has recommenced amortisation of Patents, Licences and Technologies represented by cash expenditures. Differences in the amortisation expense of patents arising from different amortisation periods under US GAAP have been reflected as a credit in the US GAAP result. Additionally, effective from 1 January 1996, the consolidated entity commenced amortisation of Patents, Licences and Technologies arising from corporate restructurings under AUS GAAP. (Refer to Note 21(a).) These amounts became fully amortised at 30 June 1999.

(c) *Income Taxes*

Orbital has adopted Statement of Financial Accounting Standards No. 109 (SFAS 109) "Accounting for Income Taxes" in preparing its US GAAP information. There is generally no significant difference between the effect of applying the provision of SFAS 109 and the accounting policy adopted in the Australian financial report. Under AUS GAAP, however, the tax effect of certain future interest income has been brought to account in prior years and, under US GAAP, the tax effect of such interest income has been recognised in the period that such interest income was earned.

(d) *Accounting for Stock Based Compensation*

Under AUS GAAP, the granting of share options to employees does not require the recognition of a compensation expense.

Under US GAAP, in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees", a compensation expense is recognised to the extent that the fair value of the equity instrument exceeds the exercise price of the option granted at a defined measurement date. The measurement date is the first date on which both the following are known: (i) the number of shares that an individual employee is entitled to receive; and (ii) the exercise price.

Under US GAAP, options with hurdle prices are accounted for under variable plan accounting until the date the hurdle prices have been met and the number of shares that an individual employee is entitled to receive is known.

(e) *Investments*

Under AUS GAAP, the Company's investment in PT Texmaco Perkasa Engineering Tbk is carried at the lower of cost and recoverable amount. Under US GAAP, this investment is considered an available-for-sale security under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities", and is carried at fair value, with unrealised gains and losses excluded from earnings and reported in other comprehensive income.

(f) *Licence and Marketing Agreements*

A difference, totalling \$2.319 million credit (2000: \$5.121 million debit, 1999: nil) arises from the treatment of certain licence and marketing agreements. Under US GAAP, the fair values of assets transferred in a non-monetary transaction must be determinable with reasonable limits in order to account for the transaction at fair value. For an entity to record a non-monetary exchange involving advertising at fair value, certain criteria should be met to demonstrate that fair value is determinable. If the criteria are not met, the transaction should be recorded at the carrying amount of the asset surrendered. Under US GAAP, certain licence fees and prepaid marketing relating to a licence and marketing agreement entered into during the year ended 30 June 2000 have not been recognised. In the year ended 30 June 2001 the capitalised prepaid marketing expense has been amortised under AUS GAAP.

Under AUS GAAP, the Directors believe that these transactions should be reported to provide a true and fair reflection of Orbital's operations.

(g) *Recent Changes to US GAAP*

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities, and requires that an entity recognise all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be designated as a hedge of (i) an existing asset, liability or firm commitment; (ii) a forecasted transaction; or (iii) a net investment in a foreign operation. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.

SFAS 133, as amended, is effective for periods beginning after 15 June 2000. Based on Orbital's limited use of derivatives, the impact of adopting SFAS 133 as at 1 July 2000 was not material.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. On 26 June 2000, the SEC issued Staff Accounting Bulletin No. 101B "Amendment: Revenue Recognition in Financial Statements". SAB 101B allows companies to defer the reporting of a change in accounting principle, as required by SAB 101, until the fourth quarter of the fiscal year beginning after 15 December 1999. The adoption of SAB 101 in the year ended 30 June 2001 was not material to the Company's financial statements.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**FIVE YEAR FINANCIAL DATA**  
**IN ACCORDANCE WITH AUSTRALIAN GAAP**  
**EXPRESSED IN AUSTRALIAN DOLLARS**

	2001 \$000's	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's
Revenue from operating activities	57,610	47,381	51,251	53,379	22,376
Other revenues from ordinary activities	4,041	3,966	14,704	9,501	2,927
<b>Total revenue</b>	<b>61,651</b>	<b>51,347</b>	<b>65,955</b>	<b>62,880</b>	<b>25,303</b>
Total operating expenditure	(89,019)	(64,229)	(69,533)	(56,601)	(51,482)
Operating (loss)/profit before abnormal items and income tax	(27,368)	(12,882)	(3,578)	6,279	(26,179)
Abnormal expenses:					
Amortisation of patents, licences and technologies arising from corporate restructurings	-	-	(52,453)	(52,452)	(78,678)
Amortisation of cash expenditure on certain intangible assets	-	-	(31,616)	(32,974)	(33,574)
Rationalisation of United States operations	-	-	(6,948)	-	-
Total abnormal expenses	-	-	(91,017)	(85,426)	(112,252)
<b>Operating loss before income tax</b>	<b>(27,368)</b>	<b>(12,882)</b>	<b>(94,595)</b>	<b>(79,147)</b>	<b>(138,431)</b>
Income tax (expense)/credit attributable to operating (loss) including abnormal tax write-offs	807	2,998	7,381	(9,603)	(5,663)
Outside equity interests in operating loss	(276)	(45)	-	-	-
<b>Operating loss after income tax attributable to members of the Company</b>	<b>(26,837)</b>	<b>(9,929)</b>	<b>(87,214)</b>	<b>(88,750)</b>	<b>(144,094)</b>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**FIVE YEAR FINANCIAL DATA**  
**IN ACCORDANCE WITH AUSTRALIAN GAAP**  
**EXPRESSED IN AUSTRALIAN DOLLARS**

	2001 \$000's	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's
<b>Current Assets</b>					
Cash	32,735	52,855	32,186	27,844	21,350
Receivables	10,647	14,739	13,942	20,432	11,035
Inventories	801	962	1,203	1,842	2,894
Other	2,426	2,582	424	1,799	7,094
<b>Total Current Assets</b>	<b>46,609</b>	<b>71,138</b>	<b>47,755</b>	<b>51,917</b>	<b>42,373</b>
<b>Non-Current Assets</b>					
Receivables	3,508	-	2,042	-	-
Other financial assets	6,446	6,446	6,446	-	-
Property, plant & equipment	15,534	19,032	21,174	30,942	39,388
Deferred tax assets	2,627	2,367	1,961	2,364	1,951
Research and development syndication assets	36,158	96,507	92,541	84,479	78,699
Intangibles	-	-	-	84,069	169,495
Other	907	3,230	65,764	60,884	4,673
<b>Total Non-Current Assets</b>	<b>65,180</b>	<b>127,582</b>	<b>189,928</b>	<b>262,738</b>	<b>294,206</b>
<b>Total Assets</b>	<b>111,789</b>	<b>198,720</b>	<b>237,683</b>	<b>314,655</b>	<b>336,579</b>
<b>Current Liabilities</b>					
Accounts Payable	8,505	17,119	13,779	7,212	3,722
Interest-bearing liabilities	384	298	447	411	1,625
Current tax liabilities	390	528	2,829	4,280	-
Provisions	2,254	2,462	2,294	3,317	8,952
Other	3,978	2,760	1,060	4,488	6,262
<b>Total Current Liabilities</b>	<b>15,511</b>	<b>23,167</b>	<b>20,409</b>	<b>19,708</b>	<b>20,561</b>
<b>Non-Current Liabilities</b>					
Interest-bearing liabilities	541	431	4,085	839	6,165
Non interest-bearing liabilities	19,000	19,000	19,000	19,000	19,000
Provisions	3,445	3,009	9,769	18,437	9,994
Deferred tax liabilities	2,375	3,419	4,579	12,170	8,018
Research and development syndication liabilities	36,158	96,507	96,507	84,479	79,945
Other	20,688	17,395	69,832	59,436	3,716
<b>Total Non-Current Liabilities</b>	<b>82,207</b>	<b>139,761</b>	<b>203,772</b>	<b>194,361</b>	<b>126,838</b>
<b>Total Liabilities</b>	<b>97,718</b>	<b>162,928</b>	<b>224,181</b>	<b>214,069</b>	<b>147,399</b>
<b>Net Assets</b>	<b>14,071</b>	<b>35,792</b>	<b>13,502</b>	<b>100,586</b>	<b>189,180</b>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**FIVE YEAR FINANCIAL DATA**  
**IN ACCORDANCE WITH UNITED STATES GAAP**  
**EXPRESSED IN UNITED STATES DOLLARS**

	2001 \$000's	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's
Revenue from operating activities	27,939	23,566	33,048	31,196	14,966
Other revenue from ordinary activities	2,061	1,269	9,721	5,899	2,183
<b>Total revenue</b>	<b>30,000</b>	<b>24,835</b>	<b>42,769</b>	<b>37,095</b>	<b>17,149</b>
Total operating expenditure	(43,073)	(37,869)	(50,826)	(34,997)	(37,862)
<b>Operating (loss)/profit before income tax</b>	<b>(13,073)</b>	<b>(13,034)</b>	<b>(8,057)</b>	<b>2,098</b>	<b>(20,713)</b>
Income tax (expense)/credit attributable to operating (loss)/profit	(128)	1,159	(890)	92	(3,312)
Outside equity interests in operating loss	(141)	(27)	-	-	-
<b>Operating (loss)/profit after income tax attributable to members of the Company</b>	<b>(13,342)</b>	<b>(11,902)</b>	<b>(8,947)</b>	<b>2,190</b>	<b>(24,025)</b>

Profit and Loss items have been translated at Westpac Banking Corporation's published buy rate for telegraphic transfers on 30 June each year (2001: US\$0.5100 = A\$1.00; 2000: US\$0.5971 = A\$1.00; 1999: US\$0.6611 = A\$1.00; 1998: US\$0.6208 = A\$1.00; 1997: US\$0.7457 = A\$1.00). Such translations are provided for information purposes only.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES**  
**FIVE YEAR FINANCIAL DATA**  
**IN ACCORDANCE WITH UNITED STATES GAAP**  
**EXPRESSED IN UNITED STATES DOLLARS**

	2001 \$000's	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's
<b>Current Assets</b>					
Cash	16,695	31,560	21,278	17,286	15,921
Receivables	5,430	8,801	9,217	12,684	8,229
Inventories	409	574	795	1,144	2,158
Other	55	157	281	1,116	5,290
<b>Total Current Assets</b>	<u>22,589</u>	<u>41,092</u>	<u>31,571</u>	<u>32,230</u>	<u>31,598</u>
<b>Non-Current Assets</b>					
Receivables	1,789	-	1,350	-	-
Other financial assets	2,590	3,849	4,261	-	-
Property, plant & equipment	7,922	11,364	13,998	19,209	29,372
Research and development syndication assets	18,441	57,624	61,179	52,445	58,686
Intangibles	-	-	-	986	3,282
Other	215	255	43,477	37,766	3,485
<b>Total Non-Current Assets</b>	<u>30,957</u>	<u>73,092</u>	<u>124,265</u>	<u>110,406</u>	<u>94,825</u>
<b>Total Assets</b>	<u>53,546</u>	<u>114,184</u>	<u>155,836</u>	<u>142,636</u>	<u>126,423</u>
<b>Current Liabilities</b>					
Accounts payable	4,337	10,222	9,109	4,477	2,775
Current tax liabilities	199	315	1,870	2,657	-
Interest bearing liabilities	196	178	295	256	1,212
Provisions	1,150	1,470	1,517	2,059	6,676
Other	2,029	1,648	701	2,786	4,670
<b>Total Current Liabilities</b>	<u>7,911</u>	<u>13,833</u>	<u>13,492</u>	<u>12,235</u>	<u>15,333</u>
<b>Non-Current Liabilities</b>					
Interest-bearing liabilities	276	257	2,701	521	4,597
Non interest-bearing liabilities	9,690	11,345	12,561	11,795	14,169
Provisions	1,757	1,797	6,458	11,446	7,453
Research and development syndication liabilities	18,441	57,624	63,801	52,445	59,615
Other	9,983	9,870	45,931	35,690	5,842
<b>Total Non-Current Liabilities</b>	<u>40,147</u>	<u>80,893</u>	<u>131,452</u>	<u>111,897</u>	<u>91,676</u>
<b>Total Liabilities</b>	<u>48,058</u>	<u>94,726</u>	<u>144,944</u>	<u>124,132</u>	<u>107,009</u>
<b>Net Assets</b>	<u>5,488</u>	<u>19,458</u>	<u>10,892</u>	<u>18,504</u>	<u>19,414</u>

Balance Sheet items have been translated at Westpac Banking Corporation's published buy rate for telegraphic transfers on 30 June each year (2001: US\$0.5100 = A\$1.00; 2000: US\$0.5971 = A\$1.00; 1999: US\$0.6611 = A\$1.00; 1998: US\$0.6208 = A\$1.00; 1997: US\$0.7457 = A\$1.00). Such translations are provided for information purposes only.

## SHAREHOLDING DETAILS

### Class of Shares and Voting Rights

As at 21 August 2001 there were 13,495 shareholders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 10 of the Company's Articles of Association, subject to any rights or restrictions for the time being attached to any class or classes of shares, are:-

- a) at meetings of members or class of members, each member entitled to vote may vote in person or by proxy or Representative; and
- b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or Representative has one vote for each ordinary share held.

At 21 August 2001 there are 7,154,701 options over unissued shares granted to employees under the entity's Employee Share Plan. (Refer to Note 20.1 of the financial report for the terms and conditions related to these options.)

### Substantial Shareholders and Holdings as at 21 August 2001

AMP Limited and its related bodies corporate  
C/- 33 Alfred Street, SYDNEY NSW 2000

Number of shares held 25,696,932

Commonwealth Bank of Australia and its subsidiaries (Commonwealth Bank Group)

C/- Level 2, 48 Martin Place, SYDNEY NSW 2000

Number of shares held 22,842,907

### Distribution of Share Holdings as at 21 August 2001

1 - 1,000	4,782
1,001 - 5,000	5,491
5,001 - 10,000	1,604
10,001 - 100,000	1,481
100,001 and over	137
	13,495

Total shares on issue 354,698,274

Number of shareholders holding less than a marketable parcel 4,003

### Top 20 Shareholders as at 21 August 2001

NAME	NUMBER OF SHARES HELD	% OF SHARES
ANZ Nominees Limited *	131,682,991	37.13
National Nominees Limited *	41,323,282	11.65
AMP Life Limited	12,906,821	3.64
Westpac Custodian Nominees Limited	12,347,837	3.48
Citicorp Nominees Pty Limited	12,162,945	3.43
Chase Manhattan Nominees Limited	10,002,113	2.82
Saltbush Nominees Pty Ltd	7,067,418	1.99
Tower Trust (NSW) Limited	4,779,970	1.35
Cogent Nominees Pty Limited	4,421,831	1.25
Pan Australian Nominees Pty Limited	3,453,781	0.97
Pasco Nominees Pty Ltd	3,315,039	0.93
Citicorp Nominees Pty Limited	2,822,293	0.80
Saltbush Nominees Pty Ltd	2,529,775	0.71
Tower Trust (NSW) Limited	1,539,900	0.43
BNP Paribas	1,400,254	0.39
Commonwealth Custodial Services Limited	1,399,882	0.39
Permanent Trustee Australia Limited	1,333,071	0.38
Mr Humphrey Carey	1,045,000	0.29
Citicorp Nominees Pty Limited	1,019,191	0.29
HSBC Custody Nominees (Australia) Limited	1,000,689	0.28

The twenty largest shareholders hold 72.60% of the ordinary shares of the Company.

\* Denotes Bank of New York nominee company for United States American Depository Receipts. These nominee companies are the main representative bodies for Orbital's 16,000 (approx) US stockholders.

**ORBITAL ENGINE CORPORATION LIMITED**  
(Incorporated in Western Australia)  
**OFFICES AND OFFICERS**

**REGISTERED OFFICE**

1 Whipple Street  
Balcatta, Western Australia, 6021  
Telephone: 61 (08) 9441 2311  
Facsimile: 61 (08) 9441 2111

**PRINCIPAL OFFICES**

Orbital Engine Company (Australia) Pty Ltd  
1 Whipple Street  
Balcatta, Western Australia, 6021  
Telephone: 61 (08) 9441 2311  
Facsimile: 61 (08) 9441 2345

Orbital Engine Company (USA) Inc.  
PO Box 338  
Tecumseh, Michigan, 49286  
United States of America  
Telephone: 1 (517) 423 6623  
Facsimile: 1 (517) 423 6079

Orbital Fluid Technologies Inc.  
201 Enterprise Drive  
Newport News, Virginia, 23603  
United States of America  
Telephone: 1 (757) 833 3400  
Facsimile: 1 (757) 833 3410

Orbital Engine Company (UK) Ltd  
Unit 4, Wellington Business Park  
Dukes Ride, Crowthorne  
Berkshire RG45 6LS  
United Kingdom  
Telephone: 44 (1344) 762 999  
Facsimile: 44 (1344) 779 229

**INTERNET ADDRESS**

<http://www.orbeng.com>  
Email: [info@orbeng.com](mailto:info@orbeng.com)

**DIRECTORS**

Ross William Kelly - Chairman  
Kim Christopher Schlunke - Chief Executive Officer  
John William Beech  
Alan James Castleman  
Robert Slade Forbes  
Kenneth Noel Johnsen  
John Richard Marshall  
John Grahame Young

**COMPANY SECRETARIES**

Keith Anthony Halliwell - Chief Financial Officer  
John Bruce Abbott

**SHARE REGISTRY**

Computershare Registry Services Pty Ltd  
Level 2, Reserve Bank Building  
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**STOCK EXCHANGE LISTINGS**

Australian Stock Exchange Limited (Code "OEC")  
New York Stock Exchange Inc. (Code "OE")  
Berlin Stock Exchange (Code "ORE")  
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