



Half Year Financial Result

Orbital Engine Corporation's financial results for the six months to 31 December 1999 reflect a continued trend towards sustainable revenue streams and effective cost control. The group recorded an operating profit before tax and abnormal items of A\$0.170 million, a 102% improvement over the A\$8.490 million loss recorded for the previous corresponding period.

Revenue includes continued growth in the sustainable areas of license fees and royalties, engineering fees and systems sales.

Collectively, these revenue items increased by 23% to A\$23.630 million and importantly represented 94% of total revenue for the six months. These items are directly linked to the level of customer activity and are a strong indicator of the continued commercial progress made with the direct fuel injection technology. The 1998 revenue figure included two significant non recurring items, namely research and development syndication revenue and foreign exchange gains, which amounted to A\$4.829 million (US\$2.957 million).

The expenditure side of the income statement shows a significant reduction in the operating costs of the group. This reduction was foreshadowed in January 1999 when Orbital rationalised its US operations into the Synerject facility in Newport News, Virginia. This move is a key contributor to the tangible cost savings demonstrated in this result. Costs of A\$0.667 million have been incurred in relation to an ongoing marketing agreement with lead motorcycle customer, Aprilia. Aprilia are actively promoting their use of Orbital technology, including displaying the corporate logo on the 500cc grand prix race bike. This promotion is of tremendous strategic value in the motorcycle industry.

Treatment of certain license revenue and marketing expenses included in the above result, differs under Australian and US accounting standards. Under Australian standards revenue of A\$6.860 million and expenses of A\$0.667 million have been included in the half year result. Under US accounting standard EITF 99-17, Accounting for Advertising Barter Transactions, these amounts have been excluded from the US accounts. This mandatory accounting standard primarily discusses the treatment of advertising costs for internet companies. The directors believe application of this US



- The 115 horse-power outboard is currently the smallest of Mercury's OptiMax range. The success of their direct injected engines has seen the release of six models - 115, 135, 150, 200, 225 and the recently announced 200XS race engine.

standard is not a true and fair reflection of Orbital's operations. Over the next three years the recognition of additional expenses under Australian accounting standards will align the

US and Australian accounts.

The following table summarises the December 1999 results under Australian and United States accounting standards.

FINANCIAL POSITION AS AT DECEMBER 31, 1999	AUSGAAP	AUSGAAP	USGAAP	USGAAP
	Dec 1999 A\$000's	Dec 1998 A\$000's	Dec 1999 US\$000's	Dec 1998 US\$000's
OPERATING REVENUE				
Licensing & royalties	9,367	7,079	1,645	4,334
System sales	5,737	5,734	3,764	3,511
Manufacturing	151	1,079	99	661
Engineering	8,526	6,340	4,671	3,882
R&D income	-	2,707	-	1,658
Other	1,258	3,989	825	2,442
	<u>25,039</u>	<u>26,928</u>	<u>11,004</u>	<u>16,488</u>
OPERATING EXPENDITURE				
Cost of system sales	5,533	5,224	3,630	3,199
Share of Synerject JV loss	579	1,771	380	1,084
Additional investment in Meteor JV	-	4,315	-	2,642
Redemption of Convertible Note	-	2,244	-	1,374
Operating costs	18,757	21,864	11,274	13,432
	<u>24,869</u>	<u>35,418</u>	<u>15,284</u>	<u>21,731</u>
Operating profit/(loss) before tax & abnormals	170	(8,490)	(4,280)	(5,243)
Abnormals	-	(46,373)	-	(3,107)
Operating profit/(loss) before tax	<u>170</u>	<u>(54,863)</u>	<u>(4,280)</u>	<u>(8,350)</u>
Income tax credit	123	5,083	230	177
Operating profit/(loss) after tax	<u>293</u>	<u>(49,780)</u>	<u>(4,050)</u>	<u>(8,173)</u>

NOTE: Comparative US\$ figures are compiled in accordance with US GAAP. As discussed above, under those standards Licensing and Royalty Revenue and Operating Costs reflect the differing accounting treatment stipulated by EITF 99-17. The Directors believe the Australian GAAP treatment is a true and fair reflection of the Company's performance.

Trade Shows in Detroit

SAE 2000 Congress

Orbital is presently gearing up for the Society of Automotive Engineers (SAE) 2000 Congress to be held from March 6-9. This annual event is the most important trade show on our calendar. At this time every year the world's automotive industry converges on the Cobo Center in Detroit to showcase the best of their technology. The theme for this year's congress is "Adding Value to Life Through Technology and Advanced Mobility." We will display our technology in a booth in the main hall and will present two technical papers discussing our work on direct injection on four-stroke automotive engines and our findings from the 100 vehicle, two-stroke engine Genesis program. Full details of the trade show are available on the internet at www.sae.org/congress.

US 2000 Industry Visit

Orbital is also participating in an exhibition and symposium promoting Australia's automotive capabilities at the Ford Technical Review Center in Detroit from March 20-24. As a result of a visit to Detroit by Mr. Ian Grigg, the Australian Prime Minister's Special Automotive Envoy, Ford executives extended an invitation to the Australian automotive sector to stage this event. Invitations have been extended to Detroit based personnel from Ford, GM and Daimler-Chrysler and their major Tier 1 suppliers to attend the event. More information is available on the internet at www.downunderauto.com.

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Australian Stock Exchange
Ordinary Shares - OEC

New York Stock Exchange
American Depository Receipts - OEC

Berlin Stock Exchange
American Depository Receipts - ORE

Frankfurt Stock Exchange
Ordinary Shares - OREA



- Europe's Aprilia Group will very soon become the first motorcycle manufacturer to mass produce OCP DI scooter engines.

Revenue and Expenditure

Consolidated revenue for the six months to 31 December 1999 decreased by 7% to A\$25.039 million (US\$11.004 million) from A\$26.928 million (US\$16.488 million) in the six months to 31 December 1998. Both license fees and royalties, and engineering revenues have shown strong increases, reflecting the level of customer activity currently underway. Collectively, these categories have increased 33% from A\$13.419 million (US\$8.216 million) in 1998 to A\$17.893 million (US\$6.316 million) in 1999.

The 1998 revenue included significant non-recurring items including income from Research and Development Syndication arrangements which have now been concluded (A\$2.707 million (US\$1.658 million)) and foreign exchange gains primarily on funds previously drawn down under the convertible debenture (A\$2.129 million (US\$1.304 million)).

Operating expenditure for the 1999 half year decreased by 30% to A\$24.869 million (US\$15.284 million) from A\$35.418 million (US\$21.731 million) for the 1998 half year. This decrease can primarily be attributed to general cost and efficiency improvements and savings made from the closure of the Tecumseh facilities. These general operating costs amounted to A\$18.757 million (US\$11.274 million) for the 1999 half year compared to A\$21.864 million (US\$13.432 million) for the 1998 half year, a decrease of 14%. In addition, included in the 1999 half year operating expenditure is A\$0.579 million (US\$0.380 million) in relation to Orbital's share of Synerject's operating costs compared to an amount of A\$1.771 million (US\$1.084 million) in the 1998 half year.

Also included in the prior year operating expenditure were costs associated with the Meteor joint venture of A\$4.315 million (US\$2.642 million) and the redemption of the convertible debenture of A\$2.244 million (US\$1.374 million). Both of these matters have now been concluded and no

further expenditure is expected to be incurred in these areas.

No abnormal expenses were recorded for the 1999 half year. Abnormal expenses totaling A\$42.583 million (US\$0.787 million) were recorded in relation to amortisation of cash expenditures on Patents, Licences and Technologies (A\$16.357 million (US\$0.787 million)) and Patents, Licences and Technologies arising from corporate restructurings (A\$26.226 million (US\$nil)) for the 1998 half year. This process, of the elimination of all intangibles arising from cash and non-cash transactions by amortisation was completed on 30 June 1999. An abnormal expense of A\$3.790 million (US\$2.320 million) was also recorded for the 1998 half year for the rationalisation of the US operations.

Orbital recorded an income tax benefit of A\$0.123 million incorporating an income tax expense of A\$0.318 million, and abnormal tax benefits of A\$0.099 million arising from the DMG Technology investment and A\$0.342 million arising from restatement of deferred tax balances due to changes in tax rates. Under US GAAP Orbital recorded an income tax credit of US\$0.230 million.

The operating profit after abnormal items and income tax was A\$0.293 million (US\$4.050 million loss) for the six months ended 31 December 1999 (1998: A\$49.780 million loss (US\$8.173 million loss)).

Cash Position

As at 31 December 1999, Orbital's cash balance was A\$23.488 million (US\$15.408 million) compared to A\$32.186 million (US\$21.278 million) at 30 June 1999. As in the previous year, cash has been utilised in the first half, with the main cash in flows occurring in the second half of the year. This trend is expected to continue in this financial year.