

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2000

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 control and the establishment of appropriate ethical standards.

Composition of the Board

Details regarding the composition of the Board are set out in Note 29 to the financial report.

Directors Dealing in Company Shares

The Corporation's policy and procedure statement with respect to Directors and Officers share trading states that:

- Directors should never engage in short term trading of the Corporation's securities;
- Directors should neither buy nor sell securities at a time when they possess information which, if publicly disclosed, would be likely to affect the market price of the Corporation's securities;
- Directors must consult with the Chairman before undertaking any transactions involving the Corporation's securities; and
- Directors are only permitted to undertake transactions in the Corporation's securities during a four week period following every material public announcement.

Independent Professional Advice

Each Director has the right to seek independent legal advice at the consolidated entity's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

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. This role also includes responsibility for benefit packages 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 meets as and when required. Current members are Mr R W Kelly (Chairman), Mr A J Castleman and Mr K C Schlunke.

Total remuneration for all non-executive Directors last voted upon by shareholders at the 1994 Annual General Meeting 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 29 to the financial report.

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 management implement appropriate and prompt remedial action to 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 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.

The members of the Finance Committee at the beginning of the financial year were Mr R W Kelly (Chairman), Mr K C Schlunke and Mr A J Castleman. During the financial year membership was expanded to include all Directors.

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.

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 identify and resolve key business risks.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2000

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 Law 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. Half-year financial report prepared in accordance with the requirements of Accounting Standards and the Corporations Law are 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
- 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 2000

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 2000 and the auditors' report thereon.

Directors

Refer Note 29 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 abnormal items and income tax for the year attributable to the members of Orbital was \$9.929 million (1999: \$87.214 million).

Review of Operations

A comprehensive review of the operations of the consolidated entity is set out in pages 2 to 14 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 a controlling interest in the investment companies formed under the Technology Investment Transactions. Refer Note 24.
- The consolidated entity raised \$30 million in a private share placement.

Events Subsequent to Balance Date

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 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 during the financial year that was available to all shareholders. This share purchase plan is to be terminated effective 31 December 2000. During the financial year there were 56,227 shares issued under this plan. Shareholders wishing to participate in the share purchase plan prior to termination can obtain an application form and an explanatory booklet from the Company's website or on request from the Company.

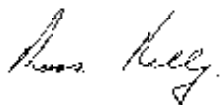
Options

Refer Note 29.6 to the financial report for details of the options issued to Directors and the five most highly remunerated officers. Refer Note 20.1 to the financial report for details of Employee Share Plan options on issue and Note 20.4 to the financial report for details of warrants on issue.

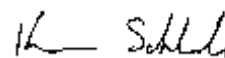
Rounding

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 28th day of August, 2000

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
PROFIT AND LOSS STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
Revenue:	2				
Licencing, sales and service income		49,221	46,732	-	-
Research and development income		-	4,519	-	-
Revenue from outside operating activities		2,126	14,704	245	2,226
Total revenue		51,347	65,955	245	2,226
Operating expenditure		(64,229)	(69,533)	(11,835)	(6,785)
Operating (loss) before abnormal items and income tax		(12,882)	(3,578)	(11,590)	(4,559)
Abnormal expenses:	3				
Amortisation of patents, licences and technologies arising from corporate restructurings		-	(52,453)	-	-
Provision against carrying value of investments in subsidiaries		-	-	-	(83,415)
Amortisation of cash expenditure on certain intangible assets		-	(31,616)	-	-
Rationalisation of United States operations		-	(6,948)	-	-
Total abnormal expenses		-	(91,017)	-	(83,415)
Operating (loss) before income tax		(12,882)	(94,595)	(11,590)	(87,974)
Income tax credit attributable to operating (loss), including abnormal tax write-offs	4	2,998	7,381	1,706	760
Operating (loss) after income tax		(9,884)	(87,214)	(9,884)	(87,214)
Outside equity interests in operating loss		(45)	-	-	-
Operating (loss) after income tax attributable to members of the Company		(9,929)	(87,214)	(9,884)	(87,214)
(Accumulated losses) at the beginning of the financial year		(160,003)	(125,242)	(160,003)	(125,242)
Transfer to capital reduction reserve	21.2, 37	-	52,453	-	52,453
(Accumulated losses) at the end of the financial year		(169,932)	(160,003)	(169,887)	(160,003)

The profit and loss statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 23 to 52.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
BALANCE SHEETS FOR THE YEAR ENDED 30 JUNE 2000

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
CURRENT ASSETS					
Cash	6	52,855	32,186	3,078	16,527
Receivables	7	14,739	13,942	44	25
Inventories	8	962	1,203	-	-
Other	9	2,582	424	41	30
TOTAL CURRENT ASSETS		71,138	47,755	3,163	16,582
NON-CURRENT ASSETS					
Receivables	7	-	2,042	65,654	35,848
Investments	10	6,446	6,446	-	-
Property, plant & equipment	11	19,032	21,174	147	115
Other	13	102,104	160,266	494	379
TOTAL NON-CURRENT ASSETS		127,582	189,928	66,295	36,342
TOTAL ASSETS		198,720	237,683	69,458	52,924
CURRENT LIABILITIES					
Accounts payable	14	17,119	13,779	1,089	628
Borrowings	15	298	447	25	13
Provisions	18	2,990	2,294	93	101
Other	19	2,760	3,889	-	-
TOTAL CURRENT LIABILITIES		23,167	20,409	1,207	742
NON-CURRENT LIABILITIES					
Accounts payable	14	-	3,445	-	-
Borrowings	15	19,431	19,640	32,168	37,928
Provisions	18	6,428	9,769	291	752
Other	19	113,902	170,918	-	-
TOTAL NON-CURRENT LIABILITIES		139,761	203,772	32,459	38,680
TOTAL LIABILITIES		162,928	224,181	33,666	39,422
NET ASSETS		35,792	13,502	35,792	13,502
SHAREHOLDERS' EQUITY					
Share capital	20	205,679	409,588	205,679	409,588
Reserves	21	-	(236,083)	-	(236,083)
(Accumulated losses)		(169,932)	(160,003)	(169,887)	(160,003)
Shareholders' equity attributable to members of the Company		35,747	13,502	35,792	13,502
Outside equity interest in controlled entities	22	45	-	-	-
TOTAL SHAREHOLDERS' EQUITY		35,792	13,502	35,792	13,502

The balance sheets are to be read in conjunction with the notes to and forming part of the financial statements set out in pages 23 to 52.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2000

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
CASH FLOWS USED IN OPERATING ACTIVITIES					
Cash receipts in the course of operations		51,148	49,434	-	-
Cash payments in the course of operations		(63,676)	(53,191)	(46,098)	(2,837)
Net cash (used in) operating activities	35.2	(12,528)	(3,757)	(46,098)	(2,837)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		1,193	2,705	210	1,092
Proceeds from sale of property, plant & equipment		640	7,341	35	43
Payments for property, plant & equipment		(1,545)	(1,745)	(26)	-
Payments for additional investment in business undertakings	33.1	-	(900)	-	-
Net cash provided by investing activities		288	7,401	219	1,135
CASH FLOWS USED IN FINANCING ACTIVITIES					
Proceeds from issue of convertible debenture		-	17,800	-	17,800
Repayment of convertible debenture		-	(17,232)	-	(17,232)
Borrowing costs		-	(1,047)	-	(1,047)
Proceeds from issue of shares		32,670	130	32,670	130
Share buy-back		(496)	-	(496)	-
Lease payments		(452)	(497)	(30)	(16)
Net cash provided by/(used in) financing activities		31,722	(846)	32,144	(365)
Net increase/(decrease) in cash held		19,482	2,798	(13,735)	(2,067)
Cash at the beginning of the financial year		32,186	27,789	16,527	17,385
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1,187	1,599	286	1,209
Cash at the end of the financial year	35.1	52,855	32,186	3,078	16,527

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 52.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

1. STATEMENT OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of this financial report are as follows:

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 Law. 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.

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

1.2 Principles of Consolidation

The consolidated financial statements of the consolidated entity include the financial statements of the Company, being the parent entity, and its controlled entities.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. 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.

The balances and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

1.3 Income Recognition

(a) *Revenue from Trading Operations*

Revenue from trading operations comprises revenue earned under various licence and other agreements and includes income earned pursuant to the Research and Development Syndicates and the Technology Investment transactions. Revenue from trading operations is recognised upon the satisfactory completion of contracted technical specifications and/or other obligations. 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.

(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 an unconditional contract of sale is signed.

(d) *Other Revenue*

The revenue recognition policy for income earned pursuant to the Research and Development Syndicates is set out in Note 1.13. The revenue recognition policy for income earned pursuant to the Technology Investment transactions is set out in Note 1.14.

The revenue recognition policy for foreign exchange gains is set out in Note 1.12.

1.4 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 balance sheet 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.

1.5 Non-Current Assets

The carrying amounts of all non-current assets 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. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

1. STATEMENT OF ACCOUNTING POLICIES (continued)
- 1.6 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). Dividends and distributions are brought to account in the profit and loss statement when they are proposed by the controlled entities.
- (b) *Business Undertakings*
- The consolidated entity's interest in business undertakings is carried at cost, adjusted for losses of the business undertakings.
- (c) *Other Companies*
- Investments in other companies are carried out at the lower of cost and recoverable amount, being a Directors' valuation based on market values at the time of valuation.
- 1.7 Property, Plant and Equipment
- (a) *Acquisition*
- Items of property, plant and equipment are recorded at cost and depreciated as outlined below.
- The cost of property, plant and equipment constructed by controlled entities includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.
- (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 6.66% 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 property, plant and equipment 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. When these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives.
- (d) *Revaluations*
- 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.
- (e) *Leased Plant and Equipment*
- Leases of plant and equipment 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.
- Finance leases are capitalised. A lease asset and a liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease or, where it is likely the consolidated entity will obtain ownership of the asset, over the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the profit and loss account.
- Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.
- 1.8 Research and Development Expenditure
- Research and development costs are charged against the operating result as incurred.
- 1.9 Patents, Licences and Technologies
- From 1 July 1995, cash expenditures on patents, licences and technologies are expensed as incurred. From 1 January 1996, these previously capitalised costs were being amortised on a straight line basis over four financial years concluding on 30 June 1999.
- Patents, licences and technologies arising from corporate restructurings were capitalised in prior years. During 1997, the Directors resolved to eliminate these intangibles by amortising these amounts on a straight line basis over the period 1 January 1996 to 30 June 1999.
- 1.10 Deferred Pre-production Expenditure
- Pre-production costs represent costs incurred in enhancing the OCP technology to enable commercial production and, from 1 July 1995, are expensed as incurred. In prior years, these costs were deferred to the extent they did not relate solely to revenue which had already been brought to account. From 1 January 1996, these previously capitalised costs were amortised on a straight line basis over four financial years concluding on 30 June 1999.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

1. STATEMENT OF ACCOUNTING POLICIES (continued)

1.11 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.

1.12 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 profit and loss statement in the financial year in which the exchange rates change.

(b) *Translation of Controlled Foreign Entities*

The financial report of the controlled foreign entities (being integrated operations) are translated under the temporal method with exchange differences arising on translation being brought to account in the profit and loss account. Under the temporal method, cash, receivables and payables and other assets and liabilities carried at present prices are translated at the current rate, and assets and liabilities carried at past prices are translated at applicable historical rates.

(c) *Hedges*

Where hedge transactions are designed to hedge the purchase or sale of goods or services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge, are included in the measurement of the purchase or sale. Any exchange differences on the hedge transaction after that date are included in the profit and loss statement.

1.13 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.

(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 Syndicates are set out in Note 23 to the financial report.

(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 Genesis Syndicate have been funded from the core technology licence fee and have been deposited in a research and development restricted security deposit. 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 23. Equally, no expense is recognised with respect to the put option obligations that exist. 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 (v) below);
- (iv) Interest on the research and development restricted security deposits is accumulated in the accounts as earned and matched by corresponding increases in the present value of the put option liabilities; and
- (v) In the event that royalty payments are made to the Genesis and the OCP-4S Syndicate members prior to 30 June 2002 and 13 May 2003, respectively, 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 liabilities as a result of these royalty payments will be recognised in the year in which they become payable.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

1. STATEMENT OF ACCOUNTING POLICIES (continued)

1.14 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 24 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 was 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 amounts on deposit are only recognised as revenue if either the put option obligation lapses or as royalties are received progressively (refer (v) below);
- (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.

1.15 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.

1.16 Warranties

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

1.17 Employee Entitlements

(a) *Wages, Salaries and Annual Leave*

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to balance date. The provisions have been calculated at nominal amounts based on current wage and salary rates and includes related on-costs.

(b) *Long Service Leave*

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

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attached to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures. Related on-costs have also been included in this liability.

(c) *Superannuation Fund*

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 Note 26.

1.18 Receivables

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

1.19 Accounts Payable

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

1.20 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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

	NOTE	CONSOLIDATED		THE COMPANY	
		2000	1999	2000	1999
		\$000's	\$000's	\$000's	\$000's
2.	OPERATING (LOSS)				
2.1	Revenue and Operating Expenses				
	The operating loss has been arrived at after including:				
	<i>Revenue from operating activities</i>				
	<i>Licencing, sales and service income:</i>				
	Licencing and royalties	13,747	16,505	-	-
	System sales	17,537	11,200	-	-
	Manufacturing	243	1,906	-	-
	Engineering	17,694	17,121	-	-
		<u>49,221</u>	<u>46,732</u>	<u>-</u>	<u>-</u>
	Research and development	-	4,519	-	-
	Total revenue from operating activities	<u>49,221</u>	<u>51,251</u>	<u>-</u>	<u>-</u>
	<i>Revenue from outside operating activities</i>				
	Interest income - other persons	1,293	2,705	210	1,092
	Proceeds on sale of fixed assets	626	7,341	35	43
	Rental income	-	568	-	-
	Other income	207	57	-	-
	Foreign exchange gain	-	4,033	-	1,091
	Total revenue from outside operating activities	<u>2,126</u>	<u>14,704</u>	<u>245</u>	<u>2,226</u>
		<u>51,347</u>	<u>65,955</u>	<u>245</u>	<u>2,226</u>
	<i>Operating Expenses</i>				
	Research and development expenditure	13,630	6,676	-	-
	Share of business undertakings net loss	5,335	3,365	-	-
	Contracted research and development syndicate expenditure	-	4,120	-	-
	Depreciation of:				
	- Buildings	82	180	-	-
	- Leasehold improvements	262	313	-	-
	- Plant and equipment	2,274	2,584	33	50
		<u>2,618</u>	<u>3,077</u>	<u>33</u>	<u>50</u>
	Amortisation of capitalised assets	404	426	36	18
	Write down in value of inventories	-	435	-	-
	Amounts set aside to provisions for employee entitlements	267	542	(89)	(14)
	Amounts set aside to provisions for doubtful debts	164	1,118	-	-
	Bad debts written off	316	37	-	-
	Borrowing costs	309	1,047	40	1,047
	Finance charges on capitalised leases	80	107	10	5
	Amounts set aside to provisions for warranties	70	103	-	-
	Rental charges - operating leases	1,130	1,395	-	-
	Net foreign exchange losses	746	410	209	-
		<u>(97)</u>	<u>49</u>	<u>35</u>	<u>43</u>
2.2	Sales of Non-Current Assets				
	(Loss)/profit on sale of non-current assets	<u>(97)</u>	<u>49</u>	<u>35</u>	<u>43</u>

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
3. ABNORMAL ITEMS					
Items charged as expenses:					
Amortisation of patents, licences and technologies arising from corporate restructurings	21.2, 37	-	52,453	-	-
Income tax effect		-	-	-	-
		<u>-</u>	<u>52,453</u>	<u>-</u>	<u>-</u>
Amortisation of cash expenditures on certain intangible assets		-	31,616	-	-
Income tax effect		-	(11,382)	-	-
		<u>-</u>	<u>20,234</u>	<u>-</u>	<u>-</u>
Provision against carrying value of investment in subsidiaries		-	-	-	83,415
Income tax effect		-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>83,415</u>
Rationalisation of United States operations		-	6,948	-	-
Income tax effect		-	(2,501)	-	-
		<u>-</u>	<u>4,447</u>	<u>-</u>	<u>-</u>
Aggregate abnormal items charged as expenses before income tax		<u>-</u>	<u>91,017</u>	<u>-</u>	<u>83,415</u>

The above abnormal items were included in operating loss before income tax in the current financial year. Abnormal items that only affect the calculation of income tax expense are set out in Note 4.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	NOTE	CONSOLIDATED		THE COMPANY	
		2000	1999	2000	1999
		\$000's	\$000's	\$000's	\$000's
4.	INCOME TAX CREDIT				
4.1	Prima facie income tax credit				
	Calculated at 36% on the operating loss	4,638	34,054	4,172	31,671
	(Decrease)/increase in income tax credit due to non tax deductible items				
	Non-resident controlled entities (non-deductible) amounts, representing losses not tax effected:				
	- Controlled entity's result	(2,449)	(1,809)	-	-
	- Share of Partnership result	-	(306)	-	-
	- Amortisation of controlled entity's deferred pre-production expenditure	-	(2,547)	-	-
	- Other				
	Withholding tax payable	(415)	(1,258)	-	-
	Provision against carrying value of investments in subsidiaries	-	-	(2,211)	-
	Convertible debenture expenses	(14)	(843)	(14)	(843)
	Non-deductible legal fees and settlement costs	(68)	253	(68)	253
	Depreciation and amortisation	(10)	(267)	(3)	-
	Other (non-deductible)/non-assessable amounts	2	(55)	10	(209)
	Increase in income tax credit due to:				
	- Research and development allowance	565	189	-	-
	- Recoupment of foreign tax credits having a finite life	144	605	-	-
	- Restatement of deferred tax balances due to change in company tax rate	123	-	(67)	-
	Income tax credit on operating loss before abnormal income tax items	2,512	28,016	1,819	30,872
	<i>Abnormal Tax Items:</i>				
	Non-deductible amortisation of patents, licences and technologies arising from corporate restructurings	-	(18,883)	-	-
	Provision against carrying value of investments in subsidiaries	-	-	-	(30,029)
	Technology Investment Transactions	24			
	- interest on restricted security deposit	(246)	(554)	-	-
	- royalty payment	501	229	-	-
	Rationalisation of United States operations	-	(2,501)	-	-
	Total abnormal tax items	255	(21,709)	-	(30,029)
	Income tax credit for current year	2,767	6,307	1,819	843
	Income tax over/(under) provided in prior year	231	1,074	(113)	(83)
	Income tax credit on operating loss	2,998	7,381	1,706	760

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	CONSOLIDATED		THE COMPANY	
	2000	1999	2000	1999
	\$000's	\$000's	\$000's	\$000's
4. INCOME TAX CREDIT (continued)				
4.2 Total income tax credit is made up of:				
Current income tax provision	(528)	-	-	-
Deferred income tax provision	3,304	7,968	493	(296)
Future income tax benefit	406	(403)	115	(147)
Over/(under) provision in prior year	231	1,074	(113)	(83)
Withholding tax payable	(415)	(1,258)	-	-
Transfer of current year losses to group companies	-	-	1,211	1,286
	<u>2,998</u>	<u>7,381</u>	<u>1,706</u>	<u>760</u>
4.3 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 (34% (1999: 36%)) franking credits	<u>3,753</u>	<u>1,869</u>	<u>2,041</u>	<u>1,869</u>

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

	CONSOLIDATED	
	2000	1999
5. EARNINGS/LOSS PER SHARE		
Basic loss per share (cents per share)	<u>3.1</u>	<u>26.9</u>
Weighted average number of ordinary shares outstanding during the year in the calculation of basic loss per share (000's)	<u>324,686</u>	<u>323,845</u>

Diluted loss per share is not materially different from basic loss per share and as such is not disclosed.

	CONSOLIDATED		THE COMPANY	
	2000	1999	2000	1999
	\$000's	\$000's	\$000's	\$000's
6. CASH				
Cash at bank	931	282	9	8
Cash at bank - US Dollars	10,790	11,114	2,672	8,412
Cash at bank - UK Pounds Sterling	-	46	-	-
At call deposits with financial institutions	41,134	20,744	397	8,107
	<u>52,855</u>	<u>32,186</u>	<u>3,078</u>	<u>16,527</u>
7. RECEIVABLES				
7.1 Current				
Trade debtors	13,745	13,546	-	-
Receivables from other persons	994	396	44	25
	<u>14,739</u>	<u>13,942</u>	<u>44</u>	<u>25</u>
7.2 Non-Current				
Trade debtors	-	2,042	-	-
Amounts receivable from controlled entities	-	-	65,654	35,848
	<u>-</u>	<u>2,042</u>	<u>65,654</u>	<u>35,848</u>

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
8.	INVENTORIES				
	Raw materials and stores - at cost	962	1,099	-	-
	Work in progress - at cost	-	104	-	-
		<u>962</u>	<u>1,203</u>	<u>-</u>	<u>-</u>
9.	OTHER CURRENT ASSETS				
	Prepayments	2,582	424	41	30
10.	INVESTMENTS				
	Investment in PT Texmaco Perkasa Engineering Tbk - at cost	6,446	6,446	-	-
	Investments in controlled entities - at cost	31	-	346,913	346,913
	Less: the former Section 313 relief granted	37	-	(52,500)	(52,500)
	Less: provision against carrying value of investments in controlled entities	-	-	(294,413)	(294,413)
		<u>6,446</u>	<u>6,446</u>	<u>-</u>	<u>-</u>
11.	PROPERTY, PLANT AND EQUIPMENT				
	Freehold land				
	At directors valuation 1996	11.1(a)	-	50	-
	At directors valuation 1996	11.1(b)	1,733	1,733	-
			<u>1,733</u>	<u>1,783</u>	<u>-</u>
	Buildings				
	At directors valuation 1996	11.1(a)	-	290	-
	Less: accumulated depreciation		-	(50)	-
			<u>-</u>	<u>240</u>	<u>-</u>
	At directors valuation 1996	11.1(b)	3,057	3,057	-
	Less: accumulated depreciation		(326)	(245)	-
			<u>2,731</u>	<u>2,812</u>	<u>-</u>
	Total buildings		<u>2,731</u>	<u>3,052</u>	<u>-</u>
	Leasehold improvements - at cost		3,995	3,992	-
	Less: accumulated depreciation		(2,561)	(2,300)	-
			<u>1,434</u>	<u>1,692</u>	<u>-</u>
	Plant and equipment - at cost		31,959	31,449	813
	Less: accumulated depreciation		(19,625)	(18,001)	(779)
			<u>12,334</u>	<u>13,448</u>	<u>34</u>
	Leased assets - at cost		1,495	1,720	167
	Less: accumulated depreciation		(864)	(781)	(54)
			<u>631</u>	<u>939</u>	<u>113</u>
	Capital works in progress - at cost		169	260	-
	Total property, plant and equipment - net book value		<u>19,032</u>	<u>21,174</u>	<u>147</u>
			<u>19,032</u>	<u>21,174</u>	<u>147</u>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

11. PROPERTY, PLANT AND EQUIPMENT (continued)

11.1 Interests in Land and Buildings

(a) *United States*

During the financial year land and buildings held by a controlled entity was sold for an amount in excess of the carrying value.

(b) *Australia (Directors' Valuation)*

The value at 30 June 1999 of interest in certain other 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.

The carrying value of the land and buildings referred to above is \$4,463,967 (1999: \$4,545,273). As these 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 1.5, 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	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
12. INTANGIBLES					
12.1 Patents, licences and technologies arising from corporate restructurings					
At cost		236,083	236,083	-	-
Less: Section 313 relief granted	37	(52,500)	(52,500)	-	-
Less: accumulated amortisation	1.9, 37	(183,583)	(183,583)	-	-
		-	-	-	-
12.2 Cash expenditures on patents, licences and technologies					
At cost		19,452	19,452	-	-
Less: accumulated amortisation	1.9	(19,452)	(19,452)	-	-
		-	-	-	-
12.3 Deferred pre-production expenditure and start-up costs					
At cost		98,683	98,683	-	-
Less: accumulated amortisation	1.10	(98,683)	(98,683)	-	-
		-	-	-	-
Intangibles - net book value		-	-	-	-

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
13.	OTHER NON-CURRENT ASSETS				
	Research and development restricted security deposits	23.4	96,507	92,541	-
	Technology Investment restricted security deposits	24.2	-	65,750	-
	Future income tax benefit		2,367	1,961	494
	Prepayments		2,802	-	-
	Other		428	14	-
			<u>102,104</u>	<u>160,266</u>	<u>494</u>
13.1	The future income tax benefit is made up of the following estimated tax benefits				
	- Timing differences		2,367	1,961	494
			<u>2,367</u>	<u>1,961</u>	<u>494</u>

Tax carry forward losses of approximately \$80.265 million (US\$47.926 million) [1999: \$68.532 million (US\$45.307 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 2000, the \$80.265 million of tax carry forward losses available expire between the years 2013 and 2018.

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
14.	ACCOUNTS PAYABLE				
14.1	Current				
	Trade creditors		17,119	13,779	1,089
14.2	Non-Current				
	Trade creditors		-	3,445	-
15.	BORROWINGS				
15.1	Current				
	Lease liabilities	25.3	298	447	25
15.2	Non-Current				
	Loans and Advances				
	- Other persons - secured	15.2 (a)	19,000	19,000	19,000
	- Controlled entities		-	-	13,056
	Lease liabilities	25.3	431	640	112
			<u>19,431</u>	<u>19,640</u>	<u>32,168</u>
					<u>37,928</u>

(a) 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 of 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.

(b) 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 \$1,993,690 (1999: \$2,100,000).

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

	CONSOLIDATED		THE COMPANY	
	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
16. FINANCING ARRANGEMENTS				
The consolidated entity has standby arrangements with banks to provide support facilities:				
16.1 Total facilities available				
Performance guarantee facility	85	500	-	-
Corporate credit card facility	1,163	1,162	222	240
Multi-option credit facility	700	700	200	200
Letter of credit	419	-	-	-
	<u>2,367</u>	<u>2,362</u>	<u>422</u>	<u>440</u>
16.2 Facilities utilised at balance date				
Performance guarantee facility	85	110	-	-
Corporate credit card facility	184	105	23	49
Multi-option credit facility	-	-	-	-
Letter of credit	419	-	-	-
	<u>688</u>	<u>215</u>	<u>23</u>	<u>49</u>
16.3 Facilities not utilised at balance date				
Performance guarantee facility	-	390	-	-
Corporate credit card facility	979	1,057	199	191
Multi-option credit facility	700	700	200	200
Letter of credit	-	-	-	-
	<u>1,679</u>	<u>2,147</u>	<u>399</u>	<u>391</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.

17. 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	
	2000	1999	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
17.1 United States Dollars						
<i>Amounts Receivable</i>						
Current	0.5992	0.6611	11,716	12,927	-	-
Non-current	-	0.6611	-	2,042	-	-
			<u>11,716</u>	<u>14,969</u>	<u>-</u>	<u>-</u>
<i>Amounts Payable</i>						
Current	0.5971	0.6522	14,326	9,603	190	-
Non-current	-	0.6522	-	3,219	-	-
			<u>14,326</u>	<u>12,822</u>	<u>190</u>	<u>-</u>

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
20. SHARE CAPITAL					
Issued and paid up capital 350,127,973 (1999: 323,940,829) ordinary shares, fully paid		205,679	409,588	205,679	409,588
Movements in ordinary share capital					
Balance at the beginning of the financial year		409,588	161,861	409,588	161,861
Balance of share premium reserve		-	247,597	-	247,597
Shares issued:					
- 3,607,600 (1999: 75,600) shares issued from the exercise of employee options		3,007	63	3,007	63
- 56,227 (1999: 142,798) shares issued pursuant to shareholders share purchase plan		44	67	44	67
- 23,437,500 shares issued pursuant to share placement		29,619	-	29,619	-
Shares bought back:					
- 914,183 (1999: nil) shares		(496)	-	(496)	-
Transfer of Capital Reduction Reserve	37	(236,083)	-	(236,083)	-
		<u>205,679</u>	<u>409,588</u>	<u>205,679</u>	<u>409,588</u>

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 Law. 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	
1995	708,000	1.20	31 Oct 2000	3,784,000	1.34	31 Oct 2000	4,492,000
1996	624,000	0.94	1 Nov 2001	1,417,000	1.04	1 Nov 2001	2,041,000
1997	570,000	0.74	19 Sep 2002	1,490,500	0.82	19 Sep 2002	2,060,500
1998	557,500	0.59	25 Sep 2003	600,600	0.66	25 Sep 2003	1,158,100
1999	480,000	0.53	23 Sep 2004	277,700	0.59	23 Sep 2004	757,700
	<u>2,939,500</u>			<u>7,569,800</u>			<u>10,509,300</u>

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

During the year the Company issued 1,013,000 1999 Series A options and 495,800 1999 Series B options for nil consideration. The Series A options are exercisable at \$0.53, 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 23 September 2004. The Series B options are exercisable at \$0.59 after the hurdle price of \$0.90 has been reached any time up to 23 September 2004. The 1999B hurdle price was reached during December 1999. All permanent employees who have served 12 months as at the date of offer are eligible to participate.

During the year 3,607,600 ordinary shares were issued by the Company under its Employee Share Plan. The total amount received from employees was \$3,007,515.

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 1999	32,478	\$0.57
31 December 1999	15,300	\$0.87
31 March 2000	4,452	\$1.40
30 June 2000	3,997	\$1.51
	<u>56,227</u>	

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

20. SHARE CAPITAL (continued)

20.3 Share Buy-Back

During the year 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 Law.

20.4 Warrants

During the year the Company issued 375,000 warrants for Orbital's American Depository Receipts (one American Depository 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.

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
21. RESERVES					
21.1 Share Premium Reserve					
Balance at beginning of year		-	247,597	-	247,597
Less: transfer to share capital		-	(247,597)	-	(247,597)
Balance at end of year		-	-	-	-
21.2 Capital Reduction Reserve					
Balance at beginning of year		(236,083)	(183,630)	(236,083)	(183,630)
Amortisation during year		-	(52,453)	-	(52,453)
Transfer to share capital		236,083	-	236,083	-
Balance at end of year	37	-	(236,083)	-	(236,083)
Total reserves		-	(236,083)	-	(236,083)
22. OUTSIDE EQUITY INTERESTS					
Outside equity interest in controlled entities comprise:					
Interest in operating profit after income tax		45	-	-	-
Total outside equity interests		45	-	-	-

On 14 January 2000, Deutsche Morgan Grenfell (DMG) exercised their right under the two technology investment transactions entered into with Orbital during the year ended 30 June 1998 to exercise their subscription option in respect of these transactions.

The effect of exercising the subscription options was that Orbital was required to subscribe for shares in the investment companies. The consideration for these shares was funded by the research and development restricted security deposits. As a result, Orbital has now become the majority shareholder in the Investors and will be entitled to distributions from the Investors.

23. RESEARCH AND DEVELOPMENT SYNDICATES

23.1 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. As at 30 June 1997 the research and development contract sum had been fully derived.

23.2 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. The Investor's percentage of the research and development contract sum was \$12,539,808. As at 30 June 1999, the research and development contract sum had been fully derived.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

23. RESEARCH AND DEVELOPMENT SYNDICATES (continued)

23.3 Key Features

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

- (i) OECA granted non-exclusive licences to the Syndicate members in respect of the OCP-4S technology (OCP-4S Syndicate) and OCP technology (Genesis Syndicate) for automotive applications;
- (ii) In the OCP-4S Syndicate, the Investor has a 90% stake with the remaining 10% being owned by a controlled entity, S T Management Ltd (STM);
- (iii) In the Genesis Syndicate, the Investor has a 86.11% stake with the remaining 13.89% being owned by a controlled entity, Orbital Engine Company (Australia) Pty Ltd (OECA);
- (iv) The Syndicates have appointed OECA to undertake the 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 will belong to the Syndicates, however OECA had the right to such developments, allowing such benefits to be made available to existing and future licencees;
- (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 monies that may become payable to the financier will be satisfied.

(b) *Put Option and Royalty Payments*

The Investors have the right to exercise a put option in respect of the special purpose investment subsidiaries, formed to hold their investments in the Genesis Syndicate, on 30 June 2002 and the OCP-4S Syndicate, on 13 May 2003, or earlier in the event of an early termination of the research and development program or in the event of a default by OECA or STM. The exercising of the put option requires OECA or STM to acquire all of the issued shares in the relevant special purpose research and development subsidiary of the Investors for total consideration equal to the accumulated balance on the restricted security deposit.

If the put options are exercised OECA will have effective ownership of all intellectual property developed by the Syndicates and will be entitled to all royalties payable to the Syndicates.

If the projects are deemed to be a commercial success, the Investors may elect to let their put options lapse and continue receiving royalties until 31 December 2010. In the event that either of the put options are not exercised any monies remaining in the research and development restricted security deposits will accrue to OECA and be recognised as revenue at that time.

Certain royalty payments may be made to the Genesis Syndicate members prior to 30 June 2002 or OCP-4S Syndicate members prior to 13 May 2003. In this event, the after-tax amount of these payments will be applied to reduce the put option price. 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.

(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.

(d) *Termination and Default*

The Syndicates may be terminated in a number of circumstances which include:

- (i) Failure of either of the Investors 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;
- (iii) The exercise of either of the put options by the Investor; or
- (iv) 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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

23. RESEARCH AND DEVELOPMENT SYNDICATES (continued)

23.4 Accounting Treatment

The Syndication arrangements have been accounted for as financing transactions. The effect on the consolidated profit and loss statement and balance sheet of each of the syndicates is as follows:

	NOTE	GENESIS SYNDICATE		OCP-4S SYNDICATE	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
(a) <i>Profit and Loss</i>					
Revenue earned from the syndicate for completed contract work		-	-	-	4,120
Interest revenue on the research and development restricted access deposits		-	-	-	4
		<u>-</u>	<u>-</u>	<u>-</u>	<u>4,124</u>
Research and development expenditure incurred on behalf of the syndicate to the end of the financial year		-	-	-	(4,124)
Net effect		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) <i>Balance Sheet</i>					
<i>Other Non-Current Assets</i>					
Research and development restricted security deposit	13	60,349	57,450	36,158	35,091
<i>Other Non-Current Liabilities</i>					
Future put option obligation - research and development syndication	19.2	60,349	57,450	36,158	35,091

24. 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 REPORT FOR THE YEAR ENDED 30 JUNE 2000**

24. TECHNOLOGY INVESTMENT TRANSACTIONS (continued)

24.1 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 licencees;
- (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 licence fee, 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 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, Orbital became the majority shareholder in the Investors and is therefore entitled to distributions from the Investors.

(c) *Put Option*

Under both Transactions, DMG also has the right to exercise a put option in respect of the shares that it holds in the Investors 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 the Investors.

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 the Investors.

If DMG does not exercise the put options, DMG will retain its shareholding in the Investors and, by agreement with Orbital, the Investors will be liquidated. The licence agreement expires on 30 January 2006.

(d) *Exercise of Options and Default*

DMG may exercise the subscription and put options on the following events of default:

- (i) Failure by the parties to the Transactions to make any payments required under the Transaction Agreements;
- (ii) Failure by any of the parties to the Transactions 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 Transactions;
- (iv) The winding up or dissolution of any of the parties to the Transactions, 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 Transactions.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

24. TECHNOLOGY INVESTMENT TRANSACTIONS (continued)

24.2 Accounting Treatment

The Technology Investment Transactions have been accounted for as financing transactions. The effect on the consolidated operating profit and loss before tax and balance sheet of each transaction is outlined below. Refer Note 4 for income tax expense effect.

	NOTE	TRANSACTION I		TRANSACTION II	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
(a) <i>Operating (loss) before tax</i>					
Marketing and development contract income		-	-	1,840	3,680
Royalty payment		(408)	(132)	-	-
Marketing and development expenditure incurred to the end of the financial year		-	-	(1,840)	(3,680)
Net effect		<u>(408)</u>	<u>(132)</u>	<u>-</u>	<u>-</u>
(b) <i>Balance Sheet</i>					
<i>Other Non-Current Assets</i>					
Security deposit	13	-	40,630	-	25,120
<i>Other Current Liabilities</i>					
Unearned marketing and development income	19.1	-	-	-	1,840
<i>Other Non-Current Liabilities</i>					
Subscription obligation	19.2	-	40,394	-	25,120

		CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
25. COMMITMENTS					
25.1 Capital Expenditure Commitments					
Contracted for but not provided for		345	96	-	-
25.2 Operating Lease Commitments					
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:					
- Not later than one year		391	684	-	-
- Later than one year but not later than five years		1,211	176	-	-
- Later than five years		550	-	-	-
		<u>2,152</u>	<u>860</u>	<u>-</u>	<u>-</u>

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 expiring from 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 REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	NOTE	CONSOLIDATED		THE COMPANY	
		2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
25.	COMMITMENTS (continued)				
25.3	Finance Lease Commitments				
	Finance lease rentals are payable as follows:				
	- Not later than one year	347	522	35	19
	- Later than one year but not later than five years	462	700	125	78
		<u>809</u>	<u>1,222</u>	<u>160</u>	<u>97</u>
	- Less: Future lease finance charges	(80)	(135)	(23)	(15)
		<u>729</u>	<u>1,087</u>	<u>137</u>	<u>82</u>
	Lease liabilities provided for in the financial statements				
	- Current	15.1 298	447	25	13
	- Non-current	15.2 431	640	112	69
	Total lease liabilities	<u>729</u>	<u>1,087</u>	<u>137</u>	<u>82</u>

26. SUPERANNUATION COMMITMENTS

Orbital has established 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 which 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.

27. CONTINGENT LIABILITIES

27.1 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 (who 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. At 30 June 2000, this obligation amounted to A\$19.577 million (US\$11.690 million) [1999: A\$10.655 million (US\$7.044 million)].

27.2 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 2000 outstanding lease payments amounted to A\$1.737 million (US\$1.037 million [1999: A\$1.841 million (US\$1.217 million)]).

27.3 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.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	CONSOLIDATED		THE COMPANY	
	2000	1999	2000	1999
	\$	\$	\$	\$
28. REMUNERATION OF AUDITORS				
Amounts received or due and receivable for audit services by:				
- Auditors of the Company - KPMG	135,000	109,000	99,000	79,000
- Other KPMG member firms	17,234	41,000	-	-
	<u>152,234</u>	<u>150,000</u>	<u>99,000</u>	<u>79,000</u>
Amounts received or due and receivable for other services by:				
- Auditors of the Company - KPMG	200,726	135,121	140,146	106,793
- Other KPMG member firms	43,263	32,031	7,093	32,031
	<u>243,989</u>	<u>167,152</u>	<u>147,239</u>	<u>138,824</u>
Total auditors' remuneration	<u>396,223</u>	<u>317,152</u>	<u>246,239</u>	<u>217,824</u>

29. DIRECTORS

29.1 Composition of the Board

The Directors of the Company at any time during or since the end of the financial year are:

ROSS WILLIAM KELLY, AGE 62

Non-Executive Director. Mr Kelly joined the Board and was appointed Chairman in December 1995. Mr Kelly is a company director who has had extensive experience consulting to many of Australia's largest businesses on both strategic and operational matters in his earlier career as Operations Director (Asia Pacific Zone) of PA Management Consultants. Mr Kelly is currently a director of other public companies including Aurora Gold Limited, Clough Limited and Belreco Limited.

KIM CHRISTOPHER SCHLUNKE, B E ENG, AGE 47

Chief Executive Officer since July 1992. Joined the Board in 1986. Mr Schlunke has been employed by Orbital for twenty one years and prior to his current appointment was the Group's Executive Director of Engineering with responsibilities for technical and licencing activities. In 1988 he was awarded the Qantas Rolls Royce Award for Engineering Excellence for his significant contribution to the development of the OCP engine technology.

JOHN WILLIAM BEECH, B COMM, CPA, AGE 46

Executive Director. Joined the Board in 1992. Mr Beech has been an employee of Orbital since September 1987. Mr Beech was Company Secretary from 1989 to 1992 and Chief Financial Officer from 1989 to 1997. Through 1998 he was responsible for Orbital's Marine and Recreation division, located in the USA. He presently holds the position of Director: Strategies and Alliances with responsibilities for corporate strategic development and management of strategic alliances.

ALAN JAMES CASTLEMAN, B COMM, DIP EE, FIE (AUST), FAICD, AGE 59

Non-Executive Director. Joined the Board in 1992. Mr Castleman is Chairman of Western Metals Limited and Australian Unity Limited. He is also Chairman of the National Ageing Research Institute Inc., and Chairman of CSIRO's Built Environment Sector Advisory Committee and a Member of CSIRO's Minerals, Exploration and Mining Sector Advisory Committee. Mr Castleman's background has been in engineering, finance and management.

ROBERT SLADE FORBES, AGE 63

Non-Executive Director. Joined the Board in 1984. Mr Forbes, an Investment Advisor with Hartley Poynton Limited, is an affiliate of the Australian Stock Exchange and past Chairman of the Stock Exchange of Perth Limited (1982 - 1984).

KENNETH NOEL JOHNSEN, DIP MECH ENG, DIP PROD ENG, FAICD, AGE 46

Executive Director - Business Development. Joined the Board in 1986. Mr Johnsen has been employed by Orbital for over twenty seven years and has held a number of senior positions within Orbital, both in Australia and in the USA. Mr Johnsen is responsible for the Group's licencing affairs and market development strategies and heads Orbital's automotive 2-stroke activities.

JOHN RICHARD MARSHALL, B MECHE, DIP MECHE, FIE (AUST), F.SAE.A, MSME, AGE 68

Non-Executive Director. Joined the Board in December 1995 after six years as a Non-Executive Director of Orbital Engine Company (Australia) Pty Ltd. Mr Marshall is Chairman of the Ajax Technology Centre, Director of Emtech International Pty Ltd and CEO of the Yarra Plenty Regional Library. Mr Marshall has extensive experience in the automotive industry and was Vice-President - Manufacturing of Ford Australia between 1983 and 1989.

JOHN GRAHAME YOUNG, LLB, FTIA, FAICD, AGE 56

Non-Executive Director. Joined the Board in 1985. Mr Young was, for more than thirty years, with the Perth office of a national law firm. He was head of its Corporate Division, its first Managing Partner and later its Chairman of Partners. He now practices on his own account as a Non-Executive Director, consultant solicitor and commercial counsel. Other Directorships include Western Metals Limited and Cape Bouvard Investments Pty Ltd.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

29. DIRECTORS (continued)

29.2 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	Director's Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Finance Committee Meetings	
	No. Of Meeting 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	6	6	-	-	3	3	1	1
K C Schlunke	6	6	-	-	3	3	1	1
J W Beech	5	6	-	-	-	-	1	1
A J Castleman	6	6	3	3	3	3	1	1
R S Forbes	6	6	3	3	-	-	1	1
K N Johnsen	6	6	-	-	-	-	1	1
J R Marshall	6	6	-	-	-	-	1	1
J G Young	6	6	3	3	-	-	1	1

* includes meetings attended by teleconference

29.3 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'	Base	Bonuses	Other	Superannuation	Options
	\$	Fees	Emolument	\$	Benefits (a)	Contributions	Issued (e)
	\$	\$	\$	\$	\$	\$	\$
Directors							
R W Kelly	75,000	69,750	-	-	-	5,250	-
K C Schlunke	436,775	-	207,605	-	165,166	58,069	5,935
J W Beech	250,166	-	165,748	-	51,886	27,715	4,817
A J Castleman	40,000	37,200	-	-	-	2,800	-
R S Forbes	40,000	37,200	-	-	-	2,800	-
K N Johnsen	220,784	-	148,956	-	41,416	25,595	4,817
J R Marshall	35,000	35,000	-	-	-	-	-
J G Young	42,000	39,060	-	-	-	2,940	-
Officers							
<i>The Company</i>							
K E Selzer (c)	323,843	-	262,455	12,803	16,655	15,747	16,183
B A Fitzgerald (b)	296,941	-	139,328	-	131,329	22,483	3,801
C M Norman (c)	221,656	-	197,054	-	14,906	6,302	3,394
R S Newmann (b)	218,252	-	125,508	4,780	61,092	23,275	3,597
P W Simons (d)	192,475	-	152,862	-	27,301	9,172	3,140

(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 States and United Kingdom under local market conditions.

(e) All options expire on 23 September 2004 and each option entitles the holder to purchase one ordinary share in the Company. The estimated value disclosed above is calculated at the date of allotment using a Black-Scholes model. Further details of options granted during the year are set out in Note 29.6.

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

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

		CONSOLIDATED		THE COMPANY	
		2000	1999	2000	1999
		\$	\$	\$	\$
29.	DIRECTORS (continued)				
29.4	Directors' Remuneration *				
	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 (1999: \$236,281))			1,139,725	1,176,319
	The number of Directors of the Company whose income from the Company or related bodies corporate falls within the following bands:			No.	No.
	\$0 - \$9,999			-	1
	\$30,000 - \$39,999			1	1
	\$40,000 - \$49,999			3	3
	\$70,000 - \$79,999			1	1
	\$220,000 - \$229,999			1	1
	\$250,000 - \$259,999			1	-
	\$340,000 - \$349,999			-	1
	\$370,000 - \$379,999			-	1
	\$430,000 - \$439,999			1	-
				<u>8</u>	<u>9</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 (1999: \$236,281))	<u>2,426,448</u>	<u>2,313,854</u>		
	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	<u>14</u>	<u>14</u>		
29.5	Executives' Remuneration *				
	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 received, or due and receivable, from the Company and related bodies corporate by Executive Officers of the Company whose income exceeds \$100,000.			<u>1,924,069</u>	<u>2,011,623</u>
	Total income received, or due and receivable, from the Company, entities in the consolidated entity or related economic entities by Executive Officers of the consolidated entity whose income exceeds \$100,000.	<u>1,924,069</u>	<u>2,011,623</u>		

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

29. DIRECTORS

29.5 Executives' Remuneration * (continued)

The number of Executive Officers whose income from the Company or related bodies corporate falls within the following bands:

	Nb.	Nb.	Nb.	Nb.
\$120,000 - \$129,999	-	1	-	1
\$130,000 - \$139,999	-	1	-	1
\$140,000 - \$149,999	1	-	1	-
\$150,000 - \$159,999	2	1	2	1
\$160,000 - \$169,999	1	-	1	-
\$170,000 - \$179,999	1	-	1	-
\$180,000 - \$189,999	-	1	-	1
\$190,000 - \$199,999	-	1	-	1
\$210,000 - \$219,999	1	-	1	-
\$220,000 - \$229,999	1	1	1	1
\$250,000 - \$259,999	1	-	1	-
\$280,000 - \$289,999	-	1	-	1
\$340,000 - \$349,999	-	1	-	1
\$370,000 - \$379,999	-	1	-	1
\$430,000 - \$439,999	1	-	1	-
	<u>9</u>	<u>9</u>	<u>9</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 29.8.

Executives' Remuneration includes the remuneration of all Executive Directors which is also shown at Note 29.4.

29.6 Options

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

	1999 Series A		1999 Series B		Expiry dates of Series A and Series B
	Number of Options Granted	Exercise Price	Number of Options Granted	Exercise Price	
<i>Directors</i>					
K C Schlunke	4,000	\$0.53	7,500	\$0.59	23 September 2004
J W Beech	4,000	\$0.53	5,300	\$0.59	23 September 2004
K N Johnsen	4,000	\$0.53	5,300	\$0.59	23 September 2004
<i>Officers</i>					
K E Selzer (b)	4,000	\$0.53	100,000	\$0.59	23 September 2004
B A Fitzgerald	4,000	\$0.53	3,300	\$0.59	23 September 2004
C M Norman	4,000	\$0.53	2,500	\$0.59	23 September 2004
R S Newmann	4,000	\$0.53	2,900	\$0.59	23 September 2004
P W Simons	4,000	\$0.53	2,000	\$0.59	23 September 2004

(a) 1999 Series B hurdle price of \$0.90 was reached on 3 December 1999.

(b) The ability to exercise Series B options is conditional on Mr K E Selzer achieving certain performance hurdles.

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

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

29. DIRECTORS (continued)

29.7 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	202,500
J W Beech	-	50,000
A J Castleman	85,000	-
R S Forbes	854,238	-
K N Johnsen	103,893	105,200
J R Marshall	18,679	-
J G Young	69,906	-
	1,193,692	357,700

29.8 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.

30. REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS

30.1 Geographical Segments

	Australia		United States of America		United Kingdom		Eliminations		Consolidated Entity	
	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
Revenue outside the consolidated entity	31,239	28,855	20,108	37,073	-	27	-	-	51,347	65,955
Inter-segment revenue	987	488	2,423	358	562	456	(3,972)	(1,302)	-	-
Total revenue	32,226	29,343	22,531	37,431	562	483	(3,972)	(1,302)	51,347	65,955
Segment operating profit/(loss) before tax	(6,082)	(22,244)	(6,755)	(18,224)	(46)	32	1	(54,159)	(12,882)	(94,595)
Total assets	372,801	428,642	46,868	61,962	18	100	(220,967)	(253,021)	198,720	237,683

30.2 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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

30. REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS (continued)

30.3 Inter-Segment Pricing

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

31. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	Note	Class of Shares	Consolidated Entity Interest	
			2000 %	1999 %
Orbital Engine Corporation Limited				
<i>Controlled Entities:</i>				
Orbital Engine Company (Australia) Pty Ltd	(g)	Ord	100	100
Orbital Holdings (USA) Inc.	(d)	Ord	100	100
Orbital Engine Company (USA) Inc.	(a) (d)	Ord	100	100
Orbital Fluid Technologies Inc.	(a) (d)	Ord	100	100
Orbital SEFIS Company LLC	(b) (d)	Ord	100	100
Orbital Australia Manufacturing Pty Ltd	(h)	Ord	100	100
S T Management Limited	(g)	Ord	100	100
OFT Australia Pty Ltd	(h)	Ord	100	100
Orbital Engine Company (UK) Ltd	(e)	Ord	100	100
Orbital Employees Superannuation Fund Pty Ltd	(f) (h)	Ord	100	100
Meteor I	(a) (d)	Ord	100	100
Axiom Invest No. 2 Pty Ltd	(i)	Ord	71.3	-
OEC Pty Ltd	(i)	Ord	74	-

- (a) 100% of the issued capital is owned by Orbital Holdings (USA) Inc.
- (b) 99% and 1% of the issued capital is owned by Orbital Fluid Technologies Inc. and Orbital Holdings (USA) Inc. respectively.
- (c) There were no dividends received or receivable from any of the controlled entities in respect of the current financial year or the previous year.
- (d) Orbital Holdings (USA) Inc., Orbital Engine Company (USA) Inc., Orbital Fluid Technologies Inc. and Orbital SEFIS Company LLC and Meteor I were incorporated in and carry on business in the United States of America. These entities are not required to, and have not been audited on a stand alone basis.
- (e) Orbital Engine Company (UK) Ltd was incorporated in and carries on business in the United Kingdom. This entity is audited by a member firm of KPMG International.
- (f) 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.
- (g) Controlled entities incorporated in Australia and audited by KPMG.
- (h) Controlled entities incorporated in Australia. These entities are not required to, and have not been, audited on a stand alone basis.
- (i) Controlled entities incorporated in Australia. These entities are not required to, and have not been, audited on a stand alone basis. These entities have a 31 December financial year end.

32. ACQUISITION OF CONTROLLED ENTITIES

On 14 January 2000, Deutsche Morgan Grenfell (DMG) exercised their right under the two technology investment transactions entered into with Orbital during the year ended 30 June 1998 to exercise their subscription option in respect of these transactions. The effect of exercising the subscription option was that Orbital was required to subscribe for shares in the investment companies. As a result Orbital has now become the majority shareholder in these companies. Refer Note 24.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

33. INTERESTS IN BUSINESS UNDERTAKINGS

As at 30 June 2000, the consolidated entity holds a 50% interest in Synerject LLC.

The principal activity of Synerject LLC (a joint venture 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.

	CONSOLIDATED		THE COMPANY	
	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
33.1 Carrying value of investment in business undertakings				
Balance at beginning of financial year	-	-	-	-
Additional cash investment in business undertakings	-	900	-	-
	-	900	-	-
Amounts expended during the year	-	(900)	-	-
Balance at end of financial year	-	-	-	-

34. RELATED PARTIES

34.1 Other Transactions with the Company or its Controlled Entities

During the 1999 financial year the consolidated entity obtained legal advice from Grahame Young LLB. A Director of the Company, Mr J G Young has an interest in this firm. Fees paid to Grahame Young LLB. during the year were \$nil (1999: \$10,145) (the Company \$nil (1999: \$8,970)). All dealings with the firm are in the ordinary course of business and on normal terms and conditions.

34.2 Controlled Entities

Details of interests in controlled entities are set out in Note 31. 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	
	2000 \$000's	1999 \$000's
<i>Receivables</i>		
Non-current	65,654	35,848
<i>Borrowings</i>		
Non-current	13,056	18,859

During the year an interest expense amounting to \$0.888 million (1999: \$1.069 million) was recognised by the Company in relation to these loans. The interest rate charged during the year was between 6.8% and 7.6%.

(b) *Transaction*

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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

34. RELATED PARTIES (continued)

34.3 Other Related Parties – Business Undertakings

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

(a) *Receivables*

The aggregate amounts receivable from business undertakings by the consolidated entity at balance date:

	CONSOLIDATED	
	2000	1999
	\$000's	\$000's
<i>Receivables</i>		
Current	1,478	3,066
<i>Payables</i>		
Current	10,864	6,075
Non-current	-	3,219
	10,864	9,294

(b) *Transactions*

During the year the consolidated entity sold goods and services to the value of \$5.595 million to Synerject and purchased goods and services to the value of \$15.043 million from Synerject. All transactions are in the ordinary course of business and on normal commercial terms and conditions.

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 balance sheet as follows:

	NOTE	CONSOLIDATED		THE COMPANY	
		2000	1999	2000	1999
		\$000's	\$000's	\$000's	\$000's
Cash		52,855	32,186	3,078	16,527
35.2 Reconciliation of operating (loss) after income tax to net cash (used in) by operating activities					
Operating (loss) after income tax		(9,884)	(87,214)	(9,884)	(87,214)
<i>Add/(less) items classified as investing/financing activities:</i>					
Interest received		(1,193)	(2,705)	(210)	(1,092)
Loss/(profit) on sale of property, plant and equipment		97	3,022	(35)	(43)
Payments for additional investments in business undertaking	33.1	-	900	-	-
<i>Add/(less) non-cash items:</i>					
Amortisation of certain intangible assets	3	-	84,069	-	-
Amounts set aside to provisions		61	(649)	(89)	(715)
Intercompany charges		-	-	(41,754)	2,816
Depreciation	2	2,618	3,077	33	50
Amortisation	2	404	426	36	18
Finance charges on capitalised leases	2	80	107	10	5
Foreign exchange gains		(1,245)	(3,191)	(286)	(730)
Non-cash revenue	35.3	-	(6,446)	-	-
Provision against carrying value of investments in subsidiaries		-	-	6,145	83,415
		(9,062)	(8,604)	(46,034)	(3,490)
Net cash (used in) operating activities before changes in assets and liabilities					

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000**

	CONSOLIDATED		THE COMPANY	
	2000 \$000's	1999 \$000's	2000 \$000's	1999 \$000's
35. NOTES TO THE STATEMENTS OF CASH FLOWS				
35.2 Reconciliation of operating (loss) after income tax to net cash (used in) by operating activities (continued)				
<i>Changes in assets and liabilities during the year:</i>				
Decrease/(increase) in receivables	1,245	4,448	(19)	7
Decrease in inventories	241	639	-	-
(Increase)/decrease in prepayments	(4,960)	(288)	(11)	8
Decrease/(increase) in technology investment restricted security deposits	236	(236)	-	-
Decrease in research and development restricted access deposits	-	1,663	-	-
(Increase) in other non-current assets	(414)	(6)	-	-
(Decrease)/increase in trade creditors	(105)	10,012	461	112
Increase in unearned income	4,530	2,906	-	-
(Decrease) in other non-current liabilities	-	(47)	-	-
(Decrease)/increase in deferred taxes payable	(3,112)	(8,639)	(495)	526
(Decrease) in prepaid revenue	(1,127)	(1,509)	-	-
(Decrease) in unearned research and development income	-	(4,096)	-	-
Net cash (used in) operating activities	<u>(12,528)</u>	<u>(3,757)</u>	<u>(46,098)</u>	<u>(2,837)</u>

35.3 Non-cash revenue

On conclusion of a licence agreement with PT Texmaco Perkasa Engineering Tbk, \$6,446,000 was recognised as licencing income during the 1999 financial year. At the same time Orbital as a demonstration of commitment to the venture took up shares in PT Texmaco Perkasa Engineering Tbk to the value of \$6,446,000.

36. DERIVATIVE FINANCIAL INSTRUMENTS

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 2000 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 which 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 as at 30 June 2000 was 5.78% (1999: 3.98%). Interest on bank overdrafts is charged at prevailing market rates. The weighted average effective interest rate for all overdrafts as at 30 June 2000 was 19.5% (1999: 19.75%).

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 2000 was 8.39% (1999: 8.51%).

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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2000

37. CAPITAL RESTRUCTURE

On 30 October 1995, shareholders approved two special resolutions to restructure Orbital's share capital. Orbital's subsequent application to the Australian Federal Court to approve the restructure was discontinued by consent after discussions with the Australian Securities and Investments Commission (ASIC). The ASIC granted Orbital relief under the former Section 313 of the Corporations Law from compliance with certain Australian Accounting Standards. The relief related to a part of Orbital's share capital which is attributable to the Sarich Technologies Trust conversion. In December 1996, Orbital's Directors resolved to account for the matter as follows:

- Accept the relief the ASIC granted under Section 313 of the Corporations Law in relation to the Sarich Technologies Trust conversion, for \$52.5 million. This amount has been transferred from Patents, Licences and Technologies to the newly created "Capital Reduction Reserve".
- Amortise the remainder of the Patents, Licences and Technologies balance arising from corporate restructurings, which did not arise from any cash expenditures, over the period 1 January 1996 to 30 June 1999. This policy is consistent with the amortisation of Patents, Licences and Technologies arising from cash expenditures and has resulted in accumulated amortisation charges of \$183.583 million to 30 June 1999 and the inclusion of an amortisation charge of \$52.453 million in the financial report for the year ended 30 June 1999.
- Concurrently, transfers for the same amount as the amortisation charges are made from retained losses to the Capital Reduction Reserve.
- Pending shareholder approval, at the appropriate time(s) the capital reduction will be effected by a transfer from the Share Capital Account to the Capital Reduction Reserve.

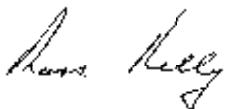
The amortisation of the remainder of the Patents, Licences and Technologies balance arising from cash expenditures has now been completed. In October 1999 shareholder approval was obtained to reduce the share capital of Orbital by applying the Capital Reduction Reserve of \$236.083 million against the Share Capital Account.

Orbital's Directors believe this is a satisfactory resolution of the capital reduction as it ultimately achieves the consolidated entity's original objectives, whilst avoiding incurring additional costs in terms of legal fees and management time.

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2000

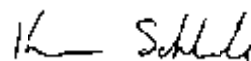
1. In the opinion of the Directors of Orbital Engine Corporation Limited:
- (a) the financial statements and notes, set out in pages 20 to 52 are in accordance with the Corporations Law, including:
- (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2000 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; 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

Dated at Perth, Western Australia this 28th day of August, 2000



K C SCHLUNKE
Chief Executive Officer

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 2000, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes 1 to 37, and the directors' declaration set out on pages 20 to 53. 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 Law, including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2000 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



KPMG

Perth
28 August 2000



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 2000

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 profit and loss statement and shareholders' 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 Note 1.10). 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 1.9. Under US GAAP, all costs associated with the registration and maintenance of patents are amortised systematically over the period benefited by the patents.

Licences and technologies arising under AUS GAAP, due to provisions of Australian Corporations Law and as a result of the restructuring of Orbital in 1989, are capitalised. Such costs are not eligible under US GAAP to be capitalised and have been eliminated as set out in Note 4(e) below.

From 1 January 1996, the consolidated entity has re-commenced 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 has 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 Note 37). The amortisation expensed under AUS GAAP has been reflected as a credit in the US GAAP result.

(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. However, under AUS GAAP, 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 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 are known both (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) *Stockholders' Equity*

There have been a number of structural changes in Orbital since 1978, culminating in the present structure which resulted from the retention of significant interest by the founding shareholders. As such, the equity structure of the group has been amended to account separately for those shares (stock) issues made for cash, and those made to shareholders/predecessor owners in respect of non-monetary assets. Those stock issues to founding shareholders in return for intangible assets, being Patents, Licences and Technologies, and made for other than cash, have been accounted for on the basis of the historical predecessor cost of these intangibles to those founding shareholders.

This treatment is in accordance with US GAAP as interpreted by Staff Accounting Bulletins issued by the Securities and Exchange Commission. Under US GAAP, Shareholders' Equity and Patents, Licences and Technologies, have been adjusted by the amount not represented by cash consideration.

(f) *Investment in Associated Company*

Certain expenditures in acquiring an interest in an associated company had been capitalised under AUS GAAP and classified as identifiable intangibles. On change of the equity ownership to a subsidiary in 1992, and to a wholly owned subsidiary in 1993, such capitalised expenditures have been written off in accordance with the requirements of US GAAP. The consolidated entity commenced amortisation of this amount from 1 January 1996.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
SUPPLEMENTARY FINANCIAL INFORMATION
IN ACCORDANCE WITH UNITED STATES GAAP
FOR THE YEAR ENDED 30 JUNE 2000

4. SIGNIFICANT DIFFERENCES BETWEEN AUS GAAP AND US GAAP (continued)

(g) *Licence and Marketing Agreements*

A difference, totalling \$5.121 million (30 June 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 pre-paid marketing relating to a licence and marketing agreement entered into during the year ended 30 June 2000 have not been recognised.

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

(h) *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 as follows:

- For a hedge of an existing asset, liability or a firm commitment, the gain or loss is recognised in earnings in the period of the change together with the offsetting loss or gain on the hedged item;
- For a hedge of a forecasted transaction, the gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings;
- For a hedge of a net investment on a foreign operation, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment; or
- For a derivative not designated as a hedge, the gain or loss is recognised in earnings in the period of the change.

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 is not expected to be 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 in financial statements. On 26 June 2000 issued Staff Accounting Bulletin No. 101B "Amendment: Revenue Recognition in Financial Statements". SAB 101B allows companies to defer 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. Management continues to analyse this bulletin and has not determined the impact of adoption.

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

	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's	1996 \$000's
Revenue					
Revenue from operating activities	49,221	51,251	53,379	22,376	25,213
Revenue from outside operating activities	2,126	14,704	9,501	2,927	4,746
Total revenue	51,347	65,955	62,880	25,303	29,959
Total operating expenditure	(64,229)	(69,533)	(56,601)	(51,482)	(50,502)
Operating (loss)/profit before abnormal items and income tax	(12,882)	(3,578)	6,279	(26,179)	(20,543)
Abnormal expenses:					
Amortisation of patents, licences and technologies arising from corporate restructurings	-	(52,453)	(52,452)	(78,678)	-
Expensing of deferred pre-production expenditure and start-up costs capitalised in prior financial years	-	-	-	-	(29,202)
Amortisation of cash expenditure on certain intangible assets	-	(31,616)	(32,974)	(33,574)	(19,948)
Rationalisation of United States operations	-	(6,948)	-	-	-
Share of Partnership Result	-	-	-	-	(5,405)
Provision for legal fees incurred and estimated settlement costs of legal action	-	-	-	-	(2,504)
Settlement of legal action relating to a controlled entity	-	-	-	-	(2,202)
Employee redundancy costs	-	-	-	-	(1,725)
Writedown in value of certain land and buildings	-	-	-	-	(1,118)
Amount due under development agreement	-	-	-	-	-
Total abnormal expenses	-	(91,017)	(85,426)	(112,252)	(62,106)
Operating (loss) before income tax	(12,882)	(94,595)	(79,147)	(138,431)	(82,649)
Income tax credit/(expense) attributable to operating (loss), including abnormal tax write-offs	2,998	7,381	(9,603)	(5,663)	12,820
Outside equity interests in operating loss	(45)	-	-	-	-
Operating (loss) after income tax attributable to members of the Company	(9,929)	(87,214)	(88,750)	(144,094)	(69,829)

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

	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's	1996 \$000's
CURRENT ASSETS					
Cash	52,855	32,186	27,844	21,350	30,411
Receivables	14,739	13,942	20,432	11,035	4,217
Inventories	962	1,203	1,842	2,894	4,214
Other	2,582	424	1,799	7,094	1,368
TOTAL CURRENT ASSETS	71,138	47,755	51,917	42,373	40,210
NON-CURRENT ASSETS					
Receivables	-	2,042	-	-	-
Investments	6,446	6,446	-	-	-
Property, Plant & Equipment	19,032	21,174	30,942	39,388	40,438
Intangibles	-	-	84,069	169,495	334,247
Other	102,104	160,266	147,727	85,323	50,738
TOTAL NON-CURRENT ASSETS	127,582	189,928	262,738	294,206	425,423
TOTAL ASSETS	198,720	237,683	314,655	336,579	465,633
CURRENT LIABILITIES					
Accounts Payable	17,119	13,779	7,212	3,722	2,763
Borrowings	298	447	411	1,625	539
Provisions	2,990	2,294	3,317	8,952	3,731
Other	2,760	3,889	8,768	6,262	911
TOTAL CURRENT LIABILITIES	23,167	20,409	19,708	20,561	7,944
NON-CURRENT LIABILITIES					
Accounts Payable	-	3,445	-	-	-
Borrowings	19,431	19,640	19,839	25,165	19,236
Provisions	6,428	9,769	18,437	9,994	9,644
Other	113,902	170,918	156,085	91,679	43,169
TOTAL NON-CURRENT LIABILITIES	139,761	203,772	194,361	126,838	72,049
TOTAL LIABILITIES	162,928	224,181	214,069	147,399	79,993
NET ASSETS	35,792	13,502	100,586	189,180	385,640

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

	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's	1996 \$000's
Revenue					
Revenue from operating activities	23,566	33,048	31,196	14,966	19,123
Revenue from outside operating activities	1,269	9,721	5,899	2,183	3,744
Total revenue	<u>24,835</u>	<u>42,769</u>	<u>37,095</u>	<u>17,149</u>	<u>22,867</u>
Total operating expenditure	<u>(37,869)</u>	<u>(50,826)</u>	<u>(34,997)</u>	<u>(37,862)</u>	<u>(45,856)</u>
Operating (loss)/profit before income tax	(13,034)	(8,057)	2,098	(20,713)	(22,989)
Income tax credit/(expense) attributable to operating (loss)/profit	1,159	(890)	92	(3,312)	(342)
Outside equity interests in operating loss	(27)	-	-	-	-
Operating (loss)/profit after income tax attributable to members of the Company	<u><u>(11,902)</u></u>	<u><u>(8,947)</u></u>	<u><u>2,190</u></u>	<u><u>(24,025)</u></u>	<u><u>(23,331)</u></u>

Profit and Loss items have been translated at Westpac Banking Corporation's published buy rate for telegraphic transfers on 30 June each year (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; 1996: US\$0.7889 = 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

	2000 \$000's	1999 \$000's	1998 \$000's	1997 \$000's	1996 \$000's
CURRENT ASSETS					
Cash	31,560	21,278	17,286	15,921	23,991
Receivables	8,801	9,217	12,684	8,229	3,327
Inventories	574	795	1,144	2,158	3,324
Other	157	281	1,116	5,290	1,079
TOTAL CURRENT ASSETS	41,092	31,571	32,230	31,598	31,721
NON-CURRENT ASSETS					
Receivables	-	1,350	-	-	-
Investments	3,849	4,262	-	-	-
Property, Plant & Equipment	11,364	13,998	19,209	29,372	31,902
Intangibles	-	-	986	3,282	4,636
Other	57,879	104,655	90,211	62,171	34,395
TOTAL NON-CURRENT ASSETS	73,092	124,265	110,406	94,825	70,933
TOTAL ASSETS	114,184	155,836	142,636	126,423	102,654
CURRENT LIABILITIES					
Creditors	10,222	9,109	4,477	2,775	2,180
Borrowings	178	295	256	1,212	425
Provisions	1,785	1,517	2,059	6,676	2,943
Other	1,648	2,571	5,443	4,670	719
TOTAL CURRENT LIABILITIES	13,833	13,492	12,235	15,333	6,267
NON-CURRENT LIABILITIES					
Accounts Payable	-	2,278	-	-	-
Borrowings	11,602	12,984	12,316	18,766	15,175
Provisions	3,838	3,196	2,683	4,545	1,402
Other	65,453	112,994	96,898	68,365	34,056
TOTAL NON-CURRENT LIABILITIES	80,893	131,452	111,897	91,676	50,633
TOTAL LIABILITIES	94,726	144,944	124,132	107,009	56,900
NET ASSETS	19,458	10,892	18,504	19,414	45,754

Balance Sheet items have been translated at Westpac Banking Corporation's published buy rate for telegraphic transfers on 30 June each year (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; 1996: US\$0.7889 = A\$1.00). Such translations are provided for information purposes only.

SHAREHOLDING DETAILS

Class of Shares and Voting Rights

As at 28 August, 2000 there were 11,694 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:-

- 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 28 August, 2000 there are 10,509,300 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 28 August 2000

Commonwealth Bank of Australia, Colonial Limited and their subsidiaries (CBA Group Companies)

C/- Level 2, 48 Martin Place

SYDNEY NSW 2000

Number of shares held	49,771,634
-----------------------	------------

Distribution of Share Holdings as at 28 August 2000

1 - 1,000	4,567
1,001 - 5,000	4,793
5,001 - 10,000	1,149
10,001 - 100,000	1,059
100,001 and over	126
	11,694

Total shares on issue	351,797,623
-----------------------	-------------

Number of shareholders holding less than a marketable parcel	1,932
--	-------

Top 20 Shareholders as at 28 August 2000

NAME	NUMBER OF SHARES HELD	% OF SHARES
ANZ Nominees Limited *	139,010,309	39.51
National Nominees Limited *	39,055,379	11.10
Chase Manhattan Nominees Limited	12,433,694	3.53
Permanent Trustee Australia Limited	11,432,368	3.25
AMP Life Limited	9,617,177	2.73
Permanent Trustee Australia Limited	9,266,408	2.63
Westpac Custodian Nominees Limited	8,635,605	2.45
Permanent Trustee Australia Limited	7,417,067	2.11
Permanent Trustee Australia Limited	7,067,357	2.01
Citicorp Nominees Pty Limited	4,968,782	1.41
Permanent Trustee Australia Limited	4,155,933	1.18
BT Custodial Services Pty Limited	3,586,040	1.02
Pasco Nominees Pty Ltd	3,315,039	0.94
Saltbush Nominees Pty Ltd	2,304,132	0.65
AMP Nominees Pty Limited	1,968,801	0.56
Focus Asset Management Pty Ltd	1,652,147	0.47
Mr Robert Liddon Teasdale	1,576,548	0.45
Saltbush Nominees Pty Ltd	1,337,573	0.38
IOOF Australia Trustees (NSW) Limited	1,313,326	0.37
Commonwealth Custodial Services Limited	1,096,651	0.31

The twenty largest shareholders hold 77.09% 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 body for Orbital's 18,000 (approx) US stockholders.

This page is left blank intentionally.