

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 1999

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 Board of Directors is responsible for the overall Corporate Governance of the economic 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 economic 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 28 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 professional advice at the economic 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 28 to the financial statements.

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 Law 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 during the year were Mr R W Kelly (Chairman), Mr K C Schlunke and Mr A J Castleman. Subsequent to the end of the financial year membership of the Finance Committee 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 1999

MILLENNIUM ISSUE

The Corporation has appointed a Year 2000 team responsible for overseeing the review of the economic entity's systems and implementing action plans to address any corrective action necessary. The status of the economic entity's Year 2000 plans was released to the Australian and New York Stock Exchanges in June 1998 with a further follow up in March 1999.

Within the Orbital group, steps are being taken to evaluate the likely impact of the Year 2000 problem on business processes. In the absence of unforeseen circumstances, the Directors' intention is to have all critical systems which are in the economic entity's direct control evaluated and tested for Year 2000 readiness within an appropriate time-frame which, given the nature of most of the economic entity's businesses, will be by 30 September 1999. A number of entity wide tests have been performed to test the readiness of the economic entity's systems for the Year 2000 issue and, as at the date of this report, Orbital's Year 2000 solution is substantially in place.

Over the remaining period to 1 January 2000, the Year 2000 Action Group, under the direct control of the general manager, will oversee the progress of action plans, with a particular emphasis on contingency planning. The contingency planning process addresses the identification of processes that are critical to the business and the identification and assessment of risks to these processes. Recovery planning addresses actions that could help mitigate the effects of a Year 2000 failure.

During the lead up to 1 January 2000, the Year 2000 action group has been instructed to increase the frequency of its reports to the Board in order to ensure that the Board is fully apprised of the latest developments and actions necessary to minimise the possibility of major disruption to our businesses.

The Year 2000 issue, however, is unique. There can be no assurance that the steps taken by any company will successfully minimise the vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the Year 2000. Significant third parties with which the economic entity interfaces include, among others, customers and business partners, technology suppliers and service providers, and the utility infrastructure (power, transportation, telecommunications), on which all entities rely. Lack of readiness by these third parties would expose the economic entity to the potential loss, impairment of business processes and activities, and general disruption of its markets.

At 30 June 1999, the economic entity has spent approximately \$130,000 on the Year 2000 project. The total anticipated cost for the entire project is \$250,000. This includes a contingent amount of \$50,000 for hardware replacement and software not identified. All costs to date have been expensed as incurred in the financial report.

For the purposes of Australian law, this is a Year 2000 disclosure statement for the purposes of the Year 2000 Information Disclosure Act 1999. A person may be protected by that Act from liability for this statement in certain circumstances. For the purposes of US law, this release is a Year 2000 Readiness Disclosure pursuant to the Year 2000 Information and Readiness Disclosure Act.

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 economic entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

THE ROLE OF SHAREHOLDERS

The Board of Directors aims to ensure that shareholders are informed of all major developments affecting the economic 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 economic entity during the year, changes in the state of affairs of the economic 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 economic entity during the period. Half-year financial statements 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 statements 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 full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the economic 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 1999

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 economic entity, being the Company and its controlled entities, for the year ended 30 June 1999 and the auditors' report thereon.

Directors

Refer Note 28 for details of 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 economic 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 economic entity during the year.

Consolidated Result

The consolidated operating loss before abnormal items and income tax was \$3.578 million (1998: profit of \$6.279 million). The consolidated loss after abnormal items and income tax for the year attributable to the members of Orbital was \$87.214 million (1998: \$88.750 million).

Review of Operations

A comprehensive review of the operations of the economic entity is set out on pages 2 to 13 of this Annual Report.

Environmental Regulation

Orbital holds a number of permits, licenses and registration for environmental regulations under both Australian Commonwealth and State legislation. These permits, licenses 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 economic entity during the financial year were as follows:

- The economic entity acquired the remaining 50% interest in Meteor I. Refer Note 31 to the financial report.
- The economic entity entered into an agreement to issue a US\$20 million convertible debenture in August 1998 of which US\$10 million was drawn upon. The US\$10 million was subsequently repaid and the remaining facility extinguished.
- The economic entity relocated its United States offices to Newport News, Virginia resulting in the closure of the Tecumseh and Saginaw, Michigan facilities.

Events Subsequent to Balance Date

Other than the share buy-back disclosed in Note 37 to the financial report, 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 economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

Likely Developments

Information as to the likely developments in the operations of the economic entity is set out in other sections of this report. Further information as to the likely developments in the operations of the economic 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 economic entity.

Share Purchase Plan

The Company operates a share purchase plan which is available to all shareholders. During the financial year there were 142,798 shares issued under this plan. Application forms and an explanatory booklet can be obtained on request from the Company.

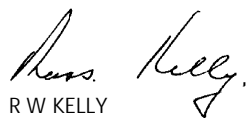
Options

Refer Note 28.6 to the financial report for details of the options issued to Directors and the five most highly remunerated officers.

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

Dated at Perth, Western Australia this 25th day of August, 1999

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
PROFIT AND LOSS STATEMENTS FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
Operating revenue	2	65,955	62,093	2,226	1,092
Total operating expenditure		(69,533)	(55,814)	(6,785)	(4,188)
Operating (loss)/profit before abnormal items and income tax		(3,578)	6,279	(4,559)	(3,096)
Abnormal expenses:	3				
Amortisation of patents, licenses and technologies arising from corporate restructurings		(52,453)	(52,452)	-	-
Provision against carrying value of investments in subsidiaries		-	-	(83,415)	(86,738)
Amortisation of cash expenditure on certain intangible assets		(31,616)	(32,974)	-	-
Rationalisation of United States operations		(6,948)	-	-	-
Total abnormal expenses		(91,017)	(85,426)	(83,415)	(86,738)
Operating (loss) before income tax		(94,595)	(79,147)	(87,974)	(89,834)
Income tax credit/(expense) attributable to operating (loss), including abnormal tax write-offs	4	7,381	(9,603)	760	1,084
Operating (loss) after income tax attributable to members of the Company		(87,214)	(88,750)	(87,214)	(88,750)
(Accumulated losses) at the beginning of the financial year		(125,242)	(88,944)	(125,242)	(88,944)
Transfer to capital reduction reserve	21.2, 36	52,453	52,452	52,453	52,452
(Accumulated losses) at the end of the financial year		(160,003)	(125,242)	(160,003)	(125,242)

The above profit and loss statements are to be read in conjunction with the notes to and forming part of the financial report set out on pages 23 to 50.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
BALANCE SHEETS FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
CURRENT ASSETS					
Cash	6	32,186	27,844	16,527	17,385
Receivables	7	13,942	20,432	25	32
Inventories	8	1,203	1,842	-	-
Other	9	424	1,799	30	38
TOTAL CURRENT ASSETS		47,755	51,917	16,582	17,455
NON-CURRENT ASSETS					
Receivables	7	2,042	-	35,848	52,114
Investments	10	6,446	-	-	51,352
Property, Plant & Equipment	11	21,174	30,942	115	90
Intangibles	12	-	84,069	-	-
Other	13	160,266	147,727	379	526
TOTAL NON-CURRENT ASSETS		189,928	262,738	36,342	104,082
TOTAL ASSETS		237,683	314,655	52,924	121,537
CURRENT LIABILITIES					
Accounts Payable	14	13,779	7,212	628	516
Borrowings	15	447	411	13	-
Provisions	18	2,294	3,317	101	807
Other	19	3,889	8,768	-	-
TOTAL CURRENT LIABILITIES		20,409	19,708	742	1,323
NON-CURRENT LIABILITIES					
Accounts Payable	14	3,445	-	-	-
Borrowings	15	19,640	19,839	37,928	19,246
Provisions	18	9,769	18,437	752	382
Other	19	170,918	156,085	-	-
TOTAL NON-CURRENT LIABILITIES		203,772	194,361	38,680	19,628
TOTAL LIABILITIES		224,181	214,069	39,422	20,951
NET ASSETS		13,502	100,586	13,502	100,586
SHAREHOLDERS' EQUITY					
Share Capital	20	409,588	161,861	409,588	161,861
Reserves	21	(236,083)	63,967	(236,083)	63,967
(Accumulated losses)		(160,003)	(125,242)	(160,003)	(125,242)
TOTAL SHAREHOLDERS' EQUITY		13,502	100,586	13,502	100,586

The above balance sheets are to be read in conjunction with the notes to and forming part of the financial report set out on pages 23 to 50.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
CASH FLOWS USED IN OPERATING ACTIVITIES					
Cash receipts in the course of operations		49,434	46,351	-	-
Cash payments in the course of operations		(53,191)	(36,585)	(2,837)	(4,269)
Alternative minimum tax paid (US operations)		-	(289)	-	-
Net cash (used in)/provided by operating activities	34.2	<u>(3,757)</u>	<u>9,477</u>	<u>(2,837)</u>	<u>(4,269)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		2,705	1,852	1,092	219
Proceeds from sale of property, plant & equipment		7,341	5,754	43	66
Payments for property, plant & equipment		(1,745)	(810)	-	(1)
Payments for additional investment in business undertakings	32.1	(900)	(2,214)	-	-
Net cash provided by investing activities		<u>7,401</u>	<u>4,582</u>	<u>1,135</u>	<u>284</u>
CASH FLOWS USED IN FINANCING ACTIVITIES					
Proceeds from issue of convertible debenture		17,800	-	17,800	-
Repayment of convertible debenture		(17,232)	-	(17,232)	-
Repayment of industrial revenue bonds		-	(7,376)	-	-
Borrowing costs		(1,047)	-	(1,047)	-
Proceeds from issue of shares		130	156	130	156
Lease payments		(497)	(376)	(16)	(35)
Repayments from controlled entities		-	-	-	10,391
Net cash (used in)/provided by financing activities		<u>(846)</u>	<u>(7,596)</u>	<u>(365)</u>	<u>10,512</u>
Net increase/(decrease) in cash held		2,798	6,463	(2,067)	6,527
Cash at the beginning of the financial year		27,789	21,326	17,385	10,858
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1,599	-	1,209	-
Cash at the end of the financial year	34.1	<u><u>32,186</u></u>	<u><u>27,789</u></u>	<u><u>16,527</u></u>	<u><u>17,385</u></u>

The above statements of cash flows are to be read in conjunction with the notes to and forming part of the financial report set out on pages 23 to 50.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

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 economic entity and, except where there is a note of a change in accounting policy, are consistent with those of the previous year.

1.2 Principles of Consolidation

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

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 license 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.

(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 economic 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 economic 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.

1.6 Investments

(a) *Controlled Entities*

Investments in and receivables from controlled entities are carried in the Company's accounts 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 account when they are proposed by the controlled entities.

(b) *Business Undertakings*

The economic 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 at the lower of cost and recoverable amount, being a Directors' valuation based on market values at the time of valuation.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

1. STATEMENT OF ACCOUNTING POLICIES (continued)
- 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 25%; and Plant and Equipment 8.33% 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 economic 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 economic 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, Licenses and Technologies
- From 1 July 1995, cash expenditures on patents, licenses and technologies are expensed as incurred. From 1 January 1996, these previously capitalised costs are being amortised on a straight line basis over four financial years.
- Patents, licenses 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.
- Patents, licenses and technologies are reviewed in accordance with the policy set out in Note 1.5 above.
- 1.10 Deferred Pre-production and Start-up Costs
- 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 are amortised on a straight line basis over four financial years.
- Start-up costs represent costs associated with the establishment of and commissioning of the manufacturing plant at Tecumseh, Michigan and were expensed in the 1996 financial year.
- Deferred pre-production expenditure and start-up costs are reviewed in accordance with the policy set out in Note 1.5 above.
- 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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

1. STATEMENT OF ACCOUNTING POLICIES (continued)

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 account.

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 22 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 are initially treated as deferred revenue and are brought to account as income progressively, as work is completed. The monies received for contracted research and development have been deposited in research and development restricted access deposits;
- (ii) Similarly the costs of the contracted research and development are 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 license 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 license 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 as set out in Note 22. Equally, no expense is recognised with respect to the put option obligations that exist. The core technology license 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 1999

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 23 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, has been brought to account as license revenue. The amounts received under Transaction II for contracted marketing and development are initially treated as deferred revenue and are brought to account as income progressively.
- (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 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 liabilities from the Technology Investment transactions have been funded from the core technology license fees and have been placed in restricted security deposits. Accordingly, no revenue has been recognised in relation to these amounts. Equally, no expense is recognised with respect to the put option obligations that exist. The amounts on deposit 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 restricted security deposits is accumulated in the accounts as earned and matched by corresponding increases in the present value of the put option obligations.
- (v) In the event that royalty payments are made to the Investors prior to 15 January 2000, the after-tax amount of these payments will be applied to reduce the put obligations. The reduction in the present value of the subscription obligation liabilities as a result of these royalty payments will be recognised in the year they accrue.

1.15 Derivative Financial Instruments

The economic entity is exposed to fluctuations in exchange rates from its sale and purchase commitments denominated in foreign currencies (principally United States dollars). The economic entity is exposed to changes in interest rates in relation to funds held under external management. Derivative financial instruments that are designed as hedges and are effective as hedges of underlying exposures are accounted for on the same basis as the underlying exposure. Gains/losses relating to hedges of specific sale or purchase commitments are deferred and recognised as adjustments to the carrying amount of the hedged transactions. Derivative financial instruments in connection with external funds management are marked to market at balance date. Realised and unrealised changes in the market value are recognised in net trading revenue in the period in which the change occurs. Interest revenue associated with these derivative financial instruments is included in the interest received in the profit and loss for the period.

1.16 Warranties

Provision is made for the economic 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 economic entity has a present obligation to pay resulting from employees' services provided up to the 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 economic 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 25.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
3. ABNORMAL ITEMS					
Items charged as expenses:					
Amortisation of patents, licenses and technologies arising from corporate restructurings	21.2, 36	52,453	52,452	-	-
Income tax effect		-	-	-	-
		<u>52,453</u>	<u>52,452</u>	<u>-</u>	<u>-</u>
Amortisation of cash expenditures on certain intangible assets		31,616	32,974	-	-
Income tax effect		(11,382)	(11,870)	-	-
		<u>20,234</u>	<u>21,104</u>	<u>-</u>	<u>-</u>
Provision against carrying value of investment in subsidiaries	10	-	-	83,415	86,738
Income tax effect		-	-	-	-
		<u>-</u>	<u>-</u>	<u>83,415</u>	<u>86,738</u>
Rationalisation of United States operations		6,948	-	-	-
Income tax effect		(2,501)	-	-	-
		<u>4,447</u>	<u>-</u>	<u>-</u>	<u>-</u>
Aggregate abnormal items charged as expenses before income tax		<u>91,017</u>	<u>85,426</u>	<u>83,415</u>	<u>86,738</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 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
4.	INCOME TAX CREDIT/EXPENSE				
4.1	Prima facie income tax credit				
	Calculated at 36% on the operating loss	34,054	28,493	31,671	32,340
	(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	(1,809)	(3,370)	-	-
	- Share of Partnership result	(306)	(797)	-	-
	- Amortisation of controlled entity's deferred pre-production expenditure	(2,547)	(2,542)	-	-
	- Other				
	Non-deductible legal fees and settlement costs	253	(28)	253	(28)
	Depreciation and amortisation	(267)	(271)	-	(4)
	Convertible debenture expenses	(843)	-	(843)	-
	Other (non-deductible)/non-assessable amounts	(55)	(142)	(207)	2
	Increase in income tax credit due to:				
	Research and development allowance	189	609	-	-
	Income tax credit on operating loss before abnormal income tax items	28,669	21,952	30,874	32,310
	<i>Abnormal Tax Items</i>				
	Non-deductible amortisation of patents, licenses and technologies arising from corporate restructurings	(18,883)	(18,883)	-	-
	Provision against carrying value of investments in subsidiaries	-	-	(30,029)	(31,226)
	Technology Investment Transactions 23				
	- additional tax on license fee	-	(12,936)	-	-
	- interest on restricted security deposit	(554)	(3,250)	-	-
	- royalty payment	229	72	-	-
	Rationalisation of United States operations	(2,501)	-	-	-
	Recoupment of foreign tax credits having a finite life	605	5,060	-	-
	Withholding tax payable	(1,258)	(1,584)	-	-
	Total abnormal tax items	(22,362)	(31,521)	(30,029)	(31,226)
	Income tax credit/(expense) for current year	6,307	(9,569)	843	1,084
	Income tax over/(under) provided in prior year	1,074	(34)	(83)	-
	Income tax credit/(expense) on operating loss	7,381	(9,603)	760	1,084
4.2	Total income tax credit/(expense) is made up of:				
	Deferred income tax provision	7,968	4,394	(296)	32
	Future income tax benefit	(403)	(12,379)	(147)	(6,977)
	Over/(under) provision in prior year	1,074	(34)	(83)	-
	Withholding tax payable	(1,258)	(1,584)	-	-
	Transfer of current year losses to group companies	-	-	1,286	8,029
		7,381	(9,603)	760	1,084
4.3	Dividend Franking Account				
	The balance of the dividend franking account is \$1,869,250 (1998: \$1,869,250). These credits are Class C (36%) franking credits. Company tax has been paid on these franking credits at 36%.				

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

		CONSOLIDATED	
		1999	1998
5.	EARNINGS/LOSS PER SHARE		
	Basic loss per share (cents per share)	26.93	27.43
	Weighted average number of ordinary shares outstanding during the year in the calculation of basic loss per share (000's)	323,845	323,585

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

	NOTE	CONSOLIDATED		THE COMPANY	
		1999	1998	1999	1998
		\$000's	\$000's	\$000's	\$000's
6.	CASH				
	Cash at bank	282	100	8	98
	Cash at bank - US Dollars	11,114	21,428	8,412	15,055
	Cash at bank - UK Pounds Sterling	46	13	-	-
	At call deposits with financial institutions	20,744	6,303	8,107	2,232
		<u>32,186</u>	<u>27,844</u>	<u>16,527</u>	<u>17,385</u>
7.	RECEIVABLES				
7.1	Current				
	Trade debtors	13,546	20,181	-	-
	Receivables from other persons	396	251	25	32
		<u>13,942</u>	<u>20,432</u>	<u>25</u>	<u>32</u>
7.2	Non-Current				
	Trade debtors	2,042	-	-	-
	Amounts receivable from controlled entities	-	-	35,848	52,114
		<u>2,042</u>	<u>-</u>	<u>35,848</u>	<u>52,114</u>
8.	INVENTORIES				
	Raw materials and stores - at cost	1,099	1,814	-	-
	Work in progress - at cost	104	28	-	-
		<u>1,203</u>	<u>1,842</u>	<u>-</u>	<u>-</u>
9.	OTHER CURRENT ASSETS				
	Prepayments	424	136	30	38
	Research and development restricted access deposits	22.4	1,663	-	-
		<u>424</u>	<u>1,799</u>	<u>30</u>	<u>38</u>
10.	INVESTMENTS				
	Investment in PT Texmaco Perkasa Engineering Tbk - at cost	6,446	-	-	-
	Investments in controlled entities - at cost	30	-	346,913	346,904
	Less: Section 313 relief granted	36	-	(52,500)	(52,500)
	Less: provision against carrying value of investments in controlled entities	-	-	(294,413)	(243,052)
		<u>6,446</u>	<u>-</u>	<u>-</u>	<u>51,352</u>

The carrying value of the Company's investments in controlled entities is underpinned by the value of certain intangible assets recognised on the books of the controlled entities. The Company has adjusted the carrying value of investments in controlled entities to reflect the decrease in net assets arising predominately from the amortisation of intangible assets. Refer Notes 1.9, 1.10 and 36.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
11. PROPERTY, PLANT AND EQUIPMENT					
Freehold land					
At directors valuation 1996	11.1(a)	50	460	-	-
At directors valuation 1996	11.1(b)	1,733	1,733	-	-
		<u>1,783</u>	<u>2,193</u>	-	-
Buildings					
At directors valuation 1996	11.1(a)	290	5,113	-	-
Less: accumulated depreciation		(50)	(330)	-	-
		<u>240</u>	<u>4,783</u>	-	-
At directors valuation 1996	11.1(b)	3,057	3,057	-	-
Less: accumulated depreciation		(245)	(162)	-	-
		<u>2,812</u>	<u>2,895</u>	-	-
Total buildings		<u>3,052</u>	<u>7,678</u>	-	-
Leasehold improvements - at cost		3,992	4,526	-	-
Less: accumulated depreciation		(2,300)	(2,128)	-	-
		<u>1,692</u>	<u>2,398</u>	-	-
Plant and equipment - at cost		31,449	37,158	854	956
Less: accumulated depreciation		(18,001)	(19,714)	(814)	(866)
		<u>13,448</u>	<u>17,444</u>	<u>40</u>	<u>90</u>
Leased assets - at cost		1,720	1,492	93	-
Less: accumulated depreciation		(781)	(409)	(18)	-
		<u>939</u>	<u>1,083</u>	<u>75</u>	-
Capital works in progress - at cost		260	146	-	-
Total property, plant and equipment - net book value		<u>21,174</u>	<u>30,942</u>	<u>115</u>	<u>90</u>

11.1 Interests in Land and Buildings
(a) *United States (Directors' Valuation)*

The carrying value of certain land and buildings held by a controlled entity is US\$223,979 (A\$289,917). Subsequent to balance date an offer has been received for the sale of this land and building which is in excess of the carrying value. The Directors therefore believe that the recoverable amount of the land and buildings is in excess of the carrying value.

(b) *Australia (Directors' Valuation)*

The value at 30 June 1999 of interests 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 \$4,545,273 (1998: \$4,626,581). 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 economic 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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
14.	ACCOUNTS PAYABLE				
14.1	Current				
	Trade creditors	13,779	7,212	628	516
14.2	Non-Current				
	Trade creditors	3,445	-	-	-
15.	BORROWINGS				
15.1	Current				
	Bank overdraft - secured	-	55	-	-
	Lease liabilities	447	356	13	-
		447	411	13	-
15.2	Non-Current				
	Loans and Advances				
	- Other persons - secured	19,000	19,000	19,000	19,000
	- Controlled entities	-	-	18,859	246
	Lease liabilities	640	839	69	-
		19,640	19,839	37,928	19,246

(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, licenses and technologies and research and development deposits) has been granted to the Company's bankers for the establishment of credit facilities totalling \$2,100,000 (1998: \$13,157,773).

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

	CONSOLIDATED		THE COMPANY	
	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
16. FINANCING ARRANGEMENTS				
The economic entity has standby arrangements with banks to provide support facilities:				
16.1 Total facilities available				
Performance guarantee facility	500	500	-	-
Corporate credit card facility	1,162	1,091	240	241
Multi-option credit facility	700	500	200	100
Standby letter of credit	-	11,276	-	-
	<u>2,362</u>	<u>13,367</u>	<u>440</u>	<u>341</u>
16.2 Facilities utilised at balance date				
Performance guarantee facility	110	245	-	-
Corporate credit card facility	105	172	49	47
Multi-option credit facility	-	-	-	-
Standby letter of credit	-	-	-	-
	<u>215</u>	<u>417</u>	<u>49</u>	<u>47</u>
16.3 Facilities not utilised at balance date				
Performance guarantee facility	390	255	-	-
Corporate credit card facility	1,057	919	191	194
Multi-option credit facility	700	500	200	100
Standby letter of credit	-	11,276	-	-
	<u>2,147</u>	<u>12,950</u>	<u>391</u>	<u>294</u>

These facilities have been arranged with the economic entity's banker with the general terms and conditions being set and agreed to from time to time.

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		CONSOLIDATED		THE COMPANY	
	AVERAGE RATE		1999	1998	1999	1998
	1999	1998	\$000's	\$000's	\$000's	\$000's
17.1 United States Dollars						
<i>Amounts Receivable</i>						
Current	0.6611	0.6208	12,927	8,486	-	-
Non-current	0.6611	-	2,042	-	-	-
			<u>14,969</u>	<u>8,486</u>	<u>-</u>	<u>-</u>
<i>Amounts Payable</i>						
Current	0.6522	0.6025	9,603	8,342	-	701
Non-current	0.6522	0.6025	3,219	10,730	-	-
			<u>12,822</u>	<u>19,072</u>	<u>-</u>	<u>701</u>
17.2 United Kingdom Pounds Sterling						
<i>Amounts Receivable</i>						
Current	0.4184	0.3650	17	34	-	-
<i>Amounts Payable</i>						
Current	0.4127	0.3598	48	80	-	-

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
18.					
18.1	PROVISIONS				
	Current				
	Provision for legal fees incurred and estimated settlement costs of legal action	-	701	-	701
	Provision for future expenditure on research and development syndicates	321	914	-	-
	Employee entitlements - including on-costs	1,973	1,702	101	106
		<u>2,294</u>	<u>3,317</u>	<u>101</u>	<u>807</u>
18.2	Non-Current				
	Deferred income tax	7,408	16,450	393	14
	Provision for product warranty	103	-	-	-
	Employee entitlements - including on-costs	2,258	1,987	359	368
		<u>9,769</u>	<u>18,437</u>	<u>752</u>	<u>382</u>
19.	OTHER LIABILITIES				
19.1	Current				
	Prepaid revenue	2,049	2,832	-	-
	Unearned income - Technology Investment	1,840	1,840	-	-
	Unearned Research and Development income	-	4,096	-	-
		<u>3,889</u>	<u>8,768</u>	<u>-</u>	<u>-</u>
19.2	Non-Current				
	Unearned income	7,336	4,430	-	-
	Prepaid revenue	5,527	6,253	-	-
	Future Put Obligation - Research and Development Syndicates	92,541	84,479	-	-
	Subscription Obligation - Technology Investments	65,514	60,876	-	-
	Other	-	47	-	-
		<u>170,918</u>	<u>156,085</u>	<u>-</u>	<u>-</u>
20.	SHARE CAPITAL				
	Issued and paid up capital 323,940,829 (1998: 323,722,431 of \$0.50 par value each) ordinary shares, fully paid	409,588	161,861	409,588	161,861
	Movements in ordinary share capital				
	Balance at the beginning of the financial year	161,861	161,767	161,861	161,767
	Balance of share premium reserve	247,597	-	247,597	-
	Shares issued:				
	- 75,600 (1998: 100,000) shares issued from the exercise of employee options	63	44	63	44
	- 142,798 (1998: 87,755) shares issued pursuant to shareholders share purchase plan	67	50	67	50
		<u>409,588</u>	<u>161,861</u>	<u>409,588</u>	<u>161,861</u>

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

20. SHARE CAPITAL (continued)

20.1 Employee Share Plan

The names of persons who currently hold options are entered in the register of options kept by the Company pursuant to Section 216C of the Corporations Law. The register may be inspected free of charge. Pursuant to ASC Class Order 97/1011, issued on 9 July 1997, the Directors have taken advantage of relief available from the requirement to disclose the names of persons, not being Directors, to whom options are issued and the number of options issued to each person.

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	
1994	1,272,000	1.04	11 July 2000	-	-	-	1,272,000
1995	1,324,000	1.20	31 Oct 2000	3,751,200	1.34	31 Oct 2000	5,075,200
1996	1,040,000	0.94	1 Nov 2001	1,652,400	1.04	1 Nov 2001	2,692,400
1997	1,016,000	0.74	19 Sep 2002	2,391,800	0.82	19 Sep 2002	3,407,800
1998	1,048,000	0.59	25 Sep 2003	813,600	0.66	25 Sep 2003	1,861,600
	5,700,000			8,609,000			14,309,000

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

During the year the Company issued 1,052,000 1998 Series A options and 813,600 1998 Series B options. The Series A options are exercisable at \$0.59 any time up to 25 September 2003. The Series B options are exercisable at \$0.66 after the relevant hurdle price has been reached any time up to 25 September 2003 with 100% of the options able to be exercised when the hurdle price is \$1.20.

During the year the following shares were issued by the Company under its Employee Share Plan:

Date	Number of Shares Issued	Share Issue Price
July 1988	12,000	\$1.04
July 1998	12,000	\$0.94
July 1998	32,000	\$0.74
July 1998	15,600	\$0.82
November 1998	4,000	\$0.59
	75,600	

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 1998	27,271	\$0.63
31 December 1998	35,181	\$0.55
31 March 1999	56,196	\$0.39
30 June 1999	24,150	\$0.37
	142,798	

	NOTE	CONSOLIDATED		THE COMPANY	
		1999	1998	1999	1998
		\$000's	\$000's	\$000's	\$000's
21. RESERVES					
21.1 Share Premium Reserve					
Balance at beginning of year		247,597	247,535	247,597	247,535
Add: premium on ordinary shares issued during the year		-	62	-	62
Less: transfer to share capital		(247,597)	-	(247,597)	-
Balance at end of year		-	247,597	-	247,597
21.2 Capital Reduction Reserve					
Balance at beginning of year		(183,630)	(131,178)	(183,630)	(131,178)
Amortisation during year		(52,453)	(52,452)	(52,453)	(52,452)
Balance at end of year	36	(236,083)	(183,630)	(236,083)	(183,630)
Total reserves		(236,083)	63,967	(236,083)	63,967

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

22. RESEARCH AND DEVELOPMENT SYNDICATES

22.1 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.

22.2 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.

22.3 Key Features

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

- (i) OECA granted non-exclusive licenses 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 Pty 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 has the right to such developments, allowing such benefits to be made available to existing and future licensees;
- (vi) The research and development restricted access deposits are interest bearing and OECA can 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 license by the Syndicate members of their interest in the research results to undertake the commercialisation and further development of the technology.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

22. RESEARCH AND DEVELOPMENT SYNDICATES

22.3 Key Features (continued)

(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.

22.4 Accounting Treatment

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

	NOTE	GENESIS SYNDICATE		OCP-4S SYNDICATE	
		1999	1998	1999	1998
		\$000's	\$000's	\$000's	\$000's
(a) <i>Profit and Loss</i>					
Revenue earned from the syndicate for completed contract work		-	-	4,120	6,129
Interest revenue on the research and development restricted access deposits		-	12	4	5
		-	12	4,124	6,134
Research and development expenditure incurred on behalf of the syndicate to the end of the financial year		-	(12)	(4,124)	(6,134)
Net effect		-	-	-	-
(b) <i>Balance Sheet</i>					
<i>Other Current Assets</i>					
Research and development restricted access deposits	9	-	-	-	1,663
<i>Other Non-Current Assets</i>					
Research and development restricted security deposit	13	57,450	52,230	35,091	32,249
<i>Other Current Liabilities</i>					
Unearned research and development income	19.1	-	-	-	4,096
<i>Other Non-Current Liabilities</i>					
Future put option obligation - research and development syndication	19.2	57,450	52,230	35,091	32,249

23. 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 licenses by Orbital to DMG wholly owned subsidiaries (Investor I and Investor II) in respect of OCP technology for non-automotive applications. Orbital received taxable license fees of \$47,750,000 and \$25,080,000 from Transaction I and Transaction II respectively. Under Transaction II, Investor II has entered into a marketing and development contract with Orbital whereby Orbital will receive 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.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

23. TECHNOLOGY INVESTMENT TRANSACTIONS (continued)

23.1 Key Features

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

- (i) Orbital granted non-exclusive licenses to the Investors in respect of the OCP technology in the non-automotive markets;
- (ii) The licenses have been granted for an initial two-year period, with two, three year license period renewals. The licenses expire on 30 January 2006;
- (iii) Under Transaction II Orbital has been contracted to market and develop the OCP technology;
- (iv) Ownership of the technology remains with Orbital. The Investors have been granted the right to use the technology within the agreed fields;
- (v) All new technologies, patents and know-how resulting from the use of the technology by the Investors belong to Orbital, allowing such benefits to be made available to existing and future licensees;
- (vi) Under Transaction I, Orbital received a license 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 license fee of \$25,080,000 from the Investor. An amount of \$22,380,000, being the present value of the sum required to fund a subscription option granted to DMG in relation to the shares in the 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 license fee, Investor II will pay a marketing and development contract sum of \$6,500,000 to Orbital systematically over the next two years. At 30 June 1999 \$6,500,000 of the marketing and development contract has been received by Orbital, of which \$4,660,000 has been derived;
- (viii) Under Transaction I, Orbital is required to pay the Investor a royalty represented by a percentage of the non-automotive license and royalty income that Orbital receives during the license 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 has 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. The exercising of the subscription option requires 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.

In the event royalties are paid by Orbital to the Investors, the after-tax amount of these payments will be applied to reduce the Investors' debt, and accordingly Orbital's subscription price. The reduction in the present value of the subscription obligation liability as a result of these royalty payments will be recognised in the year they accrue.

If the subscription options are exercised, Orbital will become the majority shareholder in the Investors and will be entitled to distributions from the Investors.

If DMG does not exercise the subscription option they will remain the 100% shareholder of the Investors and will be entitled to 100% of the royalties received by the Investors from Orbital. In the event that the subscription options are not exercised, the monies in the security deposits will accrue to Orbital and will be recognised as revenue at that time.

(c) *Put Option*

Under both Transactions, DMG also has the right to exercise a put option in respect of the shares 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 license 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 license 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 1999

23. TECHNOLOGY INVESTMENT TRANSACTIONS (continued)

23.2 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	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
(a) <i>Operating profit/(loss) before tax</i>					
License revenue		-	12,005	-	192
Marketing and development contract income		-	-	3,680	980
		-	12,005	3,680	1,172
Royalty payment		(132)	-	-	(200)
Marketing and development expenditure incurred to the end of the financial year		-	-	(3,680)	(980)
Net effect		<u>(132)</u>	<u>12,005</u>	<u>-</u>	<u>(8)</u>
(b) <i>Balance Sheet</i>					
<i>Other Non-Current Assets</i>					
Security deposit	13	40,630	37,531	25,120	23,345
<i>Other Current Liabilities</i>					
Unearned marketing and development income	19.1	-	-	1,840	1,840
<i>Other Non-Current Liabilities</i>					
Subscription obligation	19.2	<u>40,394</u>	<u>37,531</u>	<u>25,120</u>	<u>23,345</u>

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
24. COMMITMENTS					
24.1 Capital Expenditure Commitments					
Contracted for but not provided for		<u>96</u>	-	-	-
24.2 Operating Lease Commitments					
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:					
- Not later than one year		684	1,298	-	-
- Later than one year but not later than two years		166	1,203	-	-
- Later than two years but not later than five years		10	1,950	-	-
- Later than five years		-	1,306	-	-
		<u>860</u>	<u>5,757</u>	-	-
24.3 Finance Lease Commitments					
Finance lease rentals are payable as follows:					
- Not later than one year		522	439	19	-
- Later than one year but not later than two years		327	436	19	-
- Later than two years but not later than five years		373	499	59	-
		<u>1,222</u>	<u>1,374</u>	<u>97</u>	-
- Less: Future lease finance charges		(135)	(179)	(15)	-
		<u>1,087</u>	<u>1,195</u>	<u>82</u>	-
Lease liabilities provided for in the financial statements					
- Current	15.1	447	356	13	-
- Non-current	15.2	640	839	69	-
Total lease liabilities		<u>1,087</u>	<u>1,195</u>	<u>82</u>	-

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

25. 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.

26. CONTINGENT LIABILITIES

26.1 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 1999, this obligation amounted to A\$10.655 million (US\$7.044 million) [1998: A\$2.886 million (US\$1.792 million)].

26.2 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 1999 outstanding lease payments amounted to A\$1.841 million (US\$1.217 million).

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

	CONSOLIDATED		THE COMPANY	
	1999	1998	1999	1998
	\$	\$	\$	\$
27. REMUNERATION OF AUDITORS				
Amounts received or due and receivable for audit services by:				
- Auditors of the Company	109,000	115,000	79,000	90,000
- Other KPMG member firms	41,000	20,623	-	-
	<u>150,000</u>	<u>135,623</u>	<u>79,000</u>	<u>90,000</u>
Amounts received or due and receivable for other services by:				
- Auditors of the Company	135,121	92,492	106,793	65,704
- Other KPMG member firms	32,031	121,599	32,031	-
- Other	20,317	-	-	-
	<u>187,469</u>	<u>214,091</u>	<u>138,824</u>	<u>65,704</u>
Total auditors' remuneration	<u><u>337,469</u></u>	<u><u>349,714</u></u>	<u><u>217,824</u></u>	<u><u>155,704</u></u>

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

28. DIRECTORS

28.1 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 61

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 Beltreco Limited.

KIM CHRISTOPHER SCHLUNKE, B E ENG, AGE 46

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 licensing 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 45

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 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 58

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

ROBERT SLADE FORBES, AGE 62

Non-Executive Director. Joined the Board in 1984. Mr Forbes, an Investment Advisor with Hartley Poynton Limited, is a member 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 45

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 United States of America. Mr Johnsen is responsible for the Group's licensing affairs and market development strategies and heads Orbital's automotive two-stroke activities.

JOHN RICHARD MARSHALL, BMECHE, DIP MECHE, FIE (AUST), F.SAE .A, MSME, AGE 67

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 and Director of CAST Pty Ltd (a Co-operative Research Centre), Chairman of Ajax Technology Centre, Director of Emtech Pty Ltd and CEO of Yarra Plenty Regional Library Service. 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, AGE 55

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 and was its first Managing Partner and later its Chairman of Partners. He resigned to focus on his Non-Executive Directorships and the provision of strategic corporate and legal advice. Other Directorships include Western Metals Limited.

IAN ROY EGAN, M Ec, FCPA, FAIMM, AGE 52

Non-Executive Director. Joined the Board in April 1996. Mr Egan resigned as a Director of Orbital in August 1998.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

28. DIRECTORS (continued)

28.2 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	7	7	-	-	1	1	-	-
K C Schlunke	7	7	-	-	1	1	-	-
J W Beech	7	7	-	-	-	-	-	-
A J Castleman	7	7	3	3	1	1	-	-
R S Forbes	7	7	3	3	-	-	-	-
K N Johnsen	7	7	-	-	-	-	-	-
J R Marshall	7	7	-	-	-	-	-	-
J G Young	7	7	3	3	-	-	-	-
I R Egan (a)	1	1(b)	-	-	-	-	-	-

* includes meetings attended by teleconference

(a) Mr Egan resigned as a Director during the year (b) Refers to the number of meetings held whilst in office

28.3 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 economic 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 economic entity receiving the highest emolument are:

	Total	Director's fees	Base emolument	Bonuses	(a) Other benefits	Superannuation contributions
	\$	\$	\$	\$	\$	\$
Directors						
R W Kelly	75,000	69,750	-	-	-	5,250
K C Schlunke	374,584	-	241,288	-	100,264	33,032
J W Beech (b)	340,109	-	154,586	6,500	164,375	14,648
A J Castleman	40,000	37,200	-	-	-	2,800
R S Forbes	40,000	37,200	-	-	-	2,800
K N Johnsen	225,344	-	156,427	7,850	35,243	25,824
J R Marshall	35,000	35,000	-	-	-	-
J G Young	42,000	39,060	-	-	-	2,940
I R Egan	4,281	4,281	-	-	-	-
Officers						
<i>The Company</i>						
R S Newmann (b)	329,729	-	134,978	3,500	170,787	20,464
B A Fitzgerald (b)	282,558	-	147,611	13,186	99,006	22,755
K E Selzer (c)	274,704	-	267,155	-	-	7,549
P W Simons (c)	248,201	-	229,419	-	12,021	6,761
C M Norman (c)	214,532	-	196,741	12,021	-	5,770

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

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

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

Officers disclosure for the economic entity is the same as that for the Company.

The value of options granted during the year has been determined as nil. Accordingly, no amount has been included in total emoluments above. Details of options granted during the year are set out in Note 28.6.

**ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999**

	CONSOLIDATED		THE COMPANY	
	1999	1998	1999	1998
	\$	\$	\$	\$
28. DIRECTORS (continued)				
28.4 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 \$236,281 (1998: \$230,000))			<u>1,176,319</u>	<u>1,011,664</u>
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	5
40,000 - 49,999			3	-
70,000 - 79,999			1	1
220,000 - 229,999			1	-
230,000 - 239,999			-	1
260,000 - 269,999			-	1
270,000 - 279,999			-	1
340,000 - 349,999			1	-
370,000 - 379,999			<u>1</u>	<u>-</u>
			<u>9</u>	<u>9</u>
Total income received, or due and receivable, by all Directors of each entity in the economic entity from the Company, related bodies corporate or controlled entities (includes Directors' fees of \$236,281 (1998: \$230,000))	<u>2,313,854</u>	<u>2,147,917</u>		
The number of Directors of each entity in the economic entity whose income from the Company, related bodies corporate or controlled entities is included in the above disclosure	<u>14</u>	<u>15</u>		
28.5 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>2,011,623</u>	<u>2,331,835</u>
Total income received, or due and receivable, from the Company, entities in the economic entity or related economic entities by Executive Officers of the economic entity whose income exceeds \$100,000.	<u>2,011,623</u>	<u>2,331,835</u>		

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

28. DIRECTORS

28.5 Executives' Remuneration (continued) *

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

	No.	No.	No.	No.
100,000 - 109,999	-	1	-	1
110,000 - 119,999	-	1	-	1
120,000 - 129,999	1	-	1	-
130,000 - 139,999	1	1	1	1
140,000 - 149,999	-	1	-	1
150,000 - 159,999	1	1	1	1
180,000 - 189,999	1	-	1	-
190,000 - 199,999	1	1	1	1
210,000 - 219,999	-	1	-	1
220,000 - 229,999	1	1	1	1
230,000 - 239,999	-	1	-	1
250,000 - 259,999	-	1	-	1
260,000 - 269,999	-	1	-	1
270,000 - 279,999	-	1	-	1
280,000 - 289,999	1	-	1	-
340,000 - 349,999	1	-	1	-
370,000 - 379,999	1	-	1	-
	9	12	9	12

* Director's 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 28.8.

Executive's Remuneration includes the remuneration of all Executive Directors which is also shown at Note 28.4.

28.6 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:

	1998 Series A		1998 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	\$0.59	15,000	\$0.66	25 September 2003
J W Beech	4,000	\$0.59	11,400	\$0.66	25 September 2003
K N Johnsen	4,000	\$0.59	11,400	\$0.66	25 September 2003
<i>Officers</i>					
R S Newmann	4,000	\$0.59	8,600	\$0.66	25 September 2003
B A Fitzgerald	4,000	\$0.59	9,000	\$0.66	25 September 2003
K E Selzer	4,000	\$0.59	8,400	\$0.66	25 September 2003
P W Simons	4,000	\$0.59	8,400	\$0.66	25 September 2003
C M Norman	4,000	\$0.59	5,600	\$0.66	25 September 2003

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 1999**

28. DIRECTORS (continued)

28.7 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	191,000
J W Beech	8,458	122,400
A J Castleman	45,000	-
I R Egan	-	-
R S Forbes	854,238	-
K N Johnsen	113,893	122,400
J R Marshall	18,679	-
J G Young	69,906	-
	1,172,150	435,800

28.8 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 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.

29. REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS

29.1 Geographical Segments

	Australia		United States of America		United Kingdom		Eliminations		Economic Entity	
	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
Revenue outside the economic entity	28,855	22,615	37,073	39,519	27	(41)	-	-	65,955	62,093
Inter-segment revenue	488	1,411	358	318	456	298	(1,302)	(2,027)	-	-
Total revenue	29,343	24,026	37,431	39,837	483	257	(1,302)	(2,027)	65,955	62,093
Segment operating profit/(loss) before tax	(22,244)	(30,244)	(18,224)	5,321	32	(62)	(54,159)	(54,162)	(94,595)	(79,147)
Total assets	428,642	443,448	61,962	69,143	100	72	(253,021)	(198,008)	237,683	314,655

29.2 Industry Segments

The economic 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.

29.3 Inter-Segment Pricing

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

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

30. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	Note	Class of Shares	Economic Entity Interest	
			1999 %	1998 %
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	50

- (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.

31. ACQUISITION OF CONTROLLED ENTITIES

At 30 June 1998 Meteor I was jointly owned by Orbital and Brunswick Technology Corporation. On 30 September 1998 Orbital acquired Brunswick Technology Corporation's 50% share for a consideration of US\$1 which approximated fair value of the assets acquired. The terms of the sale required Orbital to incur 100% of the costs of operation from 1 July 1998.

32. INTERESTS IN BUSINESS UNDERTAKINGS

As at 30 June 1999, the economic 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	
	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
32.1 Carrying value of investment in business undertakings				
Balance at beginning of financial year	-	-	-	-
Additional cash investment in business undertakings	900	2,214	-	-
	900	2,214	-	-
Amounts expensed during the year	(900)	(2,214)	-	-
Balance at end of financial year	-	-	-	-

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

33. RELATED PARTIES

33.1 Other Transactions with the Company or its Controlled Entities

During the year the economic 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 \$10,145 (1998: \$1,530) (the Company \$8,970 (1998: \$1,530)). For part of the previous financial year Mr J G Young held an interest as a partner in the firm Minter Ellison. Fees paid to Minter Ellison during 1998 were \$38,577. All dealings with the firm are in the ordinary course of business and on normal terms and conditions.

33.2 Controlled Entities

Details of interests in controlled entities are set out in Note 30. Details of dealings with controlled entities are set out below:

(a) *Intercompany Loans*

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

	THE COMPANY	
	1999	1998
	\$000's	\$000's
<i>Receivables</i>		
Non-current	35,848	52,114
<i>Borrowings</i>		
Non-current	18,859	246

During the year an interest expense amounting to \$1.069 million (1998: nil) was recognised by the Company in relation to these loans. The interest rate charged during the year was between 6.0% and 7.5%.

(b) *Transactions*

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

33.3 Other Related Parties – Business Undertakings

Details of dealings with other related parties, being Synerject and the METEOR Partnerships, are set out below:

(a) *Receivables*

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

	CONSOLIDATED	
	1999	1998
	\$000's	\$000's
<i>Receivables</i>		
Current	3,066	3,534
<i>Payables</i>		
Current	6,075	-
Non-current	3,219	-
	9,294	-

(b) *Transactions*

During the year the economic entity sold goods and services to the value of \$2.748 million to Synerject and purchased goods and services to the value of \$9.909 million from Synerject. All transactions are in the ordinary course of business and on normal commercial terms and conditions.

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

34. NOTES TO THE STATEMENTS OF CASH FLOWS

34.1 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 Statements of Cash Flows is reconciled to the related items in the balance sheet as follows:

	NOTE	CONSOLIDATED		THE COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
Cash		32,186	27,844	16,527	17,385
Bank Overdraft		-	(55)	-	-
		<u>32,186</u>	<u>27,789</u>	<u>16,527</u>	<u>17,385</u>
34.2 Reconciliation of operating (loss) after income tax to net cash (used in)/provided by operating activities					
Operating (loss) after income tax		(87,214)	(88,750)	(87,214)	(88,750)
<i>Add/(less) items classified as investing/financing activities:</i>					
Interest received		(2,705)	(1,852)	(1,092)	(219)
Loss/(profit) on sale of property, plant and equipment		3,022	(460)	(43)	(21)
Payments for additional investments in business undertaking	32.1	900	2,214	-	-
<i>Add/(less) non-cash items:</i>					
Amortisation of certain intangible assets	3	84,069	85,426	-	-
Amounts set aside to provisions		(649)	(461)	(715)	(236)
Intercompany charges		-	-	2,816	(8,753)
Depreciation	2	3,077	4,763	50	105
Amortisation	2	426	299	18	4
Finance charges on capitalised leases	2	107	81	5	1
Foreign exchange gains		(3,191)	-	(730)	-
Non-cash revenue	34.3	(6,446)	-	-	-
Provision against carrying value of investments in subsidiaries	3	-	-	83,415	86,738
Net cash (used in)/provided by operating activities before changes in assets and liabilities		(8,604)	1,260	(3,490)	(11,131)
<i>Changes in assets and liabilities during the year:</i>					
Decrease/(increase) in receivables		4,448	(9,398)	7	23
Decrease in inventories		639	1,052	-	-
(Increase)/decrease in prepayments		(288)	361	8	90
(Increase) in technology investment restricted security deposits		(236)	-	-	-
Decrease/(increase) in research and development restricted access deposits		1,663	6,512	-	-
(Increase)/decrease in other non-current assets		(6)	4,665	-	-
Increase/(decrease) in trade creditors		10,012	3,491	112	(196)
Increase/(decrease) in unearned income		2,906	(5,464)	-	-
(Decrease) in other current liabilities		-	(74)	-	-
(Decrease)/increase in other non-current liabilities		(47)	47	-	-
(Decrease)/increase in deferred taxes payable		(8,639)	8,019	526	6,945
(Decrease) in provision for future contributions to business undertakings		-	(5,163)	-	-
(Decrease)/increase in prepaid revenue		(1,509)	9,085	-	-
(Decrease) in unearned research and development income		(4,096)	(4,916)	-	-
Net cash (used in)/provided by operating activities		<u>(3,757)</u>	<u>9,477</u>	<u>(2,837)</u>	<u>(4,269)</u>

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 1999

34. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

34.3 Non-cash revenue

On conclusion of a license agreement with PT Texmaco Perkasa Engineering Tbk, \$6,446,000 was recognised as licencing income. 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.

34.4 Acquisition of controlled entities

During the financial year the economic entity purchased 50% of the ordinary shares of Meteor I for a consideration of US\$1.

35. DERIVATIVE FINANCIAL INSTRUMENTS

35.1 Foreign Exchange Risk

The economic 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. At 30 June 1999 no forward exchange contracts were held.

35.2 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 economic entity which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts. The economic entity minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries.

35.3 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 1999 was 3.98% (1998: 4.94%). Interest on bank overdrafts is charged at prevailing market rates. The weighted average effective interest rate for all overdrafts as at 30 June 1999 was 19.75% (1998: 19.50%).

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 1999 was 8.51% (1998: 8.76%).

35.4 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.

36. PROPOSED 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 Commission (ASC). The ASC granted Orbital relief under 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 ASC 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, Licenses and Technologies to the newly created "Capital Reduction Reserve".
- Amortise the remainder of the Patents, Licenses 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, Licenses 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.

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

37. SUBSEQUENT EVENT

Since 30 June 1999 the Company has purchased 478,485 of its fully paid ordinary shares from its shareholders for consideration amounting to \$236,439. These shares have been cancelled in accordance with the requirements of the Australian Corporations Law.

The financial effect of this transaction has not been brought to account in the financial report for the year ended 30 June 1999.

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 1999

1. In the opinion of the Directors of Orbital Engine Corporation Limited:
 - (a) the financial report and notes, set out on pages 20 to 50 are in accordance with the Corporations Law, including:
 - (i) giving a true and fair view of the financial position of the Company and economic entity as at 30 June 1999 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 the Directors:



R W KELLY

Chairman

Dated at Perth, Western Australia this 25th day of August, 1999

INDEPENDENT AUDITORS' 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 1999, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 20 to 51. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the year's end 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 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 consolidated entity's financial position as at 30 June 1999 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



KPMG
Chartered Accountants



B C Fullarton
Partner

Perth
25 August 1999

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
SUPPLEMENTARY FINANCIAL INFORMATION
IN ACCORDANCE WITH UNITED STATES GAAP
FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	1999 A\$000's	1998 A\$000's	1997 A\$000's
1.				
1.1				
RECONCILIATION OF ACCOUNTS TO US GAAP				
Profit and Loss Account				
Net (loss) reported under AUS GAAP		(87,214)	(88,750)	(144,094)
Deferred pre-production expenditure and start-up costs amortised under AUS GAAP previously written off under US GAAP	4 (a)	26,980	27,111	27,419
Licenses and technologies amortised under AUS GAAP previously written off under US GAAP	4 (a)	3,049	3,049	3,049
Licenses and technologies arising from corporate restructuring, amortised under AUS GAAP and previously eliminated under US GAAP	4 (b)	52,453	52,452	78,678
Net tax effects of the US GAAP adjustments	4 (c)	(8,727)	9,751	1,222
Amortisation of patents	4 (b)	-	-	1,630
Employee stock option compensation	4 (d)	(74)	(86)	(122)
		(13,533)	3,527	(32,218)
Net (loss)/profit according to US GAAP		(13,533)	3,527	(32,218)
(Loss)/profit per ordinary share - US GAAP (A cents)	(a)			
- Basic		(4.18)	0.23	(9.96)
- Diluted		(4.18)	0.23	(9.96)
(Loss)/profit per American Depositary Share (ADS) - US GAAP (A cents)				
- Basic		(33.44)	1.84	(79.68)
- Diluted		(33.44)	1.84	(79.68)
Number of ordinary shares in calculation (000's)				
- Basic		323,845	323,585	323,449
- Diluted		323,845	323,742	323,449
(a) The options exercisable under the Company's Employee Share Plan have been excluded from this calculation as their effect is anti-dilutive. This arises as a result of a net loss under US GAAP.				
1.2				
Shareholders' Equity				
Shareholders' equity reported per financial statements		13,502	100,586	189,180
Licenses and technologies adjustment	3 (a)	-	(498)	(996)
Shareholders' equity reported using AUS GAAP		13,502	100,088	188,184
Deferred pre-production expenditure and start-up costs written off	4 (a)	-	(26,980)	(54,091)
Deferred income tax liability	4 (c)	2,973	11,700	1,949
Licenses and technologies offset:				
- Corporate restructuring	4 (e)	-	(52,452)	(104,905)
- Other non-cash restructuring items	4 (e)	-	(722)	(1,445)
Licenses and technologies written off on change of investment in associate to a wholly owned subsidiary	4 (f)	-	(1,828)	(3,657)
Shareholders' equity according to US GAAP		16,475	29,806	26,035
		16,475	29,806	26,035

ORBITAL ENGINE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
SUPPLEMENTARY FINANCIAL INFORMATION
IN ACCORDANCE WITH UNITED STATES GAAP
FOR THE YEAR ENDED 30 JUNE 1999

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 account and shareholders' equity are summarised below:

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

From 1 July 1995, the economic 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 economic entity has commenced amortisation of these previously capitalised amounts (refer Note 1.10). As at 30 June 1999 these amounts were fully amortised.

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, Licenses 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, Licenses 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.

Licenses 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 economic entity has re-commenced amortisation of Patents, Licenses 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 economic entity commenced amortisation of Patents, Licenses and Technologies arising from corporate restructurings under AUS GAAP (refer Note 36). 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 provisions 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, and under US GAAP, the tax effect of such interest income will be recognised in future periods.

Orbital has capitalised certain pre-production expenditure for accounting purposes, however for taxation purposes this expenditure is claimed in the year in which it is incurred thereby creating a timing difference. For US GAAP accounting purposes this expenditure is expensed as incurred resulting in a difference with AUS GAAP.

(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.

(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 interests 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, Licenses 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, Licenses 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 economic 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 1999

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

(g) *Recent Changes to US GAAP*

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income". SFAS 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements. For US GAAP purposes, Orbital adopted SFAS 130 as of 1 July 1998. The adoption of this statement did not have any effect on Orbital's financial report.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information". SFAS 131 requires companies to determine segments based on how management makes decisions about allocating resources to segments and measuring their performance. Disclosures for each segment are similar to those required under current standards with the addition of certain interim disclosure requirements. SFAS 131 also requires entity-wide disclosure about the products and services an entity provides in countries in which it holds material assets and reports material revenues and its significant customers. For US GAAP purposes, Orbital adopted SFAS 131 as at 1 July 1998. The adoption of this statement did not have any effect on Orbital's financial report.

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, gain 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 in 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. Orbital is presently analysing this statement and has not yet determined its impact on its financial position or results of operations.

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

	1999 \$000's	1998 \$000's	1997 \$000's	1996 \$000's	1995 \$000's
Operating Revenue					
Revenue from trading operations	51,251	53,379	22,376	25,213	16,870
Other revenue	14,704	9,501	2,927	4,746	6,180
Total operating revenue	65,955	62,880	25,303	29,959	23,050
Total operating expenditure	(69,533)	(56,601)	(51,482)	(50,502)	(27,003)
Operating profit/(loss) before abnormal items and income tax	(3,578)	6,279	(26,179)	(20,543)	(3,953)
Abnormal expenses:					
Amortisation of patents, licenses 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	-	-	-	(2,506)	-
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)	-
Total abnormal expenses	(91,017)	(85,426)	(112,252)	(62,106)	-
Operating (loss) before income tax	(94,595)	(79,147)	(138,431)	(82,649)	(3,953)
Income tax (expense)/credit attributable to operating (loss), including abnormal tax write-offs	7,381	(9,603)	(5,663)	12,820	(3,834)
Operating (loss) after income tax attributable to members of the Company	(87,214)	(88,750)	(144,094)	(69,829)	(7,787)

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

	1999	1998	1997	1996	1995
	\$000's	\$000's	\$000's	\$000's	\$000's
CURRENT ASSETS					
Cash	32,186	27,844	21,350	30,411	60,605
Receivables	13,942	20,432	11,035	4,217	5,553
Inventories	1,203	1,842	2,894	4,214	3,529
Other	424	1,799	7,094	1,368	11,238
TOTAL CURRENT ASSETS	47,755	51,917	42,373	40,210	80,925
NON-CURRENT ASSETS					
Receivables	2,042	-	-	-	-
Investments	6,446	-	-	-	4,247
Property, Plant & Equipment	21,174	30,942	39,388	40,438	40,770
Intangibles	-	84,069	169,495	334,247	382,863
Other	160,266	147,727	85,323	50,738	63,862
TOTAL NON-CURRENT ASSETS	189,928	262,738	294,206	425,423	491,742
TOTAL ASSETS	237,683	314,655	336,579	465,633	572,667
CURRENT LIABILITIES					
Accounts Payable	13,779	7,212	3,722	2,763	3,373
Borrowings	447	411	1,625	539	470
Provisions	2,294	3,317	8,952	3,731	1,904
Other	3,889	8,768	6,262	911	12,378
TOTAL CURRENT LIABILITIES	20,409	19,708	20,561	7,944	18,125
NON-CURRENT LIABILITIES					
Accounts Payable	3,445	-	-	-	-
Borrowings	19,640	19,839	25,165	19,236	19,176
Provisions	9,769	18,437	9,994	9,644	39,227
Other	170,918	156,085	91,679	43,169	40,889
TOTAL NON-CURRENT LIABILITIES	203,772	194,361	126,838	72,049	99,292
TOTAL LIABILITIES	224,181	214,069	147,399	79,993	117,417
NET ASSETS	13,502	100,586	189,180	385,640	455,250
SHAREHOLDERS' EQUITY					
Share Capital	409,588	161,861	161,767	161,694	161,589
Reserves	(236,083)	63,967	116,357	247,474	247,360
Accumulated (losses)/profits	(160,003)	(125,242)	(88,944)	(23,528)	46,301
TOTAL SHAREHOLDERS' EQUITY	13,502	100,586	189,180	385,640	455,250

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

	1999 \$000's	1998 \$000's	1997 \$000's	1996 \$000's	1995 \$000's
Operating Revenue					
Revenue from trading operations	33,048	31,196	14,966	19,123	10,766
Other revenue	9,721	5,898	2,183	3,744	4,419
Total operating revenue	<u>42,769</u>	<u>37,095</u>	<u>17,149</u>	<u>22,867</u>	<u>15,185</u>
Total operating expenditure	<u>(45,183)</u>	<u>(33,250)</u>	<u>(36,762)</u>	<u>(35,635)</u>	<u>(36,267)</u>
Operating (loss)/profit before abnormal items and income tax	<u>(2,414)</u>	<u>3,845</u>	<u>(19,613)</u>	<u>(12,768)</u>	<u>(21,082)</u>
Abnormal expenses:					
Amortisation of cash expenditure on certain intangible assets	(1,049)	(1,747)	(1,101)	-	-
Rationalisation of United States operations	(4,593)	-	-	-	-
Share of Partnership Result	-	-	-	(4,264)	-
Provision for legal fees incurred and estimated settlement costs of legal action	-	-	-	(1,977)	-
Settlement of legal action relating to a controlled entity	-	-	-	(1,737)	-
Employee Redundancy costs	-	-	-	(1,361)	-
Writedown in value of certain land and buildings	-	-	-	(882)	-
Total abnormal expenses	<u>(5,642)</u>	<u>(1,747)</u>	<u>(1,101)</u>	<u>(10,221)</u>	<u>-</u>
Operating (loss)/profit before income tax	<u>(8,057)</u>	<u>2,098</u>	<u>(20,713)</u>	<u>(22,989)</u>	<u>(21,082)</u>
Income tax (expense)/credit attributable to operating (loss)/profit, including abnormal tax write-offs	<u>(890)</u>	<u>92</u>	<u>(3,312)</u>	<u>(342)</u>	<u>(61)</u>
Operating (loss)/profit after income tax attributable to members of the Company	<u><u>(8,947)</u></u>	<u><u>2,190</u></u>	<u><u>(24,025)</u></u>	<u><u>(23,331)</u></u>	<u><u>(21,143)</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 (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; 1995: US\$0.7150 = 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

	1999	1998	1997	1996	1995
	\$000's	\$000's	\$000's	\$000's	\$000's
CURRENT ASSETS					
Cash	21,278	17,286	15,921	23,991	43,333
Receivables	9,217	12,684	8,229	3,327	3,970
Inventories	795	1,144	2,158	3,324	2,523
Other	280	1,117	5,290	1,079	8,035
TOTAL CURRENT ASSETS	31,571	32,230	31,598	31,722	57,861
NON-CURRENT ASSETS					
Receivables	1,350	-	-	-	-
Investments	4,261	-	-	-	-
Property, Plant & Equipment	13,998	19,209	29,372	31,902	29,151
Intangibles	-	986	3,282	4,636	3,773
Other	104,655	90,211	62,171	34,394	28,629
TOTAL NON-CURRENT ASSETS	124,265	110,406	94,825	70,932	61,552
TOTAL ASSETS	155,836	142,636	126,422	102,654	119,414
CURRENT LIABILITIES					
Creditors	9,109	4,477	2,775	2,180	2,412
Borrowings	296	255	1,212	425	336
Provisions	1,517	2,059	6,676	2,943	1,361
Other	2,571	5,443	4,670	719	8,850
TOTAL CURRENT LIABILITIES	13,492	12,235	15,332	6,267	12,959
NON-CURRENT LIABILITIES					
Accounts Payable	2,277	-	-	-	-
Borrowings	12,984	12,316	18,766	15,175	13,711
Provisions	3,196	2,684	4,545	1,402	1,019
Other	112,994	96,898	68,365	34,056	29,236
TOTAL NON-CURRENT LIABILITIES	131,452	111,898	91,676	50,633	43,965
TOTAL LIABILITIES	144,944	124,133	107,008	56,900	56,925
NET ASSETS	10,892	18,504	19,414	45,754	62,489
SHAREHOLDERS' EQUITY					
Share Capital	270,779	23,523	28,212	30,009	26,836
Reserves	(156,074)	84,162	101,048	106,854	96,763
(Accumulated losses)	(103,813)	(89,181)	(109,846)	(91,109)	(61,110)
TOTAL SHAREHOLDERS' EQUITY	10,892	18,504	19,414	45,754	62,489

Balance Sheet items have been translated at Westpac Banking Corporation's published buy rate for telegraphic transfers on 30 June each year (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; 1995: US\$0.7150 = A\$1.00). Such translations are provided for information purposes only.