NEWS RELEASE

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FOR IMMEDIATE RELEASE

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STRATEGIC ACTIONS DRIVE IMPROVED OUTLOOK IN FY2005, 2004 RESULT IN LINE WITH GUIDANCE

The completion of twelve months of restructuring initiatives has produced a more focused and leaner company that will enable improved performance in the 2005 and future financial years, Adacel said in releasing its result for the year to 30 June 2004.

In line with guidance issued in April, the group operating loss for 2004 before costs of restructuring, business closure and write downs was $11,266,000. One off adjustments included write downs of $9,889,000 in intangibles and other balance sheet items and $3,618,000 of FY2004 tax assets in North America, redundancy costs of $1,781,000 due to the restructuring and net profit on disposed businesses of $58,000. With the tax adjustments, net tax expense was $573,000 giving an after-tax loss of $23,451,000 for the year to 30 June 2004.

Group transformation

Adacel's Managing Director, Silvio Salom said that with the final phase of the group restructuring substantially completed, Adacel had strategically transformed its operations.

"Adacel is now highly focused on its successful global aviation and defence simulation and control activities and has substantially reduced its cost base," Mr Salom said.

"The company is focusing its management and operational resources on those international markets where it has acknowledged industry and technological leadership," he said.

"These are attractive market segments that we believe will be profitable and enable further growth in future years," Mr Salom said.

Cost reductions

The exit of the non-core Australian operations, cost reductions in North America and integration of e-learning simulation into North America are largely complete. Corporate overheads have been substantially reduced and are being moved to North America. Across the group, staff numbers are being reduced from around 310 at June 2003 to around 180 at December 2004.

The restructuring initiatives have a marked impact on the group's operating base. This includes:

- The actions in Australia remove non-core loss-making businesses that incurred $3,904,000 in operating segment losses in 2004
- The actions in North America has cut approximately $3,800,000 from the ongoing annual operating cost base
- Around $2,000,000 is being cut from annual corporate and shared services costs
- Expensing of deferred development costs relating to existing projects will be reduced by approximately $1,900,000 in FY2005.

Mr Salom said that with the restructuring, the company was geared up for an improved outlook on the lower group revenue base resulting from the exit of non-core businesses.

2004 Operating Result

Group operating revenues of $55,576,000 in the twelve months ended 30 June 2004 were lower than the previous year ($92,580,000). This was due to the sale and exit of businesses in 2003, the translation impact of the stronger Australian dollar (approximately $8,000,000 impact), and delays in contract awards in the 2004 financial year.

Year ended 30 June

A$000	*2004*	*2003*
Operating Revenue	55,576	92,580
Other Income	2,006	4,425
Total Revenue	**57,582**	**97,005**
EBITDA before one-off adjustments	**(8,178)**	**346**
Amort & Dep before one-off adjustments	(2,769)	(2,958)
EBIT before one-off adjustments	**(10,946)**	**(2,612)**
Finance Costs	(319)	(242)
Loss before tax & one-off adjustments	**(11,266)**	**(2,854)**
Writedowns & accelerated D&A	(9,889)	(2,283)
Redundancies & costs of business closures	(1,781)	(1,536)
Net profit on disposed businesses & premises	58	892
Loss before tax	**(22,878)**	**(5,781)**
Tax expense/benefit (Note 1)	573	(2,113)
Loss after tax & write downs	**(23,451)**	**(3,668)**

Note 1: After decision not to book tax benefits of $3,618,000 in Nth America

After expensing $7,226,000 in product development (previously $6,725,000), EBITDA before one-off adjustments was a $8,178,000 loss (previously $346,000 profit). Amortisation and depreciation before adjustments was $2,769,000 (previously $2,958,000) and finance costs were $319,000 (previously $242,000).

The result for the year was impacted by a number of one-off adjustments. The company wrote down $9,719,000 in intangibles and other balance sheet items in the December half year result and a further $171,000 in the June half (FY2003 $2,283,000). The write offs included Intellectual Property and development related assets, goodwill and accelerated depreciation due to the restructuring of the Australian operations. The company also decided not to book $3,618,000 of net deferred tax assets relating to North America, resulting in the carrying value of tax assets retained in North America reflecting a short term benefit. With this adjustment, net tax expense was $573,000. Costs of redundancies and business closures was $1,781,000 (2003 $1,536,000), partly offset by net profit on disposed businesses and premises of $58,000 (2003 $892,000).

After one-off adjustments and the tax expense of $573,000 (2003 tax benefit $2,113,000), the net after-tax loss for the year was $23,451,000 (2003 $3,668,000 loss).

Outlook

Mr Salom said that Adacel is clearly focussed on its core international markets where it is recognised as the global market leader.

This was underlined during the 2004 financial year by the continuing strength of its customer base and repeat business, which included the US Air Force, Lockheed Martin, the US FAA, NASA and air traffic authorities in Hungary, Dubai, Portugal, Italy, Canada and Austria, he said

The recent appointment of a senior US aviation and defence executive, Fred Sheldon, as CEO for North America will further strengthen the thrust into the core North American market and the drive for financial returns.

Mr Salom said that on the basis of the actions taken, coupled with the substantial reduction in the group's operating cost base, the outlook is for improved performance in the 2005 financial year.

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