

NEWS RELEASE



FOR IMMEDIATE RELEASE

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IMPROVED OPERATING PERFORMANCE, REDUCED LOSSES IN FIRST HALF RESULT

Summary: Results for six months to 31 December 2004

- Group restructure improves operating result and reduces losses on steady revenues
 - Exit of non-performing, non-core operations
 - Operating costs reduced with further reductions expected in June half
- Cash flow positive and improved working capital position
- Continued improvement in operating performance expected in June half

Adacel has reported improved operating results and positive cash flows following the group restructure progressively implemented during the six months to 31 December 2004.

With the exit of non-performing operations and reduction in operating costs, Adacel's result before tax and adjustments improved from a loss of \$5,716,000 in the previous corresponding period to a \$2,208,000 loss in the December half. After tax benefits of \$42,000 in the half compared with tax benefits of \$686,000 and one off adjustments of \$9,719,000 in the prior period, the after-tax loss for the December half was \$2,166,000 compared with \$14,749,000 in the previous corresponding period.

The group generated net cash of \$998,000 from operational activities in the December half, and a further \$6,505,000 in funds was raised in the Rights Issue completed in January.

Adacel's Managing Director, Silvio Salom, said the group restructure was largely completed by the end of December, and further benefits were expected to flow through to the June half.

Operating result

With increased revenues in North America offsetting the reduction in revenues from the exit of non-core operations, group revenues remained relatively steady at \$21,381,000 (previously \$22,207,000).

Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) improved to a loss of \$1,274,000 for the period, compared with an EBITDA loss of \$4,351,000 before one off adjustments of \$9,719,000 in the prior period. Amortisation and depreciation was reduced to \$763,000 from the previous corresponding period's \$1,258,000 before one off adjustments. Finance costs were \$171,000 (previously \$107,000), and tax benefit booked was \$42,000 (previously \$686,000).

With the leaner operations, net cash flow from operating activities was \$998,000, with total net cash flows of \$873,000 compared with the previous corresponding period's net cash usage of \$15,059,000.

Adacel Group Results for half year to December 31			
	A\$000	2004	2003
Operating Revenue		20,483	21,688
Other Income		898	519
Total Revenue		21,381	22,207
EBITDA before one-off adjustments		(1,274)	(4,351)
Amort & Dep before one-off adjustments		(763)	(1,258)
EBIT before one-off adjustments		(2,037)	(5,609)
Finance Costs		(171)	(107)
Loss before tax & one-off adjustments		(2,208)	(5,716)
Writedowns & accelerated depreciation		-	(9,719)
Tax (expense)/ benefit		42	686
Loss after tax & write downs		(2,166)	(14,749)

North American operations

Adacel's North American operations have continued to build on their strong position in the North American and international aviation and defence markets, with substantial follow-on contracts awarded by Lockheed Martin, the Italian air traffic control authority and the US Air Force.

Operating revenues of the North American operations rose 11% during the half year to \$19,232,000 and, helped by reductions in operating costs, the business segment result improved from a loss of \$3,427,000 to a loss of \$580,000.

Australian operations

With the progressive exit of non-core business units during the December half, Australian operations are now leaner and tightly focussed on the core activities of simulation and control systems for aviation and defence. Current operations include development of a voice control cockpit automation system for the Joint Strike Fighter.

Corporate costs have been reduced, with further benefits expected to flow into the June half.

Outlook

Mr Salom said that the restructure and tight focus of operations had led to a better performance in the half year with further improvements expected in the second half.

“In addition, we are continuing to extend our existing relationships, which is increasing our opportunities in both current and associated market segments,” he said. “We also expect to see an increase in the proportion of recurring revenues we are generating through multi-year contracts, service contracts and support and maintenance.”

With the company operations cash flow positive in the December half and the funds from the recent Rights Issue, the company is in an improved working capital position.

Mr Salom said the company continued to be cautiously optimistic regarding the outlook for the second half.

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