

NEWS RELEASE

Melbourne, 26 February 2008



Adacel Technologies Limited
ABN 15 079 672 281
240 Bay Street
Brighton, Victoria 3186
Australia
t. +61 3 8530 7777
f. +61 3 9596 2960

SIGNIFICANT CONTRACT WINS UNDERPIN GROWTH OUTLOOK

The Directors of Adacel Technologies Limited today announced the result for the six months to 31 December 2007:

- Earnings before interest, tax, depreciation and amortisation of \$1.0 million and after-tax profit of \$0.7 million, a result in line with comments made at the AGM in November
- Strong balance sheet with \$4.2 million in cash and undrawn North American banking facility
- On-market share buy-back continues
- Recent significant contract wins provide confidence for strong future growth and confirm Adacel's leading position in global market for aviation simulation and training and Oceanic Air Traffic Management (ATM)
 - \$55 million US Federal Aviation Administration contract awarded in December consolidates Adacel's leading position in market
 - \$10 million in contracts from other simulation customers, including US and Canadian defence forces and European civil aviation organisations
 - \$6 million in further contracts since 1 July 2007 for major North American and European ATM programs
 - Further market penetration of new products, with \$2 million in contracts for Adacel's Voice Activated Cockpit technology and the start of CAE's flight simulator sales program incorporating Adacel's Air Traffic Control in a Box
 - Consolidation of relationships in key aviation markets, including with Lockheed Martin, CAE, Boeing, Rockwell Collins and Airservices Australia
 - Outlook for strong improvement in revenues and earnings in the June half compared with the December half year, with the after-tax profit in FY2008 improved on the FY2007 result

A summary consolidated income statement for the group is outlined below.

Adacel Group Results for six months to December 31

A\$000	2007	2006
Revenue from continuing operations	17,366	17,575
Other Income	1,030	1,490
EBITDA	1,003	3,476
Amortisation & depreciation	(692)	(684)
EBIT	311	2,792
Finance benefit/ (costs)	-	(49)
Profit/(loss) before tax	311	2,743
Tax benefit	355	525
Profit/(loss) after tax	666	3,268

Adacel further consolidated its market leadership during the December half year by securing in a competitive tender process the US Federal Aviation Administration (FAA) \$55 million air traffic control tower simulator contract, as well as winning further contracts from the US Air Force, Army and Navy, the Canadian Department of National Defence, Lockheed Martin, Airbus and others.

The company generated an after-tax profit of \$0.7 million in the six months to 31 December 2007. This is in line with Directors' comments at the company's November Annual General Meeting that December half results would show improved performance and a small profit compared with the \$0.7 million after-tax loss in the June half year.

Revenues from operations during the December half were \$17.4 million (\$17.6 million in the previous corresponding period) reflecting lower US revenues due partly to the delayed decision on the FAA program, offset by increased international revenues and further growth in Advanced Programs sales. Revenues from services and support continued to be strong, accounting for around 50% of revenues from operations.

The company continues to maintain a strong balance sheet, with \$4.2 million in cash. Cash usage during the period was largely attributable to work on programs for which pre-payments were received in the June half, the expenditure of \$1.9 million for the on-market share buy-back and further costs of approximately \$0.8 million in the December half in bidding for the FAA program.

The December half year earnings were negatively impacted by:

- Foreign exchange losses of \$0.8 million resulting from appreciation of the Australian dollar (\$0.3 million impact in previous December half)
- Bid and development costs of around \$0.8 million in the December half for the longer-than-expected bid program for the FAA contract.

Directors have not declared a Dividend for the period, but in December announced an extension of the on-market buy-back. In accordance with Adacel's long-term capital management program, the objectives of the on-market share buy-back are to increase earnings per share and Adacel's return on equity. The buy-back program will also result in the return of excess capital to shareholders in an efficient manner.

Operating performance

Adacel's CEO North America, Fred Sheldon, said that while operations during the period were impacted by delays to program awards, higher bid costs and foreign exchange movements, Adacel was now in a strong position for the medium term following milestones achieved in the December half year.

"The \$55 million FAA contract awarded to Adacel in December has further strengthened Adacel's leadership in Air Traffic Control (ATC) simulation, while our strong position in Oceanic air traffic management systems was consolidated by extensions to support contracts in the US and Europe," Mr. Sheldon said. "In addition, new contracts announced for Voice Activated Cockpit systems and continued work for the Joint Strike Fighter have further established a base for revenue growth from our Advanced Programs operations.

"In the Simulation business, the FAA contract provides us with a solid revenue base into the medium term," Mr. Sheldon said. "This is the industry's largest ATC Tower simulator program since the US Air Force program awarded to Adacel several years ago, and will provide training for the next generation of US Air Traffic Controllers."

The FAA has indicated that in the first phase of the contract, 24 simulators will be deployed at 19 locations over the next eighteen months. Of this, Adacel has so far received contract options totalling approximately \$8 million.

“The company is now regarded by the industry as the leading simulator provider across both the civil and military ATC tower training environments as well as being strongly represented at the aeronautical and training university level,” Mr Sheldon said. “This industry position was further confirmed when Adacel was named ‘Best Simulator Provider’ in Air Traffic Management magazine’s recent international survey.”

In addition to the FAA program, Adacel was awarded simulation contracts totalling around \$10 million by civil and defence aviation organisations in North America and Europe. In addition to other arms of the US defence forces, this included the first order from the US Navy for a MaxSim simulator. It also included a significant order from a major European aviation-training organisation, and we are continuing to work with this key aviation-training partner to pursue opportunities in Eastern Europe, South America and Africa.

“In Australia, we completed the installation of a 360 degree MaxSim Tower simulator and several 240 degree systems at Airservices Australia’s training facility at Tullamarine airport. This simulator was officially opened last month by the Federal Transport Minister, Anthony Albanese,” Mr Sheldon said. “We look forward to continuing to develop the close working relationship we have established with Airservices through this program, both domestically and also with Airservices Australia’s international partners.

“We also received our largest order so far for driving simulators,” he said. “These will be used to train airport vehicle operators at the busy Dallas Fort Worth airport.

“The company also worked with Microsoft to integrate Adacel’s intelligent speech recognition technology and our MaxSim simulated Air Traffic Control environment with Microsoft’s new ESP visual simulation platform launched in November 2007,” he said. “By enabling applications to share Microsoft’s ESP platform technology, Adacel will be able to offer additional benefits to civil and military air traffic simulator operators through reduced development time for new products and by assisting in reducing costs.

“In Air Traffic Management, we continued to provide software support for Lockheed Martin for the US ATOP (Advanced Technologies and Oceanic Procedures) and ERAM (En Route Automation and Modernization) programs. We also provided support and upgrades to NAV Portugal’s Oceanic system, including receiving a \$2.3 million contract to upgrade the system’s datalink communications capabilities.

“Adacel’s Advanced Programs business continues to make good progress and contributed more than 10% of operational group revenues in the December half,” Mr Sheldon said. “The five year agreement with CAE for incorporation of Adacel’s Air Traffic Control in a Box (ATCiB) product in its flight simulators began during the half year, and we continued to develop opportunities for ATCiB in other flight simulator segments. We estimate that the market for simulated ATC environments in commercial, military and private pilot training could total at least \$50 million over the next eight years.

“During the December half, we announced further contracts for our Voice Activated Cockpit (VAC) technology as well as continuing our work for Lockheed Martin for the F-35 Joint Strike Fighter.

“We were selected by Boeing to provide our VAC technology for human factors research and development studies for the AH-64 Apache attack helicopter, and Boeing is currently evaluating voice activated control for potential inclusion in a future version of the Apache.

“Adacel was also selected by Rockwell Collins to develop a VAC interface for its next-generation Pro Line avionics suite. The system is expected to begin testing in calendar 2008 to achieve certification,” Mr Sheldon said.

Outlook

The recent contract wins underpin further growth. The outlook is for a strong improvement in revenues and earnings in the June half compared with the December half year, with the after-tax profit in the full 2008 financial year an improvement on the FY2007 result.