

## **NEWS RELEASE**

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**FOR IMMEDIATE RELEASE**



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### **INTANGIBLES WRITE DOWN IMPACTS HALF YEAR RESULT**

Adacel has reported a \$14,749,000 after-tax loss for the six months ended 31 December 2003 after writing off \$9,719,000 in intangibles and other balance sheet items.

The write offs were made despite the continued strength of the North American business and were taken in light of the recent history of group losses and the accounting standards on substantiation of balance sheet carrying values.

The operating loss before tax and write downs of \$5,716,000 reflected the significant impact of the rising Australian dollar, as well as increased product and marketing development to leverage existing product into new adjacent segments. It was also affected by continued tough trading conditions in Australia and further investment in e-learning simulation. The operating loss for the half was foreshadowed at the company's Annual General Meeting in November.

#### **Write down of balance sheet items**

Adacel's Chairman, Julian Beale, said that in deliberating on the write downs, the Board recognised Adacel's strong potential in North America, as reflected in successes such as the \$130 million US Air Force program and the \$46 million US Oceanic air traffic management modernisation.

"But it is difficult to forecast the timing of such contracts, and combined with the recent group losses, this makes it difficult to substantiate the carrying values of the intangible assets for accounting purposes," he said. "As a result, the Board considered it prudent to write down the value of the intangibles, despite the opportunities."

The write offs included Intellectual Property and development related assets, goodwill and accelerated depreciation due to restructuring of the Australian operations.

#### **Operating result**

Group revenues from external customers were lower in the December half significantly due to the exit of the Enterprise Services and other businesses during the June period and difficult Australian trading conditions (\$10,532,000 revenue impact). In addition, North American revenues were reduced by the translation impact of the stronger Australian dollar and contract timing and recognition (approximately \$5,928,000 revenue impact).

The appreciation of the Australian dollar against US and Canadian currencies impacted revenues and expenditures in Australian dollars, and as a result pre-tax profits were reduced by around \$1,300,000.

Also during the period the company invested and expensed \$2,539,000 in product development prior to one off adjustments. This included and was combined with further marketing expenditure, to support entry into adjacent aviation and defence market segments. Approximately \$1,500,000 was invested and expensed in further development of the e-learning simulation business.

Adacel's Managing Director, Silvio Salom, said that the exchange rate impact was a reflection of the extent of the company's international customer and operational base and its strong position in North America.

"Eighty per cent of our group revenues were generated by our North American operations in the half year," Mr Salom said. "But we have been able to mitigate the cash impact of the rising dollar to some extent through our large operational base in North America which has given us some natural hedging, together with currency hedges."

**Adacel Group Results for half year to December 31**

AS\$000	2003	2002*
<b>Operating Revenue</b>	21,688	38,148
Other Income	519	143
<b>Total Revenue</b>	<b>22,207</b>	<b>38,291</b>
<b>EBITDA before one-off adjustments</b>	<b>(4,351)</b>	(895)
Amort & Dep before one-off adjustments	<b>(1,258)</b>	(1,484)
<b>EBIT before one-off adjustments</b>	<b>(5,609)</b>	(2,379)
Finance Costs	<b>(107)</b>	(110)
<b>Loss before tax &amp; one-off adjustments</b>	<b>(5,716)</b>	<b>(2,489)</b>
Writedowns & accelerated depreciation	<b>(9,719)</b>	-
Tax benefit	<b>(686)</b>	<b>(2,524)</b>
<b>Loss after tax &amp; write downs</b>	<b>(14,749)</b>	<b>35</b>

*\* Includes business operations since discontinued or exited*

After amortisation and depreciation of \$1,258,000 prior to one off adjustments (previously \$1,484,000) and finance costs of \$107,000 (previously \$110,000), the half year result was a loss before tax and one off adjustments of \$5,716,000 compared with \$2,489,000 in the previous corresponding period. After write-downs and accelerated depreciation of \$9,719,000 and a tax benefit of \$686,000, the group net result for the period was a loss of \$14,749,000 (previously \$35,000 profit).

Cash usage during the period reflected the cash effect of the operating loss after adjusting for a large timing impact of receipts and payments associated with a major project, and differences in profit recognition and cash flows.

### **North America**

Adacel's North American operations continued to consolidate their strong position in their simulation and software markets, with recently announced contracts from the US Air Force and Lockheed Martin totalling \$48 million.

The operational focus during the period was on delivering systems and software for the major US Air Force and Federal Aviation Administration programs and other contracts that had already been won. The rising Australian dollar caused an approximately \$3.5 million impact on reported North American revenues on translation from international currencies.

In addition to consolidating their position in existing markets, the North American operations began investment in product and market development to expand into new adjacent market segments leveraging existing product and relationships. These niche markets include flight simulation, airborne automation and land-based defence simulation. Product development expensed during the period increased by approximately \$1,500,000 compared with the prior period, prior to one off adjustments.

### **Australia**

There was no improvement in the Australian market during the period, and further action was taken on costs.

The company continued to invest in pursuing opportunities in sectors with high barriers to entry, such as programs for the Joint Strike Fighter, while continuing to focus on reducing operating and corporate costs.

### **Outlook**

In North America, as a result of the substantial Government contracts and strong opportunity pipeline, revenues will be substantially higher in the June half than the December period. This reflects the impact of US Government procurement patterns.

In Australia, difficult trading conditions continue and the domestic operations are expected to generate a loss, as advised at last year's Annual General Meeting. The Board is continuing to review the Australian operations, corporate costs and e-learning simulation.

Overall, the group outlook is for an improved operating result in the June half, with the full year result dependent on timing of contract decisions and deliveries.

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