

NEWS RELEASE

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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

HALF YEAR RESULT TO 31 DECEMBER 2006

SIGNIFICANT INCREASE IN PROFIT IN HALF YEAR TO 31 DEC 2006

The Directors of Adacel Technologies Limited today announced the results for the six months to 31 December 2006:

- Earnings before interest, tax, depreciation and amortisation (EBITDA) of \$3.5 million, a 116% increase over EBITDA of \$1.6 million previously, assisted by improved program performance, lower corporate costs and higher R&D assistance
- An after-tax profit of \$3.3 million (including a tax benefit of \$0.5 million), a 121% increase over the prior period result of \$1.5 million (including a tax benefit of \$0.7 million)
- Strong and flexible balance sheet with \$4.0 million cash in bank and an enhanced North American banking facility
- Contracted development work continues on core systems for high profile programs including key US air traffic management programs and the Voice Activated Cockpit for the multinational F-35 Joint Strike Fighter - an aircraft earmarked for the air forces of the US, Australia and other countries globally
- Ongoing development of new products in complementary market niches, including voice activated cockpit opportunities in other defence and civil aircraft and the integration of our *Air Traffic Control in a Box* product into full flight simulators

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

Adacel Group Results for half year to December 31

A\$000	2006	2005
Revenue from continuing operations	17,575	25,422
Other Income	1,490	222
EBITDA	3,476	1,611
Amortisation & depreciation	684	739
EBIT	2,792	872
Finance costs	49	129
Profit/(loss) before tax	2,743	743
Tax benefit	525	735
Profit/(loss) after tax	3,268	1,478

Adacel has maintained its strong leadership position in its key markets during the December half and delivered an after-tax profit increase of 121% to \$3.3 million (previously \$1.5 million).

Directors said the improvement in financial performance was largely attributable to:

- Improved program performance with recent programs being secured on higher margins;
- Government R&D assistance relating to the ongoing development of the voice activated cockpit for the multi-national F-35 Joint Strike Fighter program;
- The impact of improved performance on warranty programs and the impact of additional profit booked on finalisation of programs that performed better than budget; and
- Reduced corporate overheads.

The result was after a tax benefit of \$0.5 million (previously \$0.7 million), which again resulted largely from benefits relating to the company's ongoing R&D program.

Revenues remained strong in the key US market, but with the completion of a large international program during FY2006, group operating revenues for the December half declined to \$17.6 million compared with the previous level of \$25.4 million. However, revenues from recurring programs levels continued to be strong and represented in excess of 50% of total operating revenues for the half year. Directors also said the company is seeing evidence of further on-site and after-market support programs which should continue to drive annuity income streams for the company.

Directors have not declared a dividend for the period.

Operating Performance

Adacel's CEO North America, Fred Sheldon, said today that the company continued to maintain its strong market position during the period.

"In the Simulation business, Adacel continued to be the North American market leader, with revenues from system sales and support contracts continuing to grow," Mr Sheldon said.

Further contracts were awarded by the US Air Force and NASA, with ongoing program deliveries for the Federal Aviation Administration and the US Air Force and Army. In addition, Adacel was included on Indefinite Delivery Indefinite Quantity (IDIQ) contracts for the US Navy and US Army. This allows the Navy and Army to acquire simulation and other products and services from Adacel as required through a prime contractor under a streamlined procurement process.

Mr Sheldon said US simulator revenues increased during the period but were lower than anticipated due to US government spending limits which had pushed some planned new procurement programs into later periods. Internationally, Adacel continued to work with simulator customers in Europe and the Middle East during the period, and since the end of the period announced a A\$5.3 million contract from Airservices Australia to provide MaxSim Tower Simulators for training purposes.

In Air Traffic Management, Adacel received further contract extensions during the period from Lockheed Martin for work on the key US ATOP (Advanced Technologies and Oceanic Procedures) and ERAM (En Route Automation and Modernization) programs. In addition, Adacel received significant contracts from Portugal's air traffic services provider, NAV Portugal.

"In our Advanced Programs, we made further significant progress in taking the new products developed from our existing technologies into closely-associated markets," Mr Sheldon said.

"The company has become well recognised within the industry for its development work on the Voice Activated Cockpit for the F-35 Joint Strike Fighter and the company is now also working with other potential defence and civil aviation customers," he said. "Through the work we are undertaking with potential customers with our *Air Traffic Control in a Box* (ATCiB) for flight simulators, we have identified substantial opportunities in the pilot training market.

"Overall, the improved program performance during the December half reflects the moves made during FY06 to eliminate loss-making contracts, with new contracts negotiated at higher margins," Mr Sheldon said. "Program performance has also been assisted by bringing in-house program support that was previously undertaken by sub-contractors, again leading to higher margins."

Outlook:

In the Simulation business, the company expects to see further growth in FY 2008 and beyond in both simulator sales and ongoing support and maintenance. The company has identified potential demand in the United States for 160 new towers over the next 3 – 5 years, as well as the opportunity to provide on-site support for up to half of the installed tower simulator base. In addition, recently delayed US procurement programs are anticipated to come to market and the company is confident of its positioning to compete for these contracts.

Air Traffic Management is expected to continue to provide a solid base for the company with continuing relationships and programs in place with Lockheed Martin and NAV Portugal and opportunities in new markets.

The company's Advanced Programs offers real opportunity for growth, with new market niches identified for the voice activated cockpit automation and other speech recognition systems, as well as the ATCiB product.

The company expects that with continuation of the improved operating performance, higher margin programs and lower corporate costs, the group result for the 2007 financial year will be above that achieved in 2006. Group operating performance continues to be dependent on timing of contracts and deliveries, which will be closely monitored and managed.

In addition, the strong balance sheet offers the company the flexibility and capacity to take advantage of opportunities as they arise in the market or in other ways to enhance shareholder value.