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Adacel Technologies Limited (ASX: ADA)

ASX & Media Release

18 November 2016

Chairman's Address to Shareholders 2016 Annual General Meeting

I am delighted to be standing before you as Chairman today and reporting on the Company having delivered another year of growth in profitability in 2016. It was a result to which many people across the organisation have contributed and which represented the culmination of a number of financial, strategic and foundational initiatives established over time.

Whilst we are proud of our efforts, the job is not yet complete and we see many opportunities for further growth.

In 2016, we witnessed a number of operational and financial highlights and I will discuss these shortly. However, 2016 had its challenges, not the least of which was the passing in April of our former Chief Executive Officer, Seth Brown, after a brief illness. Many of the Company's long standing shareholders will remember Seth's unique style and personality from his visits to Australia. Seth Brown's positive influence continues to be evident across the organisation today and his disciplined approach to delivering profitability has been carried on by our senior management team.

In saying that, it is appropriate for me to acknowledge the performance of the Company's senior management team, led by Gary Pearson. Their ability to deliver the 2016 financial results despite this upset is a credit to them. Both the Board and I are sure shareholders are especially appreciative of their efforts during that difficult time.

There were a number of financial highlights for the Company in 2016:

- Record revenues of A\$47.9 million, an increase of 14.3% compared to the prior year. This revenue growth was driven by the strong growth in the Services Segment;
- Disciplined program management which saw an increase in our gross margins across the business and an operating cost framework which is the right size for the Company and, importantly, is scalable for the future;
- Profit before tax of A\$10.8 million, a strong increase over the prior year;
- Strong cash flow of A\$8.1 million;
- Net cash as at 30 June 2016 of A\$15.8 million; and
- Total dividends for the 2016 financial year of 3.00 cents per share, an increase of 50% over 2015.

From an operational perspective, the following achievements were made:

- Consolidation of long term key relationships with existing customers, including NavPortugal, AustroControl, the Federal Aviation Administration, the United States Air Force, the United States Army and Navy, Air Services Australia and the Royal Australian Air Force;

- Nurturing of more recent relationships with customers including the French Territories and the Ukrainian Aviation Authorities;
- Increased Company personnel deployed in the field under various Services-oriented contracts with key customers;
- Successful initiation and execution of the FAA Controller Training Contract for year one of a multi-year contract;
- Delivery of Adacel ATC Environment software licences with Lockheed Martin to the RAAF;
- Inclusion on a number of new, well-funded US-based contract vehicles which provide for additional opportunities in 2017 and beyond; and
- Effective financial reporting framework under Systems and Services providing improved visibility of earnings.

I would like to acknowledge Mr Kevin Courtney, one of the Company's non-executive directors. Today will be Kevin's final Annual General Meeting for the Company. Kevin has been a non-executive director since 1998 and has served the Company as Chairman of the Audit Committee. On behalf of the Board and all shareholders, I would like to thank Kevin for his dedication and service to the Company over a long period and we wish him well in the future.

I would also like to acknowledge and welcome Ms Natalya Jurcheshin as a non-executive director of the Company. Natalya was appointed on 7 October 2016 and brings a wealth of finance and commercial skills to the Board. Shareholders will shortly be asked to vote on the continued appointment of Natalya as a non-executive director, and we look forward to working closely with her.

In terms of the 2017 financial outlook, the Board expects another strong year of operating performance, further building on the foundations of 2016.

As shareholders are aware, the Company prepares its financial forecasts on the basis of a twelve month period. There are no particular seasonalities between the first half and second half and therefore, we have consistently provided guidance based on factors affecting the full financial year.

Growth is anticipated across both key business segments of Systems and Services and based on the performance for the first four months and the visibility for the balance of the 2017 financial year, the Board anticipates profit before tax growth above 10%.

In relation to the first half, the Board anticipates a lower profit than the prior corresponding period due principally to the performance in the prior period being boosted by some contracts being received earlier than anticipated. The outlook for new business, comprising new proposals, renewals, extensions and expansion of existing contracts, continues to be very strong, however it is anticipated to materialise in the second half of the financial year.

The Company maintains its optimism regarding the earnings outlook and firmly believes it is well-placed for success with the majority of existing proposals at this time. The timing of when these orders will be secured is subject to customer process and decision-making. The current political environment in the United States of America has caused some delay in decision-making in relation to some key programs with the Federal Aviation Administration and parts of the US Military. Despite this, the Company remains confident that decisions will occur with minimal further delay and that the US political environment will be conducive to further growth.

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About Adacel

Adacel is listed on the ASX and is a leading developer of operational air traffic management systems, speech recognition applications and advanced air traffic control simulation and training solutions. Further information on the Company can be found on its website at www.adacel.com.

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