Redflex ANNUAL REPORT 2017

FOR A WORLD ON THE MOVE

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CORPORATE GOVERNANCE STATEMENT

The ASX Corporate Governance Principles and Recommendations (Third Edition) and the ASX Listing Rules (ASX LR 4.10.3) permits entities to elect to publish their ASX Corporate Governance Statement and ASX Appendix 4G on its website.

Accordingly, Redflex Holdings Limited's ("the Company") 2017 ASX Corporate Governance Statement does not appear in this Annual Report and can be located on the Company's website (www.redflex.com). To navigate to the Company's 2017 ASX Corporate Governance Statement and ASX Appendix 4G, please click on the "Investors" tab.

The URL for the 2017 ASX Corporate Governance Statement is:

http://www.redflex.eyedeadns.com/application/files/2215/0396/3768/FY2017_-_Corporate_Governance_Statement.pdf

The URL for the 2017 ASX Appendix 4G is:

http://www.redflex.eyedeadns.com/application/files/1915/0396/3814/FY2017_-_ASX_Appendix_4G.pdf

REDFLEX HOLDINGS LIMITED

ABN 96 069 306 216

Redflex Holdings Limited shares are listed for quotation on the Australian Securities Exchange under the ticker code of "RDF".

Corporate Directory

Directors

Adam Gray, Chairman
Clark Davey
Robert DeVincenzi
David McIntyre
Herman Schwarz
Terence Winters

Company Secretary

Craig Durham

Registered Office

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Victoria, 3205, Australia

Principal Places of Business

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Glendale AZ 85306-1893
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Computershare Investor Services
452 Johnston Street, Abbotsford, Victoria, 3067,
Australia
Phone: 1300 850 505

Solicitors

KPMG Law
Tower Three, International Towers Sydney
300 Barangaroo Avenue, Sydney, New South Wales,
2000, Australia

Baker & McKenzie
181 William Street, Melbourne, Victoria, 3000, Australia

Auditor

PricewaterhouseCoopers
2 Riverside Quay, Southbank, Victoria, 3006, Australia

FINANCIAL PERFORMANCE SUMMARY

RESULTS FROM OPERATIONS

	2017	2016
Revenue ($ Million)	120.8	136.8
Profit before depreciation, amortisation, impairment, finance costs and tax ($ Million) *	10.7	25.6
Loss after tax ($ Million)	(31.5)	(4.7)
Weighted average number of shares (Million)	110.9	110.8
Basic earnings per share (Cents)	(28.41)	(4.23)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (Cents)*	13.19	23.1
Net tangible assets per share (Cents)*	42.94	75.58

	2017 ($M)	2016 ($M)
Current assets	41.0	53.9
Non-current assets	87.4	85.8
Current liabilities	35.3	23.4
Non-current liabilities	22.1	12.3
Shareholders' equity	71.0	104.0

Reporting period

The current reporting period is the year ended 30 June 2017 ("FY17"). The previous corresponding period is the year ended 30 June 2016 ("FY16").

*** Note regarding non-IFRS financial information**

1. Throughout this Annual Report, Redflex Holdings Limited ("the Company", "the Group", "Redflex", "we" or "our") has included certain financial information that is calculated and presented on the basis of methodologies other than in accordance with International Financial Reporting Standards ("IFRS").
2. This non-IFRS information is presented to provide users with additional insight into the Company's business, including to facilitate incremental understanding of the Company's underlying financial performance, liquidity or cash position.
3. Non-IFRS information is not audited.

CHAIRMAN'S LETTER

WE HAVE A CLEAR PATH AHEAD

Dear Fellow Shareholders and Associates,

For the last several years I have written about the substantial challenges Redflex has faced in pursuing its core objective of Making a Safer World through our leading-edge technology, end-to-end solutions and strong partnerships with our customer base.

I am very pleased to acknowledge the progress the Company has made this past year in resolving significant risk items and tightly managing its balance sheet. As described more fully in the CEO Report, below, the overall financial result for FY17 (FY17 EBITDA of AUD10.7 million compared to FY16 EBITDA of AUD25.6 million) reflects a number of important investments, including the refreshment and enhancement of our technology platforms, further reinforcement of important customer and strategic business partner relationships and the implementation of a number of important efficiency initiatives.

While we still have much work to be done, the path to future profitable growth is decisively clearer. Toward this end, we have tied 100% of the management team's long term performance incentive to substantial improvement in the Company's FY18 financial results.

Clearing the Past

During FY17, the Company successfully resolved its legal matters in the United States with the U.S. Department of Justice and the City of Chicago (who, subsequently, also restored the Company's status as a Responsible Vendor). As a result of the Company's remedial efforts over nearly four years, the Company has not been prosecuted, it settled a significant civil claim (as previously disclosed on 4 February 2017) and, importantly, there are no legal impediments to our continued operations in any market around the world.

Executive Leadership

As announced in early August this year, Mr Paul Clark, resigned as Group Chief Executive Officer and was replaced by Mr Mark Talbot in that role, effective 21 August 2017.

Please join me in thanking Mr Clark for his hard work and dedication to Redflex over the last three years as he helped reshape and clear the Company's path forward.

Mr Talbot's knowledge of automated enforcement, infringement and transaction processing, as well as adjacent ITS industry segments coupled with his experience in most of the major global markets will be an extremely valuable asset to the Redflex Group. We look forward to introducing Mr Talbot at our 2017 Annual General Meeting on 25 October 2017.

Investing for the Future

Having now closed a difficult chapter in the Company's past, we look ahead with greater focus and determination to lead the industry by developing our products and services in a way that leverages new and advanced technologies in communities around the world – to save lives by helping to change accident-prone behaviour, to improve motor vehicle management and to enhance public security. We will also continue our role to help our customers educate the community about the importance of traffic and public safety, and how automation can advance these objectives.

Our effort and investment will concentrate on:

- expanding our portfolio of innovative technological traffic and safety solutions;
- bolstering the Company's credentials as a trusted and valued business partner while enhancing our reputation as a responsible corporate citizen committed to improving public safety and security;
- converting a robust pipeline of sales in priority geographies and winning contracts with our refreshed photo enforcement and image capturing products; and
- pursuing appropriate opportunities for growth in select regions outside of our traditional markets.

Conclusion

I would like to thank you, our shareholders and associates, for your support as we worked through, and ultimately resolved, the Company's difficult legal issues in the United States. With this behind us, we now have a clear path ahead to drive future success with a renewed team, product portfolio, robust pipeline and refreshed systems.

I am also grateful to Mr Clark (the former Group CEO) and the Redflex global leadership team for their hard work and dedication to lay this foundations for profitable growth across our global businesses. Through investment we have been able to offer product and service upgrades to our customers, maintain contract renewal levels and find potential new customers and markets in which to expand.

Finally, as with previous years, I would again like to thank my fellow board members – your directors – for their significant contribution and guidance throughout the year.

With best wishes,

Adam L. Gray
Chairman

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX GROUP OVERVIEW

Redflex Holdings Limited ("Redflex" or "the Company") and its subsidiaries ("the Group") began operations in 1995 and the Company's shares were listed on the ASX in January 1997.

Redflex develops and manufactures a wide range of high-performing digital photo enforcement solutions including red light, speed, automatic number plate recognition ("ANPR") and school bus stop arm systems, using advanced detection and image capture technologies. The Group also owns and operates one of the largest networks of digital speed and red-light enforcement systems in the world.

Redflex has established itself as a leader in the automated traffic enforcement products and services market and has been helping save lives for more than 20 years. In recent years, Redflex has leveraged these core capabilities into the much larger and faster growing Intelligent Traffic Systems ("ITS") market. The ITS market is expected to grow at a CAGR of 7% between 2016 and 2022, and reach $40 Billion by 2022 (with the automated traffic enforcement products and services segment to contribute a CAGR of 9.3% between 2016 and 2021) (Source: Market and Markets, Intelligent Transportation System Global Forecast 2022; Market and Markets, Road Safety Market Global Forecast to 2021).

The Group has two main subsidiaries: Redflex Traffic Systems Pty Ltd is based in Australia and focuses on the Australian and International markets and Redflex Traffic Systems Inc. is based in the United States of America ("U.S") which focuses on the United States of America, Canada, Mexico, Latin America and the Caribbean.

The Australian and International business offers a full suite of automated enforcement products and services via direct, distribution and BOOM contracts. In the U.S, the Company predominantly operates a Build-Own-Operate-Maintain ("BOOM") business model, where it provides enforcement and processing services to largely municipal customers on a fully outsourced multi-year contracted basis.

REDFLEX GROUP STRATEGY

Redflex continues to expand its global footprint. Our strategy is to focus on those markets that have attractive growth profiles, existing market demand and needs, acceptable risk and a high level of market fragmentation. This strategy benefits from our ongoing efforts to improve our level of service and delivery for our core customer base where we continue to pursue opportunities to develop and introduce new technology to deliver their required outcomes.

To execute on this strategy the Group will:

- Protect our significant installed base by improving customer service and system performance and by providing our customers with access to innovative new products and services;
- Leverage our leading photo enforcement capability to expand more aggressively into New Zealand, Asia, Canada, Latin America, Mexico, Europe, Middle East and the United Kingdom ("UK");
- Utilise our technology to diversify into the wider ITS market segments including traffic management and the broader use of ANPR in addition to increasing our presence in the corporate market;
- Further reduce our cost base through product simplification, adjusted procurement practices and focused cost management;
- Leverage and increase our competitive advantage through targeted research and development;
- Focus on capital management and cash generation in order to act on potential acquisition opportunities as they arise;
- Continue to de-risk the business through increasing annuity income streams and diversifying geographically; and
- Inform the legislative and community debate about the benefits of photo enforcement.

REDFLEX GROUP – REVIEW OF OPERATIONS

Revenue from the Group's operations for the financial year ended 30 June 2017 ("FY17") was $120.8 million, a decrease of 11.7% on last year's revenue of $136.8 million ("FY16"). The decrease in revenue was due to a reduced number of deployed systems in North America resulting from contracts not being renewed, contract expiry and the completion of some large international contracts during the year.

International

Revenue in the International business decreased by 9.6% to $51.3 million (FY16: $56.8 million). The decrease was a result of the completion of the installation phase of the Highways England contract (soon to transition to purely a maintenance contract after the completion of the remaining five sites) and the conclusion of the Saudi Arabian traffic violation processing centre contract. Australian revenue remained constant (compared to FY16).

Redflex continues to expand into Europe, the Middle East and Asia. There are significant opportunities in each of these markets. In the Australian market, we continued to work with our customers to renew and expand some existing contracts as well as to provide additional services and introduce new products.

Americas

The U.S. photo enforcement market continues to be challenging and subsequently revenue from our Americas business reduced by 13.1% to $69.5 million (FY16: $80.0 million). Continuing negative public sentiment impacts the United States market and has either resulted in state legislation prohibiting the introduction of photo enforcement systems or individual municipalities and cities deciding not to renew their contracts. These factors have led to contract terminations, lower contract renewal rates and the delay and reduction of new programs across the U.S. For Redflex Student Guardian, our school bus stop arm enforcement solution, we continue to pursue targeted new opportunities in school districts within the U.S.. However, the growth of this solution also continues to be challenging given market conditions. Deployment of handheld speed detection systems continue to increase and represent a substantial growth opportunity.

Our business continues to expand into Canada and Mexico and opportunities are being progressed in Latin America and the Caribbean.

Overall Financial Performance

The Group's financial performance was impacted by a number of factors during FY17. Profit before interest, tax, depreciation, impairment, amortisation of capitalised development costs and the legal settlement with the City of Chicago amounted to $10.7 million, a decrease of 58.4% on FY16: $25.6 million. This was the result of lower sales across the Americas and International, reduced gross margins and higher selling and administrative costs across the International business.

As announced earlier in FY17 Redflex settled the long running City of Chicago ("CoC") legal action. A major component of the agreed settlement was a US$20 million payment to the CoC by way of various instalments ending on 31 December 2023. As a consequence, the full settlement amount has been expensed during FY17 with the remaining payments classified as liabilities on the balance sheet.

Additionally, the total amount outstanding from a long standing receivable in Saudi Arabia has now been provisioned due to the protracted nature of the recovery.

Redflex incurred a net loss before tax of $37.6 million in FY17, compared to the previous year loss before tax of $3.6 million. Net loss after tax was $31.5 million, compared to the previous year loss after tax of $4.7 million.

Cash flow from operations during FY17 decreased by 52.7% to $12.9 million, compared to $27.2 million in FY16. The decrease was driven by the reduced financial performance, the first CoC settlement instalment and capital expenditure relating to the finalisation of the development of a number of new products and services (Halo™ and Alcyon™) and head office and production facility improvements to reduce rent and improve productivity and efficiency.

During FY17, in addition to expanding into new International and Americas markets, we introduced a number of new products and services (Halo and Alcyon) and improved our level of customer service and delivery which we expect will continue to improve the underlying performance of the Company.

Balance Sheet

The major balance sheet movements from FY16 relate predominantly to the liability relating to the CoC release and settlement agreement (current trade and other payables and non-current trade and other payables), a reduction in trade and other receivables due to increased provisioning, a reduction in sales and improved collections.

The Group's cash balance during the twelve-month period decreased by $4.2 million as a result of lower earnings, the first instalment of the CoC settlement and the finalization of major development projects. This was partially offset by ongoing improvements in working capital management.

Working capital balances reduced throughout FY17 resulting from lower accounts receivable balances through improved collections and an increase in outstanding supplier payments.

The Group's non-current assets have remained relatively constant throughout the period. The reduction in plant and equipment values reflects the loss of contracts in the U.S. during the period and the subsequent write-off of the relevant equipment.

Year on year comparison

A comparison of the Group's performance for FY17 and FY16 is as follows.

	2017 $'000	2016 $'000
Profit before depreciation, amortisation, impairment, finance costs and tax	10,671	25,637
Less:		
Impairment of goodwill	–	3,098
Impairment of trade receivables	3,672	–
Legal settlement with the City of Chicago	25,509	–
Depreciation	14,961	18,650
Amortisation	4,016	6,802
Finance costs	84	685
Net loss before tax	**(37,571)**	**(3,598)**

FINANCIAL RESOURCES

In February 2017, the Company secured a A$10 million bilateral working capital facility with the Commonwealth Bank of Australia ("CBA"). The CBA facility was secured to ensure the Company had the required financial resources in order to service any potential working capital requirements from upcoming new contracts. Absent renewal, the current facility expires on 21 March 2018. The existing facility has a requirement to be paid down to $Nil for five consecutive business days in each calendar quarter. As at 30 June 2017 the facility balance was $Nil.

The Company is currently assessing options to secure a longer-term debt facility to both secure potential uplift in working capital requirements and future investment in potential growth opportunities, both organically and inorganically.

The Company has a cash balance of A$8.2 million which includes restricted cash of A$5.1 million. Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a A$2 million (reduced from A$8 million during FY16) working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers.

The cash flows from operations are expected to be sufficient to fund the Group's capital requirements during the financial year ending 30 June 2018 ("FY18").

DIVIDENDS

Dividends have not been declared in either FY17 or FY16.

AMERICAS OPERATIONS

Results for the Americas Operations

Despite strong evidence that photo enforcement saves lives and improves road safety, the Americas market continues to remain challenging with banning and restricted legislation in the U.S, resulting in programs being abandoned or deferred, and limited investment in new programs. These issues impact the wider photo enforcement market, not solely Redflex.

To counteract the negative growth in the traditional photo enforcement market the focus has been on improving the efficiency of our current operations and increasing the service delivery to our current client base thereby maintaining a high level of renewal rates. Additionally, we continue to grow our non-traditional revenue base through increasing the number of hand held units sold (increasing our processing revenue), continued expansion into Mexico, increasing our service offering in Canada, applying our back-office processing capabilities to non-photo enforcement violations and pursue potential opportunities in Latin America.

An ongoing reduction in the number of photo enforcement contracts led to the America's revenues decreasing by 13.1%. This was partially offset by an improvement in margins and a reduction in operating costs.

Mexico

Through our operating partnership with a local distributor, our presence in Mexico continued to grow during FY17. Existing contracts include the sale of equipment and the provision of ongoing service and maintenance and processing. Further expansion in this market continues to be evaluated and will proceed on the basis that market risk is appropriately managed.

Canada

Following FY16 equipment sales and aligned service agreements with the City of Calgary, Alberta and ICBC, Vancouver, Redflex maintains a reasonable presence in Canada. This remains a strong growth market and Redflex is in the process of evaluating data centre requirements which could potentially lead to participation into further new contracts (including additional equipment sales).

Mobile Solutions

Through a partnership arrangement (product supply), Redflex increased the supply of mobile speed enforcement solutions to the North American market during FY17. This unique solution enables mobile enforcement via equipment seamlessly linked to Redflex's processing and back office adjudication systems. This solution provides efficiency and safety enhancements to the current mobile enforcement process. During FY17 an additional 19 hand held units were deployed.

Registration Hold Business

Redflex has a sophisticated and wide-reaching back office processing system. This system has the capability to process motor vehicle registration holds on photo enforcement fines not paid. Through a partnership with an external operator Redflex will have the ability to provide this service on other non-photo enforcement related municipal fines and this capability is expected to be an extensive service across a number of municipalities.

Redflex Student Guardian™

In the U.S. it is typically an offence for drivers to pass (on either side of the road) a school bus which is stationary and with safety lights flashing, as children get on and off the bus. Redflex Student Guardian™ is a photo enforcement system designed specifically for this prohibition and uses video tracking to capture offences by drivers.

Redflex Student Guardian operates in a number of school districts. We continue to pursue Redflex Student Guardian opportunities with other targeted school districts throughout the U.S. Growth in this sector has been more difficult than anticipated due to the need to get alignment between school councils, police departments, municipality authorities and the general public.

The changes made in FY17 to align Redflex Student Guardian's operations with the wider U.S. business have led to improved operational efficiencies for this solution.

INTERNATIONAL OPERATIONS

Due to the completion of two major contracts, one in Saudi Arabia (i.e. the traffic violation processing operations were transitioned to an internal Saudi Arabian regulatory authority's intermediary) and one in the United Kingdom (i.e. for the variable speed enforcement camera systems contract on England's M1 and M6 motorways, we are transitioning from an implementation contract to a maintenance contract) in addition to an increased investment in improved customer service outcomes, International's financial performance declined in FY17. However during this period we have seen an increase in our geographic footprint and a significant increase in the future sales pipeline both domestically and internationally.

Australia

The focus during FY17 has been to improve the level of customer service and delivery under our current contracts. Support levels and performance has improved markedly with customer satisfaction levels increasing as a result. During the year Redflex extended its current NSW RMS mobile program for a further twelve months and in early July 2017 renewed its fixed system maintenance program for a further three years. Activity supplying services, systems and programs across all state authorities has increased during FY17 and the forward sales pipeline continues to expand.

Additionally, we continue to supply a significant number of ANPR systems to Skidata as part of their program to transform Westfield's Shopping Centre car parks to a ticketless solution. Our ANPR technology is also being considered for other commercial opportunities.

United Kingdom and Europe

Redflex has almost completed the installation of the variable speed enforcement camera systems on England's M1 and M6 motorways as part of its current contract with Highways England (with five remining sites left to complete). This contract is in the process of being shifted to a maintenance service for the period to 30 April 2024. A number of smaller Highways England projects are currently underway and will be completed during FY18.

Redflex is a member of the GoSafe (Road Safety Operations Ireland Limited) consortium (16% share) that currently operates Ireland's mobile speed camera program. During the year Garda Siochána awarded GoSafe the contract for a further six years (commencing November 2016) with an option to extend for one year. Redflex has supplied new hardware, software and is providing the ongoing maintenance for the photo enforcement cameras for this project.

During FY17 Redflex supplied SecuRoad in Belgium 55 mobile systems. This contract is the start of our growth program into wider Europe and is a result of the focus over the past two years from investing in our presence in the region and ensuring appropriate approvals and testing requirements are completed.

New Zealand

Redflex continues to implement a fixed speed enforcement solution for the New Zealand Police and this is expected to be completed by the end of 2017. Additionally, we have completed the installation of 18 photo enforcement systems in the Waterview tunnel in Auckland. We have now commenced an ongoing maintenance program for these systems which will continue for the next six years. There are opportunities to expand enforcement programs further and Redflex remains well placed to provide the required solutions.

Middle East

Redflex operates and pursues opportunities in the Middle East. This market has numerous opportunities and Redflex's solutions have demonstrated favorable operational performance under harsh regional conditions.

In Saudi Arabia, Redflex has ceased providing speed ticket processing services as our contract with the internal ministry has completed and services have successfully been transferred. Redflex continues to provide speed enforcement cameras and associated equipment to the Saudi Arabian Government, through their designated intermediary.

Redflex operates a commercial and maintenance presence in the Middle East to service our customers in Saudi Arabia, Qatar and Abu Dhabi.

Asia

Our approach to the Asian market has been to continue to develop relationships with strong local distributors, resellers and partners. Redflex currently has distributors and resellers with ongoing contracts in Hong Kong, Vietnam, Singapore and Malaysia. Large project opportunities continue to develop in South-East Asia and we remain well placed with our products and suite of services to expand in this region. These markets have large populations, traffic congestion and limited use of photo enforcement technologies, and therefore potentially represent a significant opportunity for the Group.

Through FY17 we have expanded the number of systems in operation (and their required maintenance) in the Malaysian market.

OUTLOOK FOR THE 2018 FINANCIAL YEAR

During 2017 a significant amount of activity was undertaken to improve the underlying operating platform to both increase current levels of efficiency and allow the opportunity for organic growth into new markets. As a result of this the 2017 cost base increased, particularly due to additional temporary personnel and European based costs.

Following the completion of many projects relating to the above these increased costs have now reduced with clear actions delivered, most prior to June 2017. Consequently, the Company's FY18 cost base has been reset to a lower base and in line with committed revenues.

In FY18 we will continue to focus on the following strategically critical areas:

Growth in Developed Markets

The U.S. and Australia remain Redflex's two major markets. During FY17 a significant amount of focus was placed on ensuring our current customer base in these markets was being serviced at a high level. To do this the Company incurred additional temporary costs in the International business that negatively impacted the FY17 financial results. However, the result of this will have positive impacts in FY18. The cost base has since been reduced as planned and customer service levels and performance have increased substantially. Consequently, we have seen improved contract renewals and extensions in addition to program expansions and enquiry into new product offerings.

In the U.S. system performance has remained a focus and as a result renewal rates have remained strong and some programs have started to expand.

While traditional photo enforcement in the U.S. remains challenging we continue to look at growth opportunities through the deployment of handheld speed detection units (that automatically feed back to our traffic violation processing centre) and utilizing our back-office capabilities to partner with outsourcing providers to collect outstanding municipal debt through the use of motor vehicle registration holds (where legally permitted).

The Company continues to focus on its core geographic markets and a small, carefully targeted set of countries in both developed and emerging markets.

The global photo enforcement market in developed markets consists of 70,000 photo enforcement systems, approximately 40% of which are in the UK and Europe. Many of these systems operate with outdated technology and will be progressively replaced. Our office in the UK now has a strong team to service the UK and European markets. In FY18 and beyond, we will continue to focus on getting our product range approved and are competing in the numerous upcoming tenders in these markets. Our newly released products are well placed to meet the specific needs of some of the European Governments.

We also continue to pursue adjacent opportunities in parking and infringement processing in these markets, and options are being considered through partnerships, acquisition and/or product development.

Entering Emerging Markets

The Middle East, Asia and Mexico are all emerging markets for photo enforcement. We have established operations and signed distribution agreements in each of these markets, and have started winning contracts.

Growth opportunities in these markets are significant, however, access will most likely be through distributors. Redflex has a thorough review and authorisation process to ensure any partnerships entered into are with reputable third parties.

Most markets in this category have opportunities for significant and immediate growth in order for their photo enforcement and traffic management systems to reach performance levels currently operating in developed markets.

Continuing Product Expansion

The focus during FY17 was to finalise the development of our two new products, Halo and Alcyon, to ensure they are ready for commercial production and available to the market during the year. We are confident that these two products will ensure we stay at the forefront of the photo enforcement industry and give us the opportunity to move into the wider ITS market.

Halo is a multi-functional solution within one system, giving the options of speed and red light enforcement, ANPR capability and traffic management. In addition to this, the infrastructure costs of civil works have been dramatically reduced due to the non-intrusive nature of the system (i.e. Halo is a one pole solution and relies on radar rather than road installed loops and so avoids costly civil works and reduces road closures for installation).

The development and release of Halo enables Redflex to compete in attractive markets in a very price-competitive manner, with a system at the forefront of photo enforcement and traffic management technology. Technology from Halo will become a building block for product diversification into the ITS market.

Sales of Halo units have commenced within the U.S. with some units now in operation. Significant interest has been shown domestically and in the Middle East, where systems are being tested on site and included in tender submissions (awaiting responses).

In addition, Redflex has developed Alcyon, a simplified back-office traffic violation processing service offering. This will enable us to meet back-office traffic violation processing requirements for our customers in a simple, economical and standardised way. Having an attractive service offering of this type will enable Redflex to increase its level of recurring income.

Reducing Cost, Complexity and Risk

Overall, as mentioned above, steps have been put in place, and in most cases initiatives completed, to reduce cost.

The completion of Halo and Alcyon is in line with our strategy of reducing complexity. Halo is a solution that can be used for multiple requirements in multiple locations and encompasses the core technology that will platform any aligned solutions. The completed back-office traffic violation processing program, Alcyon, also allows for a standardized offering both internally and to our global customer base.

Redflex's has automated its Risk, Compliance and Incident Reporting System (known internally as 'RiCIR') operates globally. Using RiCIR ensures a standardized high level of risk and compliance monitoring, management and reporting across the Redflex Group.

High Performance Work Culture

Redflex has continued to develop and invest in a high performance work culture that maintains consistency between the priorities of financial performance achievement for the Company, achievement of measurable customer and business outcomes, a transparent performance management framework and executive and employee remuneration and incentives.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2017.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

ADAM GRAY

BSE (Fin), BS (Mech Eng'g)

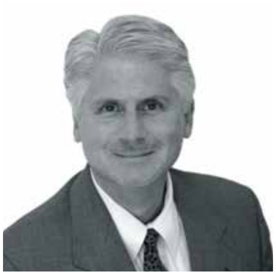
Non-executive chairman Appointed 19 December 2013

Mr Gray, co-founder and Managing Partner of Coliseum Capital Management, LLC, has nearly 30 years of private equity and operating experience. In addition, he has significant expertise leading operational and financial restructurings and has guided organizations through highly complex and distressed situations.

Mr Gray serves as a director on the boards of New Flyer Industries, Inc., Blue Bird Corporation and The Pas Group Limited and a number of private companies. He served as a Director of DEI Holdings, Inc. until the sale of the company in 2011 and of Benihana, Inc. until the sale of the company in August 2013.

Prior to launching Coliseum in 2006, Mr Gray served in executive roles at Burger King Corporation and Metromedia Company. He started his career within the Merchant Banking Group of Morgan Stanley & Co. He has a BSE Finance from the Wharton School and a BS Mechanical Engineering from the University of Pennsylvania.

Mr Gray serves on the Redflex Holdings Audit Committee, the People, Culture & Remuneration Committee and the Nominations Committee.



ROBERT DEVINCENZI

BSBA, MA-Org'l

Non-executive director Appointed 30 September 2012

Mr DeVincenzi served as Chief Executive Officer of the Redflex Group until 16 January 2014 when he transitioned to a non-executive role.

Mr. DeVincenzi is a principal partner in Lupine Ventures, a business advisory service firm that provides strategic consulting and corporate development advisory services. Mr. DeVincenzi serves as a non-executive director of Universal Technical Institute (NYSE:UTI) and is an Adjunct Professor of Entrepreneurship and Business Ethics in the College of Business at California State University, Monterey Bay.

Previously, from 2008 until its merger with HID Global/ASSA ABLOY in 2011, Mr DeVincenzi was President and CEO of LaserCard Corporation, a biometric identification solution provider to global government and commercial clients.

Mr DeVincenzi served as Senior Vice President of Corporate Development of Solectron, Inc. from 2005 to 2007. Prior to that Mr DeVincenzi was President and CEO of Inkra Networks, Inc. from 2004 to 2005 and CEO of Ignis Optics, Inc. from 2003 to 2004.

Mr DeVincenzi received a Master of Arts in Organisational Leadership from Gonzaga University and a Bachelor of Science in Business Administration from California State University, San Luis Obispo.

Mr DeVincenzi is the current chair of the Risk & Compliance Committee and serves as a member of the Nominations Committee.

During the last three years Mr DeVincenzi has not been a director of any other Australian listed public company.

DIRECTORS' REPORT

HERMAN SCHWARZ

MBA, B.Comm

Non-executive director Appointed 1 May 2014

Mr Schwarz served as the CEO of LogistiCare Solutions from 2009 to 2017. LogistiCare, the largest division of a publicly traded corporation, is the leading non-emergency transportation management company in the Medicaid and Medicare space with over US$1.2 billion in revenues. Mr Schwarz was hired in 2007 as the COO of LogistiCare, which manages 65 million trips annually operating in 39 states in the USA.

Prior to LogistiCare, Mr Schwarz was President, CEO and Director of Aegis Communications (the seventh largest publicly-traded provider of outsourced call centre services in the U.S.), and held multiple senior executive positions at National Service Industries (a US$2.5 billion publicly-traded USA conglomerate). Mr Schwarz started his career with Arthur Andersen, where he earned his CPA.

Mr Schwarz has extensive experience in building and working with operating teams to develop and execute against a strategic vision while driving accountability for strong financial results. In addition, he brings to the Redflex board a wealth of knowledge about the U.S. public-to-private contracting and transportation industries, the challenges of optimising growth and new market entry, and the management of transaction and claims processing, technology and IP-based businesses.

Mr Schwarz holds a Bachelor of Science (Commerce) from the University of Virginia, and an MBA (Finance) from the Wharton School of Business at the University of Pennsylvania.

Mr Schwarz is the current chair of the Nominations Committee. Mr Schwarz also serves as a member of the People, Culture & Remuneration Committee and the Risk & Compliance Committee.

During the last three years Mr Schwarz has not been a director of any other Australian listed public company.

TERENCE WINTERS

FAICD

Non-executive director Appointed 7 August 2013

Mr Winters has served as Chairman and Non-Executive Director of Australian listed and private companies and charities. He is currently Chairman of Future Fibre Technologies Limited (ASX:FFT), Converge International Pty Limited, Intelledox Pty Ltd and TasmaNet Pty Ltd and is a Non-Executive Director of Australian Home Care Services Pty Ltd and Many Rivers Microfinance Limited.

He brings valued experience in the governance and operations of international technology companies and has a positive track record of influencing strategic and cultural change programs at board level.

After working for Motorola for 10 years, he founded Link Telecommunications Pty Ltd in Australia and was Chief Executive Officer and/or Chairman of Link at different times until he sold his interest in the company. He led the creation of Optus Communications Pty Ltd from 1989 to 1992 and served on the Optus board until 1995.

In addition, Mr Winters has spent many years on several charity boards including a term as global Chairman of Opportunity International Network Inc (OIN) for a four-year term which was completed in May 2010. OIN is a non-government organisation involved in the provision of Micro Enterprise Development and regulated Micro Finance Banking Services in over 30 developing countries.

Mr Winters serves as Chair of the People, Culture & Remuneration Committee and is a member of the Risk & Compliance Committee and the Nominations Committee.

DIRECTORS' REPORT

CLARK DAVEY

B.Comm, MAICD, CTA

Non-executive director Appointed 6 January 2015

Mr Davey brings extensive expertise in financial and tax issues, as well as a strong orientation toward risk and strategy.

Mr Davey is a Chartered Tax Advisor. From 1985 to 2006, Mr Davey was at PricewaterhouseCoopers (PwC), the last 12 years of which were as a Partner with a focus on Corporate Tax. Since 2006, Mr Davey has held a variety of tax advisor and non-executive director roles for Australian based entities, including Karoon Gas Australia Limited, an ASX 200 listed company.

Since 13 March 2015, Mr Davey has been the chair of the Audit Committee. Mr Davey also serves as a member of the People, Culture & Remuneration Committee and the Nominations Committee.

DAVID MCINTYRE

LL.B., MBA and B. Econs (Acc)

Non-executive director Appointed 13 March 2015

Mr McIntyre is a current Partner of Apple Tree Partners (a venture capital firm that invests in health care opportunities) and was previously Executive Vice President, Chief Financial Officer and Chief Operating Officer of HeartWare International, Inc. (NASDAQ:HTWR) from 2005 to 2011.

Prior to HeartWare, Mr McIntyre worked as a senior lawyer in private practice with Baker & McKenzie and KPMG specialising in the corporate advisory, mergers and acquisitions and equity capital markets areas. He has also held senior financial roles in Coal & Allied Limited (subsidiary of Rio Tinto Group) and other multi-national companies.

Mr McIntyre holds a Bachelor of Economics (Accounting) from the University of Sydney, Australia, a Bachelor of Laws from the University of Technology, Sydney and an MBA from Duke Fuqua School of Business (Fuqua Scholar) from Durham, North Carolina, in the United States of America. Mr McIntyre is a CPA and is also admitted as a solicitor of the Supreme Court of New South Wales and of the High Court of Australia.

Mr McIntyre serves as a member of the Audit Committee and the Nominations Committee. During the last three years Mr McIntyre has not been a director of any other Australian listed public company.

DIRECTORS' REPORT

PAUL CLARK

B.Bus (Acc), MBA (Exec), FCA, GAICD

Group Chief Executive Officer (Resigned 2 August 2017)

Mr Clark joined the Board as a Non-executive director on 5 April 2014. On 25 September 2014 Mr Clark was appointed as Group Chief Executive Officer of the Company.

Mr Clark has extensive experience at both a board and executive level in financial restructuring, process improvement, risk management, cost reduction, sales and business development and new product development. He has led large teams through significant cultural, structural and strategic change.

Mr Clark has served on a number of subsidiary company boards and executive committees of ASX, FTSE and NYSE listed companies and is a former Chairman of Melbourne Water, and an advisory board member of Salta Properties, one of Australia's largest privately owned property companies. He previously held senior executive positions at PricewaterhouseCoopers (PwC), Ernst & Young, National Australia Bank, Bank West and Bank of New Zealand.

Mr Clark has a Bachelor of Business (Accounting) from the Royal Melbourne Institute of Technology, an Executive MBA from the Australian Graduate School of Management (University of Sydney) and is a Graduate of the INSEAD AVIRA program. He is a fellow of the Institute of Chartered Accountants in Australia and a senior fellow of the Financial Services Institute of Australia. Mr Clark is also a Graduate of the Australia Institute of Company Directors.

During the last three years Mr Clark has not been a director of any other Australian listed public company.

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

CRAIG DURHAM

LL.B. (Hons), Grad Dip Leg Prac, LL.M. (Melb), Grad Dip App Corp Gov, MAICD, FGIA, FCIS

Mr Durham was appointed as Group General Counsel & Company Secretary of Redflex Holdings Limited on 9 February 2015.

Mr Durham was admitted as a solicitor of the Supreme Court of Queensland on 18 November 1991 and later as a barrister and solicitor of the Supreme Court of Victoria on 10 November 1999. Mr Durham has worked at national law firms Corrs Chambers Westgarth and King & Wood Mallesons (formerly Mallesons Stephen Jaques). Mr Durham has also held senior legal and compliance roles at Foster's Group Limited in Melbourne and Treasury Wine Estates in California in the U.S. Prior to joining Redflex, Mr Durham was General Counsel & Company Secretary at a Melbourne based company in the gaming technology industry.

Mr Durham is a Member of the Australian Institute of Company Directors, a Fellow of the Governance Institute of Australia and is a member of the Institute of Chartered Secretaries and Administrators.

Directors' interests in the share capital of the Company

As at the date of this report, the interests of the directors in the share capital of Redflex Holdings Limited were:

	Number of Relevant Interests over Ordinary Shares
Adam Gray	24,929,829
Clark Davey	300,358
Robert DeVincenzi	–
Herman Schwarz	–
Terence Winters	–
David McIntyre	–

DIRECTORS' REPORT

Directors' and Board Committee meetings

Directors' and Board Committee meetings held and attended during the year ended 30 June 2017 were:

	Board		Audit Committee		People, Culture & Remuneration Committee		Risk & Compliance Committee		Nominations Committee	
No. of meetings	Available	Attended	Available	Attended	Available	Attended	Available	Attended	Available	Attended
Adam Gray	19	19	5	5	5	5	–	–	1	1
Paul Clark	19	19	–	–	–	–	–	–	–	–
Robert DeVincenzi	19	18	–	–	–	–	5	5	1	1
Clark Davey	19	17	5	4	5	5	–	–	1	1
David McIntyre	19	14	5	5	–	–	–	–	1	1
Herman Schwarz	19	17	–	–	5	5	5	5	1	1
Terence Winters	19	19	–	–	5	5	5	5	1	1

Board Committee membership

At the date of this report Redflex Holdings Limited has four Board committees – Audit Committee, People, Culture & Remuneration ("PCR") Committee, Risk & Compliance Committee and Nominations Committee.

Members acting on the committees of the Board during the year were:

	Audit	PCR	Risk & Compliance	Nominations
Adam Gray	Member	Member	–	Member
Paul Clark	–	–	–	–
Clark Davey	Chair	Member	–	Member
Robert DeVincenzi	–	–	Chair	Member
David McIntyre	Member	–	–	Member
Herman Schwarz	–	Member	Member	Chair
Terence Winters	–	Chair	Member	Member

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Performance indicators

Management and the Board monitor the Group's overall performance, from implementation of the Company's vision and strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management have identified key performance indicators ("KPIs") which are regularly monitored by key management personnel including directors.

REVENUE	First half $'000	Second half $'000	2017 $'000	2016 $'000	% change
The America's Traffic business*	34,915	34,553	69,468	79,980	(13.1%)
Australian/International Traffic business	27,032	24,310	51,342	56,795	(9.6%)
Revenue	61,947	58,863	120,810	136,775	(11.7%)

* Includes sales of $2.1 million in Canada (FY16: $5.3 million)

PROFIT BEFORE DEPRECIATION, AMORTISATION, IMPAIRMENT, FINANCE COSTS AND TAX ("PBITDA")	First half $'000	Second half $'000	2017 $'000	2016 $'000	% change
Traffic business	7,973	4,045	12,018	30,904	(61.1%)
Head Office costs	(985)	(362)	(1,347)	(5,267)	74.4%
PBITDA	6,988	3,683	10,671	25,637	(58.3%)

LOSS BEFORE TAX	First half $'000	Second half $'000	2017 $'000	2016 $'000	% Change
Traffic business	(30,967)	(5,239)	(36,206)	1,684	(>100%)
Head Office costs	(994)	(371)	(1,365)	(5,282)	74.2%
Pre-tax loss	(31,961)	(5,610)	(37,571)	(3,598)	(>100%)

	First half $'000	Second half $'000	2017 $'000	2016 $'000	% Change
Net loss after tax	(26,262)	(5,230)	(31,492)	(4,687)	>100%

Shareholder returns

	2017	2016	2015	2014	2013	2012	2011
Basic earnings/(loss) per share (cents)	(28.41)	(4.23)	(28.84)	(1.07)	6.61	13.69	9.33
Net tangible asset backing per share (cents)	42.94	75.58	71.70	78.22	87.90	78.32	78.36
Return on assets (%)	(24.5)	(3.4)	(19.3)	(0.7)	3.7	8.3	5.9
Return on equity (%)	(44.4)	(4.5)	(30.0)	(1)	5.8	13.2	9.9
Interest bearing debt/equity ratio (%)*	N/A	N/A	18.3	13.5	20.8	21.2	35.9
Available franking credits ($'000)**	0	480	480	462	26	2,356	4,757

*No Interest bearing debt at 30 June 2016 or 30 June 2017

** Reduction in the available franking credits is due to net tax refunds received in the current year relating to the 2012 and 2013 tax years

DIRECTORS' REPORT

Liquidity and capital resources

The net cash position of the Group at 30 June 2017 was $8.2 million (including restricted cash of $5.1 million) (FY16: $12.4 million including restricted cash of $5.2 million). Restricted cash is revenue collected on behalf of customers.

Cash flows used in investing activities of $16.9 million (FY16: $11.9 million). Funds were directed to development of a global back office processing platform; additional equipment required to service the U.S. "BOOM" customer base and other international customer contracts; continued investment in product development and leasehold improvements in Australia.

Cash flows used in financing activities were $nil (FY16: $20.2 million). During the prior year the U.S. denominated debt was repaid in full. No dividend payments were made in the period.

Asset and capital structure

	2017 $'000	2016 $'000
Debt		
Cash at bank, on hand, and restricted cash	8,199	12,442
Net cash / (debt)	8,199	12,442
Total equity	70,963	103,962
Total capital employed	79,162	116,404

Shares issued during the year

During FY17, 147,455 (FY16: nil) shares were issued pursuant to the vesting of performance rights pertaining to executive remuneration.

Performance rights over shares

Obligations for future share-based payments arise in relation to performance rights awarded during the year as remuneration entitlements for executives. Details are shown within the Remuneration Report.

At the date of this report there are 7,647,795 performance rights on issue. At 30 June 2017 there were 6,050,272 performance rights on issue (FY16: 3,825,055).

Options over shares

On 21 August 2017, the Company granted to Mr Talbot 2,218,195 options to subscribe for 2,218,195 ordinary shares in the Company in aggregate. (FY16: Nil).

Capital expenditure

Capital expenditure for the year was $12.9 million (FY16: $8.8 million). Funds were directed to development of a global back office processing platform; additional equipment required to service the U.S. BOOM customer base and other international customer contracts; and leasehold improvements in Australia.

Treasury policy

Redflex coordinates the Group's treasury function and is responsible for managing currency risks and finance facilities. It operates within policies set by the Board which has the responsibility for ensuring management's actions are in line with Group policy.

Transaction hedging is undertaken by using foreign exchange contracts and hedges where significant exposures have been identified. Translation effects are not hedged. In line with Group policy, interest rate exposures are not hedged.

DIRECTORS' REPORT

Risk management

Effective risk management and observance of compliance obligations is viewed as an essential part of the Company's governance approach to ethical decision-making and creating long-term shareholder value.

In recognition of this, the Board is responsible for overseeing and approving the Risk & Compliance Policy and Framework (which is available on the Redflex website and which is reviewed annually) and the Company's risk appetite. This framework and risk appetite sets the tone for risk and compliance management in the Company. It also sets out how risk and compliance management supports the Company's goals and objectives, the Company's principles and objectives of, and its approach to, risk and compliance management and the relevant responsibilities for risk and compliance within the Company.

The Board Risk & Compliance Committee has primary responsibility to oversee and make recommendations to the Board about the Company's Risk & Compliance Policy and Framework, the Company's risk appetite, the effectiveness of the Company's risk and compliance program to minimise losses and to maximise opportunities, the implementation of risk and compliance control and action plans prepared by management and to review these controls and plans and the Company's global and local insurance programs.

The Board, and through the Risk & Compliance Committee, oversees an annual assessment of the effectiveness of risk and compliance management and internal controls within the Company. While the Company does not currently have a separate internal audit function, the tasks of undertaking and assessing risk management, compliance and internal control effectiveness is delegated to the Risk & Compliance Committee and for it to report to the Board. The key areas of focus for the Risk & Compliance Committee include, in addition to those mentioned above, monitoring and reviewing the compliance program, internal policies, procedures and controls, risk management, risk appetite and insurance, the legal obligations of the Company, compliance investigations by management, reports and complaints and seeking assurances from management.

The Board has a number of mechanisms in place to ensure that the Company's objectives and activities are aligned with the risks identified by the Board including:

- Board approval of a strategic plan which encompasses the Group's vision, mission and strategy which is designed to meet the needs of stakeholders and to appropriate manage business risk; and
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of key performance indicators of both a financial and non-financial nature.

Management, through the Group Chief Executive Officer, is responsible for the day-to-day implementation and achievement of the Company's risk and compliance program and objectives. Management reports to the Risk & Compliance Committee on a regular basis which, in turn, reports to the Board on the Company's key risks and compliance obligations and the extent to which it believes these risks and compliance obligations are being adequately managed.

Risks Related To Our Business

The following risks have been identified as those most likely to have a significant effect on the Company's performance in future periods.

1. **Banning or restrictive legislation may be enacted in some geographies materially jeopardising our revenue, profitability and solvency.**

   Company strategy to mitigate – The Company maintains an active communications and legislative affairs program to minimise the risks associated with banning or restrictive legislation. The program is focused on developing local traffic safety advocacy groups, developing political support at a local, state or provincial level and communicating the safety and efficacy of automated traffic enforcement systems to the public.

2. **Potential legal action (including putative and certified class actions) challenging the validity of our enforcement programs, causing Redflex significant costs to defend or the loss of revenue.**

   Company strategy to mitigate – In conjunction with our client agencies, the Company maintains an active outreach and communications program to communicate photo enforcement benefits and validity to the

DIRECTORS' REPORT

public. The Board and the Company's legal advisers closely monitor these actions. Further, the Company maintains an internal and external set of legal resources that represent and defend the Company's interests from adverse legal actions.

3. **The potential contagion effect of our internal investigative disclosures may impact our ability to continue to retain existing customers and win new contracts, and this may materially negatively affect operations, profitability and solvency.**

   Company strategy to mitigate – The Company continues to implement its previously disclosed comprehensive remediation program to further strengthen our internal compliance and reporting systems to assure the confidence of our customers and other stakeholders.

4. **If we are unable to safeguard the integrity, security and privacy of our data and systems our business could be disrupted and our reputation impaired.**

   Company strategy to mitigate – The Company utilises sophisticated methods, standards, technologies and tools to address our data integrity and systems security needs. Where appropriate or where it is permitted to do so, the Company offers its assistance to its customers relating to the safeguarding of customer data and systems security. In some instances, where customer networks are closed, Redflex will offer advice where it is qualified to do so, but Redflex is not legally responsible for those networks.

5. **The uneven nature of our contracts outside of the North American business make it difficult to predict our future performance.**

   Company strategy to mitigate – As a result of an effective sales and marketing strategy, the Company continues to work to improve its market coverage and the number of traffic enforcement systems installed. In addition to achieving geographic market diversification, the Company has also implemented a number of strategies to increase total revenue from its products and services (including the introduction of hand-held speed detection and enforcement devices). However, the uneven nature of our international contracts is not due to the Company's actions, but rather due to the characteristics of the market in which the Company operates.

6. **Other parties may claim that our products or services infringe the proprietary rights of others.**

   Company strategy to mitigate – The Company vigorously defends against any unjustified and unsubstantiated patent infringement claims if they are made. The research and development focus of the Company is to engage in the innovative development of unique and competitive technologies based on Company innovation. If appropriate, the Company may seek and maintain patent protection on strategically valuable intellectual property.

7. **Compliance with contractual obligations (including debt covenants).**

   Company strategy to mitigate – The Company's legal advisors review all contracts entered into by a Group entity and highlight any material risks and compliance matters to be managed within the business. The Company's finance personnel also regularly test the Company's compliance with debt covenants and seeks financier input, where appropriate.

8. **Competition and Technology.**

   Company strategy to mitigate – The Company seeks to effectively lead the market by relying on its unique and competitive technologies based on Company innovation. The Company has an active program of, and investment in, developing new and innovative products and services in the photo enforcement and adjacent intelligent transport systems markets as well as a desire to be 'first to market' with quality solutions.

9. **Access to additional sources of funding, including (bank) borrowing facilities or the ability to raise funds on the public markets, may be limited, or not otherwise available.**

   Company strategy to mitigate – The Company maintains a strong dialogue with the Company's existing debt provider and actively considers other financing alternatives from time-to-time. The Company engages external advisers to assist in the consideration of available financing alternatives.

DIRECTORS' REPORT

10. **The Group's revenue is significantly concentrated around a small number of large value vendors, particularly in the International business.**

    Company strategy to mitigate – The Group is actively seeking to diversify its revenue and vendor base including into new geographies and product offerings (for further details refer to the Group Chief Executive Officer's Report).

Commercial risks relating to credit risk, interest rate risk, exchange rate risk and liquidity risks are presented in the Financial Risk Management Objectives and Policies note described in Note 3 of the Financial Statements.

DIVIDENDS

Dividends have not been declared in either FY17 or FY16.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The directors are not aware of any breaches of environmental legislation or regulations to which the Group is subject.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify the current directors of the company, the Company Secretary, and all executive officers of the Company and of any related body corporate, against any liability that may arise from their positions within the Company.

Redflex Holdings Limited, being the ultimate parent company, paid premiums in respect of directors' and officers' liability insurance during the financial year. The contract of insurance does not include details of premiums paid in respect of individual officers of the Company and prohibits disclosure of the amount of the premium paid.

During the reporting period or since the end of the reporting period the Company has not indemnified nor agreed to indemnify any auditor of the Company or any related entity against a liability that may arise in their capacity as an auditor.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, PricewaterhouseCoopers, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify PricewaterhouseCoopers during or since the financial year.

AUDITOR INDEPENDENCE

The directors received the declaration on the following page from the auditor of Redflex Holdings Limited. This auditor's declaration forms part of the Directors' Report.

NON AUDIT SERVICES

From time to time non-audit services are provided by the Company's auditor, PricewaterhouseCoopers. The directors are satisfied that the provision of any non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Total non-audit, remuneration related services provided by PricewaterhouseCoopers in FY17 was $781,361 (FY16 $Nil).

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Redflex Holdings Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Redflex Holdings Limited and the entities it controlled during the period.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
29 August 2017

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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2017 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its Regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented in the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements:
    a. Remuneration principles and strategy
    b. Approach to setting remuneration
    c. Detail of incentive plans
4. Executive remuneration outcomes for 2017 (including link to performance)
5. Summary of executive contractual arrangements
6. Non-executive director remuneration arrangements
    a. Remuneration policy for non-executive directors
    b. Structure of non-executive director remuneration
    c. Special exertion payment for Mr Robert DeVincenzi
7. Additional statutory disclosures relating to options and shares
8. Other transactions and balances with key management personnel and their related parties.
9. Subsequent events

1. INTRODUCTION

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of Redflex.

For the purposes of this report, the term "executive" includes the Group Chief Executive Officer, the Group Chief Financial Officer, the President and Chief Executive Officer of Redflex Traffic Systems, Inc. and the Group General Counsel & Company Secretary of Redflex for the year ending 30 June 2017.

Directors and KMP

Non-executive directors

Adam Gray	Chairman (non-executive)
Clark Davey	Director (non-executive)
Robert DeVincenzi	Director (non-executive)
David McIntyre	Director (non-executive)
Herman Schwarz	Director (non-executive)
Terence Winters	Director (non-executive)

Other KMP

Brad Crump	Group Chief Financial Officer
Michael Finn	President and Chief Executive Officer, Redflex Traffic Systems, Inc.
Craig Durham	Group General Counsel and Company Secretary

Executive director

Paul Clark	Group Chief Executive Officer (Resigned 2 August 2017)

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

2. REMUNERATION GOVERNANCE

People, Culture & Remuneration Committee

The People, Culture & Remuneration ("PCR") Committee comprises four non-executive directors of the Company including three independent directors. The PCR Committee is chaired by Mr Terence Winters, an independent non-executive director.

The PCR Committee has the primary responsibility to assist the Board in the effective discharge of its responsibilities in relation to the overall remuneration policy for the Company; the Company's remuneration policies and strategy (including appropriate remuneration benchmarking); recruitment, retention and termination policies and procedures for the Group Chief Executive Officer, executives and other employees; the implementation, review and amendment of executive director, executive and employee incentive plans; the remuneration framework for non-executive directors; the annual performance review of the Group Chief Executive Officer; the Company's people and culture including in relation to equal employment opportunities and diversity; superannuation arrangements for all employees and other matters referred to the PCR Committee by the Board.

Specifically, the Board approves the remuneration arrangements of the Group Chief Executive Officer and other key management personnel and all awards made under the Long Term Incentive Plan ("LTI Plan"), following recommendations from the PCR Committee. The Board also sets the aggregate remuneration for non-executive directors, which is then subject to shareholder approval and determines individual fees for those directors. The PCR Committee will also make recommendations to the Board about the implementation of any Short Term Incentive Plan ("STI Plan"), having regard to management's recommendations.

The PCR Committee meets regularly during the year. On invitation, the Group Chief Executive Officer and the Group General Counsel & Company Secretary attends PCR Committee meetings. However, none of these executives are present during any discussions related to their own remuneration arrangements.

The PCR Committee continues to review the approach to executive remuneration and the rewards available to key management personnel for delivering the key business objectives and maintaining shareholder alignment. Further information on the PCR Committee's role, responsibilities and membership can be found in the PCR Committee Charter published in the Investors / Governance section of the Redflex website.

Remuneration report shareholder vote

The resolution to accept the remuneration report at the 2016 Annual General Meeting ("AGM") was passed by the required majority of votes cast under the Corporations Act. The results of the 2016 were released to the ASX. The Company's remuneration report for FY17 will be laid before the 2017 AGM. If the remuneration report for FY17 is not passed by more than 75% of the votes cast at the 2017 AGM the Company will receive a 'first strike'.

As with all previous years, during FY17, the PCR Committee and the Board respects the views of shareholders and has continued to assess the appropriateness of the Company's remuneration policies and competitiveness, with particular focus on executive remuneration to ensure it aligns with the Company's performance against key business goals and objectives. The Board is also committed to further elevating the links between strategy, performance and compensation for key management personnel and to ensure there is continued demonstrable alignment between the Company and its shareholders.

No changes were made to compensation policy for the Board during FY17.

The Company's LTI Plan is designed to provide equity based incentives to executives to drive long term performance. Provided financial performance hurdles are met, which the Board believes are aligned with shareholder interests, executives will be rewarded for their performance with performance rights with a three tranche vesting period (payable over two years after the end of the financial year to which the LTI Plan relates) and subsequent holding lock on equity based incentives.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)
Use of remuneration consultants
To ensure the PCR Committee is fully informed when making remuneration decisions, it periodically seeks external remuneration advice on strategy and processes to ensure best practice and to benchmark remuneration arrangements against the industry and the markets in which Redflex operates.

No remuneration recommendations have been made by external consultants for the year ended 30 June 2017.

3. EXECUTIVE REMUNERATION ARRANGEMENTS

3.A Remuneration principles and strategy
The Company's executive remuneration principles and strategy for the FY17 reporting period was designed to attract, motivate and retain high performing individuals but also to align the interests of executives and shareholders.

The following diagram illustrates how the Company's remuneration principles and strategy aligns with the Company's strategic direction and links remuneration outcomes to performance:

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

REDFLEX BUSINESS OBJECTIVE:

To be the global leader in the provision of photo enforcement products and services and intelligent traffic solutions and to build long-term value for shareholders

REMUNERATION PRINCIPLES AND STRATEGY LINKAGES TO REDFLEX BUSINESS OBJECTIVE:

ALIGN THE INTERESTS OF EXECUTIVES WITH SHAREHOLDERS	ATTRACT, MOTIVATE AND RETAIN HIGH PERFORMING INDIVIDUALS
• The remuneration principles and strategy incorporates "at-risk" components of long term elements delivered in equity for the Group Chief Executive Officer (payable, if earned, in three tranches) and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States and a combination of cash and equity for executives (payable, if earned, in three tranches). • Performance is assessed against a suite of financial and non-financial measures (set by the Board) relevant to the success of the Company and generating returns for shareholders.	• Remuneration is competitive with companies of a similar size and complexity. • Long-term remuneration is designed to encourage long term consistent performance and executive retention.

REMUNERATION COMPONENT	VEHICLE	PURPOSE	LINK TO PERFORMANCE
Fixed Remuneration	Represented by Total Fixed Remuneration ("TFR"). Comprises base salary, superannuation contributions (in Australia), annual leave and other benefits. Executives may receive their fixed remuneration in a way optimal for the recipient but within the cap established for the TFR.	To provide competitive fixed remuneration set with reference to role, market, experience and performance.	Company, division and individual performance are considered during the annual remuneration review.
Long Term Incentive	For the Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc. awards, if earned, are made in the form of equity only (over three tranches of 50%, 25% and 25% and a one year "holding lock" on shares). For executives (other than the Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc., in the United States) awards, if earned, are made in a combination of 50% cash, 25% performance rights and 25% performance rights which vest into shares (over three tranches respectively and a further one year "holding lock" on shares).	To reward executives for their contribution to the creation of shareholder value over the longer term.	For the Group Chief Executive Officer and Chief Executive Officer of Redflex Traffic Systems, Inc. vesting of the FY17 LTI Plan awards is dependent on the achievement of Board determined Target EBITDARD hurdle (which is Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs) (up to 70%) and non-financial performance (up to 30%), which is internally determined by the Board in its discretion. For the Group Chief Financial Officer and Group General Counsel and Company Secretary vesting is dependent on the above financial measure (up to 70%) and non-financial performance (up to 30%), which is internally determined by the Board in its discretion.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)
3.B Approach to setting remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position, responsibilities and performance within the Group and benchmarked against market practice.

Remuneration arrangements for the Group Chief Executive Officer, the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States, the Group Chief Financial Officer and the Group General Counsel & Company Secretary are reviewed by the PCR Committee and approved by the Board.

Remuneration arrangements for the direct reports of the Group Chief Executive Officer (other than the Group Chief Financial Officer, the Group General Counsel & Company Secretary and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States) are reviewed by him each year. Remuneration policies and arrangements for the direct reports of the Chief Executive Officer of Redflex Traffic Systems Inc. are reviewed by him each year and approved by the Group Chief Executive Officer.

For executives, the Company has further developed its Performance Management Framework during FY17. These developments are aimed to ensure executive remuneration continues to be aligned to Group and regional financial performance as well as to the achievement of defined business outcomes including effectively managing our risk and compliance obligations (including workplace, health and safety), demonstrating continual improvement in our customer engagement and nurturing a culture of accountability and achievement of high performance in our people.

Remuneration levels for executives are determined at least annually through a remuneration review. These reviews consider, within the context of the Performance Management Framework, market data, remuneration trends, the performance of the Company, the business unit and the broader economic environment.

In FY17, the executive remuneration strategy consisted of fixed remuneration and LTI Plan incentives. In summary, the executives have the following target remuneration mix.

	STI OPPORTUNITY	LTI PLAN OPPORTUNITY (FACE VALUE)
Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States	NIL (excluding special arrangements for Michael Finn as noted in section 5 below).	60% of Base Pay with the price of each right being determined by the average of the 90-Day VWAP (volume weighted average market price), 180-Day VWAP and the 360-Day VWAP of the Company's shares as at 1 October 2016 ("VWAP Calculation").
Executives (other than the Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States)	NIL	45% of Base Pay, with the price of each right being determined by the VWAP Calculation.
Other Employees	Between 0% and 10% of fixed remuneration (Base Pay) based on performance measured within a Balanced Scorecard.	NIL

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

3.C Detail of incentive plans

Short Term Incentives ("STI")

For FY17 the Group operated an STI Plan for all employees (other than the Group Chief Executive Officer, the Chief Executive Officer of Redflex Traffic Systems Inc. in the United States and the Executives who participate in the LTI Plan). The STI Plan awards a cash bonus of between 0% and 10% of fixed remuneration (Base Pay) based on performance measured against Key Performance Indicators ("KPIs") (including the achievement of clearly defined Group, business unit and individual performance measures).

If the Redflex regional business (International and the Americas, respectively) achieves 100% or more of its financial goals, together with 100% of the non-financial goals, eligible employees will receive 100% of their Redflex Individual performance weighted amount. Employee STI Plan payments outside of the above may be approved at the discretion of the Board or the Group Chief Executive Officer.

Long Term Incentives

For FY17 LTI Plan grants were issued to executives in order to align remuneration with the creation of shareholder value over the long term. Accordingly, LTI Plan grants are made to executives who can impact the Group's performance against the relevant long-term performance measure.

Structure

LTI awards are made under the Company's LTI Plan, the rules of which are published in the Investors / Governance / Remuneration section of the Redflex website. LTI Plan awards are generally made annually in the form of cash and /or performance rights that vest in three tranches subject to meeting KPIs (for FY17 these KPIs were constituted by a Board determined Target EBITDARD hurdle, with no opportunity to retest along with specified non-financial KPIs set by the Board). Target EBITDARD is a Target Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs set by the Board.

Performance Measure to determine vesting

For FY17, the Company applied a Board set Target EBITDARD amount as the financial KPI for the LTI Plan.

A Target EBITDARD amount was selected as the LTI Plan performance measure for FY17 the following reasons:

- EBITDA is a generally accepted financial performance measure in the market; and
- Excluding capitalised research and development costs more closely reflects the financial performance of the Company.

Target EBITDARD will:

- include the impact of any impairments; and
- exclude the impact of any reversals of prior impairments.

The Board will also consider adjustments to performance for extraordinary impairments due to technical factors (such as the Company's market capitalisation) that management might not otherwise anticipate.

Furthermore, for executives up to 30% of their LTI Plan is measured on non-financial performance. The Board sets KPIs on an individual basis for executives participating in the LTI Plan. These are subsequently assessed at the end of each reporting period and the Board determines in its discretion whether the financial and non-financial performance hurdles have been met and to what extent.

Change of control provisions

In the event of a change of control of the Group, all performance rights (whether vested or unvested) will expire on the earlier of 5 business days after the change of control or the date determined by the Board, giving at least 5 business days' notice of such expiry date. In a change of control situation all vesting conditions in respect of a performance right are deemed to be satisfied and all unvested performance rights will automatically become vested performance rights which are able to be exercised in accordance with the LTI Plan Rules.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

4. EXECUTIVE REMUNERATION OUTCOMES FOR FY17 (INCLUDING LINK TO PERFORMANCE)

Short-term incentives

There were no short term incentive payments made to executives for FY17.

Company performance and its link to LTI

For FY17, the performance measure that drives the vesting of long term incentives is the Company's achievement, or otherwise, of financial and non-financial KPIs set by the Board.

LTI vesting outcomes

The market performance of a Redflex share over the last 10 years was below the performance of the market.

- Based on Redflex' share performance, performance rights (granted on 4 May 2015) in relation to a performance period which will complete on 1 October 2017 are not expected to vest.
- Based on Redflex's EBITDARD performance and achievement of the non-financial targets only a maximum of 30% performance rights (granted on 21 December 2016 for the Group Chief Executive Officer and granted on 19 January 2017 for other Executives) which will complete on 1 October 2017 are expected to vest.

The table below outlines both vesting and expected outcomes for outstanding awards in FY17. Projected outcomes for awards still to be tested are based on assuming a median ranking.

	GRANT 4 May 2015*	GRANT 1 December 2015	GRANT 21 December 2016** (Group Chief Executive Officer only)	GRANT 19 January 2017*** (Other Executives)
Relative TSR performance	Median ranking	–	–	–
Target EBITDARD Performance	–	Expect < 100% achievement	Expect < 100% achievement	Expect < 100% achievement
Implication for vesting	At testing date 1 Oct 2017, performance rights are not expected to vest	At testing date 1 Oct 2016, 52% of performance rights vested	At testing date 1 Oct 2017, only 30% of performance rights (related to determined achievement of non-financial performance KPIs) are expected to vest	At testing date 1 Oct 2017, only 30% of performance rights (related to determined achievement of non-financial performance KPIs) are expected to vest

*Note the grant on 4 May 2015 was a retrospective grant effective 1 October 2014.

**Note the grant on 21 December 2016 was a retrospective grant effective 1 October 2016.

***Note the grant on 19 January 2017 was a retrospective grant effective 1 October 2016.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)
Remuneration of Executive KMP

Table 1: Remuneration for the years ended 30 June 2017 and 30 June 2016

		Short term benefits			Long term benefits				
		Salary and fees $	Bonus $	Other benefits $	Super–annuation* $	Cash bonus $	Performance rights $	Total $	Performance related %
Executive director									
Paul Clark	2017	460,000	–	–	19,616	–	57,404	537,020	11%
	2016	430,000	–	–	23,980	–	113,228	567,208	20%
KMP									
Brad Crump	2017	365,000	–	–	19,616	24,638	18,862	428,116	10%
	2016	365,000	–	–	23,150	42,705	36,042	466,897	17%
Michael Finn	2017	402,184	100,531	23,702	–	–	55,009	581,426	9%
	2016	416,235	100,497	111,578	–	–	105,006	733,316	14%
Craig Durham	2017	265,692	–	–	19,616	17,934	13,184	316,426	10%
	2016	257,847	–	–	20,418	29,250	24,686	332,201	16%
	2017	1,492,876	100,531	23,702	58,848	42,572	144,459	1,862,988	10%
	2016	1,469,082	100,497	111,578	67,548	71,955	278,962	2,099,622	17%

Notes to Table 1: Remuneration for the years ended 30 June 2017 and 30 June 2016

*Superannuation for the period per Australian Taxation Office guidelines is capped at $19,616 per year (FY16 $19,308). Amounts, which have been paid, greater than this are additional super contributions made by the respective Directors and KMP, and would otherwise be included in "salary and fees".

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)
5. SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in written employment agreements.

Group Chief Executive Officer – Mr Paul Clark (resigned 2 August 2017)

Mr Clark is Group Chief Executive Officer of Redflex Holdings Limited and was appointed on 25 September 2014. Mr Clark resigned as Group Chief Executive Officer on 2 August 2017.

Under the terms of Mr Clark's employment contract:

- Mr Clark is entitled to be total fixed remuneration ("TFR") of $460,000 per annum plus superannuation per annum.
- Following approval at the 2016 Annual General Meeting Mr Clark was issued performance rights equal to the value of his LTI entitlement, which was determined by the Board, based on the average of the 90-Day VWAP (volume weighted average market price), 180-Day VWAP and the 360-Day VWAP of the Company's shares as at 1 October 2016 (VWAP Calculation). Based on the results of the calculation 1,347,311 performance rights were issued to Mr Clark on 21 December 2016. Each performance right entitles Mr Clark to be issued one fully paid ordinary share in the Company for no monetary consideration and any shares issued to Mr Clark would be subject to a 12 month holding lock imposed by the Company.
- If Mr Clark satisfies the relevant Company performance hurdles and becomes eligible for a LTI award to vest, that number of performance rights equal in value to the cash value of the LTI, (based on the VWAP Calculation) would be retained by Mr Clark and any remaining performance rights would immediately lapse. The performance rights retained by Mr Clark would then vest as to 50% on 1 October 2017, as to a further 25% on 1 October 2018 and as to the last 25% on 1 October 2019, subject to Mr Clark being employed by the Company at the relevant date.
- Based on a determination by the Board of the non-financial performance hurdles, 494,560 performance rights issued to Mr Clark on 21 December 2016 will vest following his resignation on 2 August 2017 as Group Chief Executive Officer and at the conclusion of his handover period on 5 September 2017.

Termination criteria (other than Cause):

- The agreement may be terminated by the CEO with 6 months' prior notice, or by the Company making a payment equivalent to the six month period in base salary in lieu of the notice period.

Group Chief Financial Officer – Mr Brad Crump

Mr Crump is Group Chief Financial Officer of Redflex Holdings Limited and was appointed on 2 February 2015.

Under the terms of Mr Crump's employment contract:

- Mr Crump is entitled to be paid TFR of $365,000 per annum plus superannuation.
- Mr Crump is entitled to receive performance rights calculated as a percentage of 45% (FY16: 45%) of his TFR.
- On 19 January 2017 Mr Crump was granted 318,472 performance rights and a cash component of $96,497 in respect of his LTI. The performance rights and cash component retained by Mr Crump would vest dependent on Mr Crump meeting the Company's KPIs (up to 70%) and performance of non-financial KPIs (up to 30%). Subject to the criteria being met the performance rights and cash component would vest based on a determination by the Board as follows:
  - 1 October 2017 – The full cash component would vest;
  - 1 October 2018 – 50% of performance rights (159,236) would vest; and
  - 1 October 2019 – The final 50% of the performance rights (159,236) would vest.

DIRECTORS' REPORT

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- The vesting terms above are subject to Mr Crump being employed by the Company at the relevant date.
- Based on a determination by the Board of the non-financial KPIs, only a proportion of the performance rights and cash component issued to Mr Crump on 19 January 2017 are expected to vest.

Termination criteria (other than Cause):

- The agreement may be terminated by Mr Crump with three months' prior notice, or by the Company making a payment equivalent to the three month period in base salary in lieu of the notice period.

President and Chief Executive Officer of Redflex Traffic Systems Inc – Mr Michael Finn

Mr Finn commenced employment with Redflex Traffic Systems, Inc. on 27 May 2015 (with a start date of for an initial term of 3 years. Mr Finn become a KMP from 1 July 2015. Key terms of Mr Finn's contract are as follows:

- Mr Finn total base salary is US$300,000 ($402,184).
- After the commencement of employment Mr Finn received a bonus of US$150,000 in respect of unvested performance rights which Mr Finn held in his previous position. 50% of this bonus, US$75,000, ($100,497) was paid on 27 May 2016 being the first anniversary of employment. The second payment of US$75,000 ($100,531) was made on Mr Finn's second work anniversary.
- Mr Finn was granted 1,207,920 Performance Rights on 19 January 2017.
- If Mr Finn satisfies the relevant Company performance hurdles and becomes eligible for a LTI award to vest, that number of performance rights equal in value to the cash value of the LTI, (based on the VWAP Calculation) would be retained by Mr Finn and any remaining performance rights would immediately lapse. The performance rights retained by Mr Finn would then vest as to 50% on 1 October 2017, as to a further 25% on 1 October 2018 and as to the last 25% on 1 October 2019, subject to Mr Finn being employed by the Company at the relevant date
- Mr Finn also received benefits in FY17 amounting to US$10,129 ($13,577) in respect of medical and dental insurance costs, which were paid by the Company. In addition, the Company matched Mr Finn's 401K contribution in FY17 to a total value of US$7,553 ($10,125).
- Based on a determination by the Board of the non-financial KPIs, only a proportion of the performance rights issued to Mr Finn on 19 January 2017 are expected to vest.

Termination criteria (other than Cause):

- The agreement may be terminated by Mr Finn with 90 days prior notice, or by the Company making a payment equivalent to the lesser of 12 months of Mr Finn's average salary or the aggregate base pay Mr Finn would receive for the remainder of the term if he was not terminated. Mr Finn's payments would be made in 18 monthly instalments. Mr Finn would also be entitled to reimbursement of health insurance premiums for the 18 month period.

Group General Counsel and Company Secretary – Mr Craig Durham

Mr Durham is Group General Counsel & Company Secretary of Redflex Holdings Limited and was appointed on 9 February 2015.

Under the terms of Mr Durham's employment contract:

- Mr Durham was entitled to be paid TFR of $265,692 per annum plus superannuation.
- Mr Durham is entitled to receive performance rights calculated as a percentage of 45% (FY16: 45%) of his TFR.
- On 19 January 2017 Mr Durham was granted 231,824 performance rights and a cash component of $70,242 in respect of his LTI. The performance rights and cash component retained by Mr Durham would vest dependent on Mr Durham meeting the Company's KPIs (70%) and performance of non-financial KPIs (up to 30%). Subject

to the criteria being met the performance rights and cash component would vest as follows:

- 1 October 2017 – The full cash component would vest;
- 1 October 2018 – 50% of performance rights (115,912) would vest; and
- 1 October 2019 – The final 50% of the performance rights (115,912) would vest.

- The vesting terms above are subject to Mr Durham being employed by the Company at the relevant date.
- Based on a determination by the Board of the non-financial performance hurdles, only a proportion of the performance rights and cash component issued to Mr Durham on 19 January 2017 are expected to vest.

Termination criteria (other than Cause):

- The agreement may be terminated by Mr Durham with three months' prior notice, or by the Company making a payment equivalent to the three month period in base salary in lieu of the notice period.

6. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

6.A Remuneration policy for non-executive directors

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain non-executive directors of the highest calibre while incurring a cost which is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to non-executive directors of comparable companies. The Board may consider advice from external consultants when undertaking the annual review process.

The Company's constitution and ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by the Company in general meeting. The latest determination was at the Annual General Meeting held in 2010 when shareholders approved an aggregate remuneration of $700,000 per year in relation to directors' fees.

6.B Structure of non-executive director remuneration

With the exception of Mr DeVincenzi each non-executive director receives a fixed fee for being a director and a fee for the additional time commitment made by directors who serve as Chair of one or more Board committees. Non-executive directors do not receive retirement benefits, except for superannuation where this is applicable, nor do they participate in any incentive programs. The remuneration of non-executive directors for the years ended 30 June 2017 and 30 June 2016 is detailed in Table 2.

6.C Special exertion payment for Mr Robert DeVincenzi

During the FY17 reporting period it was communicated to Mr DeVincenzi that in light of extra services he has performed for the benefit of the Company a 'special exertion' payment would be made to him in accordance with the Company's Constitution totalling US$40,000 ($53,616) being for 'special exertion' services performed by Mr DeVincenzi between 1 July 2016 and 22 February 2017.

Details of Mr DeVincenzi's remuneration are shown in Table 2. Remuneration received in relation to Mr DeVincenzi's role as a non-executive director is noted in "Directors' fees". Additional remuneration received as part of extra services performed are shown as "other fees".

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Table 2: NED remuneration for the year ended 30 June 2017 and 30 June 2016

		Short-term benefits	Post-employment		Other short-term benefits		
		Salary and Fees	Super annuation	Total Directors Fees	Other fees	Non-monetary	Total
Adam Gray	2017	155,000	–	155,000	–	–	155,000
	2016	155,000	–	155,000	–	–	155,000
Robert DeVincenzi[1]	2017	107,500	–	107,500	53,616	–	161,116
	2016	107,500	–	107,500	118,742	–	226,242
Herman Schwarz	2017	102,500	–	102,500	–	–	102,500
	2016	102,500	–	102,500	–	–	102,500
Terence Winters	2017	93,607	8,893	102,500	–	–	102,500
	2016	93,607	8,893	102,500	–	–	102,500
Clark Davey	2017	98,173	9,327	107,500	–	–	107,500
	2016	104,566	9,934	114,500	–	–	114,500
David McIntyre	2017	92,500	–	92,500	–	–	92,500
	2016	92,500	–	92,500	–	–	92,500
	2017	649,280	18,220	667,500*	53,616	–	721,116
	2016	655,673	18,827	674,500*	118,742	–	793,242

1 Details of Mr DeVincenzi remuneration arrangements are discussed in section 6.C above.

* The 'Total Directors Fees' for the reporting period continues to be below the cap of $700,000 per year.

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REMUNERATION REPORT (AUDITED)

7. ADDITIONAL STATUTORY DISCLOSURES RELATING TO OPTIONS AND SHARES

This section provides the additional disclosures required under the Corporations Act 2001 (Cth) s300A.

Table 3 discloses the LTI Plan (performance rights) granted to executives as remuneration during FY17. LTI Plan performance rights do not carry any voting or dividend rights and depending on achievement of KPIs may or may not vest at the end of the performance period.

Table 3: Performance rights awarded, vested, lapsed or forfeited during the year – Executive KMP

	Financial Year	Performance Rights awarded during the year Number	Award Date	Fair Value per LTI at Award Date	Performance period	Number vested during the year	Number lapsed forfeited or cancelled during FY17
Executive Director							
Paul Clark	2017	1,347,311	21 Dec 16	$0.35	*Performance to 30 Jun 17, assessed on 1 Oct 17	–	–
	2016	958,029	1 Dec 15	$0.37	**Performance to 30 Jun 16, assessed on 1 Oct 16	76,505	652,008
KMP							
Brad Crump	2017	318,472	19 Jan 17	$0.46	*Performance to 30 Jun 17, assessed on 1 Oct 17	–	–
	2016	187,328	1 Dec 15	$0.37	**Performance to 30 Jun 16. assessed on 1 Oct 16	–	89,916
	2015	64,394	4 May 15	$0.20	***<3 years to 1 Oct 17	–	–
Michael Finn	2017	1,207,920	19 Jan 17	$0.46	*Performance to 30 Jun 17, assessed on 1 Oct 17	–	–
	2016	1,018,458	1 Dec 15	$0.37	**Performance to 30 Jun 16, assessed on 1 Oct 16	70,950	734,657
Craig Durham	2017	231,824	19 Jan 17	$0.46	*Performance to 30 Jun 17, assessed on 1 Oct 17	–	–
	2016	128,308	1 Dec 15	$0.37	**Performance to 30 Jun 16, assessed on 1 Oct 16	–	61,588
	2015	42,033	4 May 15	$0.20	***<3 years to 1 Oct 17	–	–

*Performance rights granted on 21 December 2016 and 19 January 2017 are evaluated against Individual performance and the performance of the Company in the manner described in section 3 above.

**Performance rights granted on 1 December 2015 are evaluated against Individual performance and the performance of the Company in the manner described in section 3 above.

***Performance rights granted on 4 May 2015 were made later than the normal date of 1 October 2014. Accordingly, the performance rights, issued on 4 May 2015, have a performance period shorter than 3 years and will be tested on 1 October 2017.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Table 4: Value of performance rights awarded, vested, lapsed or forfeited during the year – Executive KMP

	Value^ of Performance Rights awarded during the year $	Value^ of Performance Rights vested during the year $	Value^ of Performance Rights lapsed or forfeited during the year $
Executive director			
Paul Clark	471,559	28,307	241,243
KMP			
Brad Crump	146,497	–	33,269
Michael Finn	555,643	26,251	271,823
Craig Durham	106,639	–	22,788
	1,280,338	54,558	569,123

^ For details on the valuation of the performance rights, including models and assumptions used, please refer to Note 26.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)
Table 5a: Movements in Shareholdings of KMP during the year ended 30 June 2017

	Shares held at 1 July 2016	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2017
Directors – non executive				
Adam Gray	**24,929,829**	–	–	**24,929,829**
Clark Davey	**300,358**	–	–	**300,358**
Robert DeVincenzi	–	–	–	–
Herman Schwarz	–	–	–	–
Terence Winters	–	–	–	–
David McIntyre	–	–	–	–
	25,230,187	–	–	25,230,187
Executive Director & KMP				
Paul Clark	–	76,505	–	**76,505**
Brad Crump	–	–	–	–
Michael Finn	–	70,950	–	**70,950**
Craig Durham	–	–	–	–
	–	147,455	–	**147,455**

Table 5b: Movements in Shareholdings of KMP during the year ended 30 June 2016

	Shares held at 1 July 2015	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2016
Directors – non executive				
Adam Gray	**24,929,829**	–	–	**24,929,829**
Clark Davey	**300,358**	–	–	**300,358**
Robert DeVincenzi	–	–	–	–
Herman Schwarz	–	–	–	–
Terence Winters	–	–	–	–
David McIntyre	–	–	–	–
	25,230,187	–	–	25,230,187
Executive Director & KMP				
Paul Clark	–	–	–	–
Brad Crump	–	–	–	–
James Saunders	–	–	–	–
Craig Durham	–	–	–	–
	–	–	–	–

Other than the issue of shares resulting from vested performance rights, all equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Table 6a: Movement in performance rights held by KMP during the year ended 30 June 2017

	Number held at 1 July 2016	Transactions during the year: Awarded as remuneration	Forfeited	Vested	Lapsed	Number held at 30 June 2017
Executive director						
Paul Clark	**958,029**	1,347,311	–	(76,505)	(652,008)	**1,576,827**
KMP						
Brad Crump	**251,722**	318,472	–	–	(89,916)	**480,278**
Michael Finn	**1,018,458**	1,207,920	–	(70,950)	(734,657)	**1,420,771**
Craig Durham	**170,341**	231,824	–	–	(61,588)	**340,577**
Total	2,398,550	3,105,527	–	(147,455)	(1,538,169)	3,818,453

Table 6b: Movement in performance rights held by KMP and former KMP during the year ended 30 June 2016

	Number held at 1 July 2015	Transactions during the year: Awarded as remuneration	Forfeited	Vested	Lapsed	Number held at 30 June 2016
Executive director						
Paul Clark	–	958,029	–	–	–	**958,029**
KMP						
Brad Crump	**64,394**	187,328	–	–	–	**251,722**
Michael Finn	–	1,018,458	–	–	–	**1,018,458**
Craig Durham	**42,033**	128,308	–	–	–	**170,341**
Total	106,427	2,462,464	–	–	–	2,398,550

Movements in Options held by KMP for the year ended 30 June 2017

No options were held or issued to Directors or KMP during FY17 (FY16: NIL).

8. OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

There have been no other transactions with KMP, apart from those listed in this report.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)
9. SUBSEQUENT EVENTS

On 2 August 2017 Mr Paul Clark resigned as Group Chief Executive Officer of the Company which was effective on Monday 21 August 2017. From Monday 21 August 2017, Mr Mark J. Talbot commenced with the Company as the new Group Chief Executive Officer.

Mr Clark was originally appointed as a non-executive director of the Company in April 2014 and, at the request of the Board, transitioned to become the Group Chief Executive Officer in September 2014.

Mr Clark also resigned as a director of the Company and all group companies of which he is currently a director effective 21 August 2017. Mr Clark will remain employed by the Company to assist in the handover process until 5 September 2017. Following this, the remaining portion of Mr Clark's six-month notice period will be paid in lieu of service. At the end of Mr Clark's employment on 5 September 2017, he will be entitled to 494,560 earned but unvested performance rights (which will immediately convert to 494,560 Redflex shares).

Details of Mr Talbot's remuneration agreement is as follows;

- A base pay of US$435,000 plus employment benefits, including health care, disability care and 401k contributions;
- An entitlement to participate in the Company's STI program, which is assessed annually against KPIs, with an entitlement of 40% of Base Pay for achieving such objectives, and a maximum entitlement of 60% of Base Pay for out-performance. Any STIs earned will be calculated and payable in US$;
- A relocation package of US$150,000 (as long as he remains employed the Company for at least one year following such relocation);
- On the commencement date of his employment, the Company granted Mr Talbot 1,597,523 performance rights as part of the Company LTI Plan; and
- On 21 August 2017, the Company granted to Mr Talbot 2,218,195 options to subscribe for 2,218,195 ordinary shares in the Company. The options will vest in equal tranches over 48 months, with the first tranche vesting six months after Mr Talbot's commencement date. Each option will expire 5 years after the vesting date.

Should Mr Talbot be terminated without cause, Mr Talbot is entitled (subject to any restrictions imposed by applicable law) to a severance package that consists of:

- continued salary payments equivalent to 12 months of his then-current Base Pay;
- continued payments of his health insurance premiums for a period of 18 months following termination (if he elects to continue the relevant insurance coverage); and
- continued payment of any employee benefits received at the date of termination for a period of 18 months.

No other matter or circumstance, other than those noted above has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Signed in accordance with a resolution of the directors.

Adam Gray
Chairman
29 August 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Revenue from operations	6	120,810	136,775
Total revenue		120,810	136,775
Cost of goods sold		59,082	62,426
Cost of goods sold		59,082	62,426
Gross profit		61,728	74,349
Sales and marketing related expenses		13,816	9,395
Administrative related expenses		37,241	39,317
Profit before depreciation, amortisation, impairment, finance costs and tax		10,671	25,637
Legal settlement with the City of Chicago		25,509	–
Amortisation of intangibles		4,016	6,802
Depreciation of plant and equipment		14,961	18,650
Impairment of trade receivables		3,672	–
Impairment of Goodwill	20	–	3,098
Loss before tax and financing costs		(37,487)	(2,913)
Net finance costs		84	685
Loss before tax		(37,571)	(3,598)
Income tax (benefit) / expense	9	(6,079)	1,089
Loss for the period		(31,492)	(4,687)
Other comprehensive loss			
Foreign currency translation that may be reclassified to the profit or loss, net of tax		(1,347)	1,222
Total comprehensive loss for the period		(32,839)	(3,465)
Earnings per share ("EPS") attributable to ordinary equity holders			
–- basic / diluted EPS for the year ended		(28.41)cents	(4.23)cents

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	8,199	12,442
Trade and other receivables	11	23,880	32,616
Inventories	12	6,104	5,205
Other current assets	13	2,832	3,656
Total Current Assets		41,015	53,919
Non-Current Assets			
Plant and equipment	14	40,296	47,690
Deferred tax assets	9	23,164	17,328
Intangible assets	15	23,343	20,245
Other financial assets		441	441
Other non-current assets		103	122
Total Non-Current Assets		87,347	85,826
TOTAL ASSETS		**128,362**	**139,745**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	16	24,693	13,691
Income tax payable		1,384	1,132
Provisions	18	9,240	8,588
Total Current Liabilities		35,317	23,411
Non-Current Liabilities			
Trade and other payables	16	11,255	–
Deferred tax liabilities	9	6,081	6,137
Provisions	19	4,746	5,776
Other non-current liabilities		–	459
Total Non-Current Liabilities		22,082	12,372
TOTAL LIABILITIES		**57,399**	**35,783**
NET ASSETS		**70,963**	**103,962**
Equity attributable to equity holders of the parent company			
Contributed equity	22	101,765	101,765
Reserves	23	4,480	5,987
Accumulated losses	23	(35,282)	(3,790)
TOTAL EQUITY		**70,963**	**103,962**
Net tangible assets per share		42.94 cents	75.58 cents

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Contributed Equity $'000	Foreign Currency Translation Reserve $'000	Employee Equity Benefits Reserve $'000	Retained earnings/ (Accumulated Losses) $'000	Total Equity $'000
At 1 July 2015	101,765	2,424	1,233	897	106,319
Loss for the year	–	–	–	(4,687)	(4,687)
Currency translation differences	–	1,222	–	–	1,222
Total comprehensive loss	–	1,222	–	(4,687)	(3,465)
Cost of share based payments	–	–	1,108	–	1,108
At 30 June 2016	101,765	3,646	2,341	(3,790)	103,962
At 1 July 2016	101,765	3,646	2,341	(3,790)	103,962
Loss for the year	–	–		(31,492)	(31,492)
Currency translation differences	–	(1,347)		–	(1,347)
Total comprehensive loss	–	(1,347)		(31,492)	(32,839)
Net reversal of share based payments expense	–	–	(160)	–	(160)
At 30 June 2017	101,765	2,299	2,181	(35,282)	70,963

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Operating activities			
Receipts from customers		129,409	142,994
Payments to suppliers, employees and GST		(116,651)	(114,010)
Interest received		65	21
Interest paid		(42)	(369)
Income tax refunded / (paid)		82	(1,436)
Net cash flows from operating activities	10	12,863	27,200
Investing activities			
Purchase of property, plant and equipment		(9,707)	(8,773)
Capitalised development costs paid		(7,114)	(3,098)
Net cash flows (used in) investing activities		(16,821)	(11,871)
Financing activities			
Drawdown bank borrowings		2,600	–
Repaid bank borrowings		(2,600)	(19,449)
Net cash flows (used in) financing activities		–	(19,449)
Net decrease in cash held		(3,958)	(4,120)
Effect of exchange rate changes on cash		(285)	(473)
Cash and cash equivalents at beginning of financial year		12,442	17,035
Cash and cash equivalents at the end of financial year	10	8,199	12,442
Reconciliation of cash			
Cash at the end of the period consists of:			
Cash at banks and on hand		8,199	12,442
Cash at banks and on hand	10	8,199	12,442

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Redflex Holdings Limited (a for profit entity) for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of directors on 29 August 2017.

Redflex Holdings Limited ("Redflex", "the Group" or the "Company") is an Australian incorporated company and is limited by shares that are publicly traded on the Australian Securities Exchange ("ASX"). Redflex shares trade on the ASX under the ticker code "RDF".

The nature of the operations and principal activities of Redflex and its subsidiaries ("the Group") are described in the Directors' Report.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2.1 BASIS OF PREPARATION

This financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which the class order applies. Expenses in the Statement of Profit and Loss and Other Comprehensive Income has been classified as shown in order to provide greater clarity to the users of the financial statements.

The financial statements have been prepared on a going concern basis, which assumes the normal continuity of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Attention is drawn to the matters detailed in Note 21 of the financial report, and the auditor's report.

Certain comparative amounts have been reclassified to conform with the current period's presentation to better reflect the nature of the financial position and performance of the Group, including:

- Total revenue and sales and marketing expenses; and
- Trade and other receivables and the movement in provision for impairment of trade receivables.

These adjustments have had no impact on the result or net asset position reported in the prior years.

2.2 COMPLIANCE WITH IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

2.3 ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in accounting policy and disclosures

Redflex has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

(ii) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2017 are outlined in the table below.

STANDARD	Mandatory date for annual reporting periods beginning on or after)	Reporting period standard adopted by the company
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 July 2017
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 July 2017
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	1 January 2017	1 July 2017
AASB 9 Financial Instruments and related standards	1 January 2018	1 July 2018
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian. Accounting Standards arising from AASB 15	1 January 2018	1 July 2018
AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	1 July 2018
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 July 2018
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	1 July 2019
AASB 16 – Leases	1 January 2019	1 July 2019

Management are currently assessing the impact of these new standards on the Group and have commenced an analysis on the impact of AASB 15 – Revenue from Contracts with Customers. At the date of writing management do not expect this standard, to have a material effect on the position of the Group.

Management has also considered the impact of AASB 16 – Leases. The Group is currently in the process of performing an analysis of identifying leases signed between the Group and various third parties. However, it is expected that the operating and lease commitments identified in Note 24 to the financial report will be required to be included in the Consolidated Statement of Financial Position when the standard becomes effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 30 June 2017.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non- controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(b) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administration expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquirer.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with AASB 3 Business Combinations and AASB 139 Financial Instruments: Recognition and. Measurement, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured. Subsequent settlement is accounted for within equity.

(c) Goodwill

Goodwill relates to the acquisition of the Redflex Student Guardian business. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquired are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and is not larger than an operating segment determined in accordance with AASB 8, and includes:

- The Americas Traffic Operations; and
- Australia and International Traffic Operations.

The Group performs its impairment testing as at 30 June each year using discounted cash flows under the value in use methodology to determine the fair value for the Redflex Student Guardian business to which goodwill is allocated.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Please refer to Note 20 – Asset Impairment for further discussion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

(d) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(e) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects: nature of the products and services; nature of the production processes; type or class of customer for the products and services; methods used to distribute the products or provide the services; and if applicable, the nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Refer to Note 5 for additional information.

(f) Foreign currency translation

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

Redflex Traffic Systems, Inc. and Redflex Guardian functional currencies are United States Dollars ("US$"); the functional currency of the back office operations in Saudi Arabia for Traffic Operating Services (Saudi Arabia), LLC is Saudi Arabian Riyals; the functional currency of Redflex Traffic Systems Limited operations in United Kingdom is Great British Pounds; and, the functional currency of Redflex Traffic Systems Malaysia Sdn Bhd is Malaysian Ringgit. The functional currency of Redflex Traffic Systems Canada is Canadian Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

(i) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(g) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods
Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reasonably measured. Revenue on certain fixed price contracts where the Group provides systems development integration and installation services are recognised over the contract term based on the percentage of completion. The percentage of completion methodology is used where the contract outcome can be reliably measured and control of a right to be compensated for the services has been attained. Under this method revenue is recognised based on the percentage of costs incurred (most notably material and labour) on projects at the reporting date relative to the total estimated costs for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred and are recoverable.

Fee for service contracts and licences
Revenue is principally derived from fees and traffic citations issued in jurisdictions where the company's equipment is located. Revenue is recognised when a traffic infraction is recorded by the company's equipment in various jurisdictions. The company records an allowance on revenues based on historical collection rates and citation enforceability. Licence revenue is recognised in accordance with specific contract arrangements between the Group and third parties.

Deferred revenue
Certain of the Company's sales include the sale of equipment combined with the provision of services for a period exceeding one year. Revenue is recognised based on a commercial equipment sales margin, and service revenue is deferred and recognised over the period of service. Deferred revenue principally represents payments received for which services remain to be provided. Amounts are recognised as revenue when service has been provided.

Interest income
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

(h) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in associates, subsidiaries or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss;
- When the deductible temporary difference is associated with investments in associates, subsidiaries or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

Tax Consolidation Legislation
Redflex and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The head entity and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation group.

In addition to its own current and deferred tax amounts, Redflex also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to wholly-owned tax consolidated entities.

Other Taxes
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and;
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.

(i) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Furniture, fittings and other – over a period of three to five years
- Computer equipment – over a period of three years
- Plant and equipment – over a period to a maximum of seven years.

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate at each reporting date.

De-recognition
An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(j) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the

liability. Finance charges are recognised as an expense in profit and loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Redflex Holdings Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(l) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project, typically being between seven and ten years.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

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A summary of the policies applied to the Group's intangible assets is as follows:

	DEVELOPMENT COSTS
Useful lives	Finite
Amortisation method used	Amortised over the period of expected future benefit from the related project on a straight-line basis. The amortisation period is generally between 7 and 10 years.
Internally generated or acquired	Internally generated.

Impairment testing is performed annually on the reporting date for assets not yet available for use and more frequently when an indication of impairments exists. The amortisation method is reviewed at each financial year end.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Expenditures on advertising and promotional expenses are recognised as a component of marketing expense in the statement of comprehensive income when the Group has either the right to access the goods or has received the services.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

(m) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials and camera components: Purchase cost on a first-in, first-out basis. Components held for resale or conversion into fixed in-ground installations for traffic contracts are carried at cost. The conversion of these components to property, plant and equipment occurs at the point newly contracted sites are commissioned.
- Finished goods and work-in-progress: Cost of direct material and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(n) Impairment of non-financial assets other than goodwill

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review as to whether an indicator of impairment exists at each reporting date. This includes a comparison of the market capitalisation in comparison to the Company's asset values. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. This has been disclosed in note 20.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to dispose or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in liabilities on the statement of financial position.

The company collects citation revenue for cities in the U.S. under some contracts. The allocation of entitlements to the city and Redflex is made subsequent to each month end once the allocation has been determined. The proceeds are received in lock-box accounts and are treated as restricted cash until the allocation has been determined.

(p) Provisions and employee leave benefits

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

Contingent liabilities and contingent assets

Contingent assets and liabilities are recognised when the Directors consider other matters which, whilst considered remote, should be disclosed in the financial report.

Employee Benefits

(i) Wages, salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in accrued liabilities and provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating personal/sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long Service Leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, the Group's experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity that match as closely as possible the estimated future cash outflows.

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(q) Share Based payment transactions

Equity settled transactions

The Group provides benefits to certain employees (including key management personnel) in the form of share-based payment transactions whereby employees render services in exchange for rights over shares (equity-settled transactions).

Equity-settled awards granted by Redflex Holdings Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. These amounts are eliminated on consolidation. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Long Term Incentive Plan for Executives

Performance rights pricing model

The fair value of each performance right is estimated on the date of grant using a Black-Scholes option formula, with a Monte Carlo simulation to take market conditions into consideration, with the following weighted average assumptions used for grants made during the year. The valuation of the performance rights is performed independently.

FY16 and FY17 LTI Plans

The company uses EBITDARD as a financial KPI for the FY16 and FY17 LTI Plans. EBITDARD is calculated as Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs and excludes the impact of any impairment or reversal of impairment.

To assess whether performance has been met the company assess whether the Target EBITDRD has been met in relation to the financial year for which it relates. Performance rights vest progressively from a threshold level of performance to a maximum level.

LTI Plan prior to FY16

The company uses total shareholder return ("TSR") as the performance hurdle for the LTI Plan. TSR is calculated as the change in capital value of Redflex Holdings Limited over a three-year period, plus dividends, expressed as a percentage of the opening capital value. The use of a relative TSR based hurdle is currently market best practice as it ensures an alignment between comparative shareholder return and rewards for executives.

To assess whether the performance hurdles for each grant have been met, the company receives independent data from its external consultant which benchmarks the Company's TSR growth from the commencement of each grant against that of a pre-selected ASX peer group. KMP must satisfy the service conditions set at grant date. Performance rights vest progressively from a threshold level of performance to a maximum level.

The weighted average remaining contractual life for the performance rights is 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(r) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Trade receivables are classified as non-current when their expected date of receipt is greater than 12 months.

(s) Investment and other financial assets

Recognition and de-recognition
All purchases and sales of financial assets are recognised on the trade date, i.e. the date on which the Group commits to purchase the asset.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all of the risks and rewards of the financial asset. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset as if it has transferred control of the assets.

After initial recognition, available for sale financial assets are held at cost as fair value cannot be reliably measured.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after reporting date.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Earnings per share

Basic earnings per share is calculated as net profit/(loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of shares on issue, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Maintenance warranty

In determining the level of provision required for maintenance warranties the Group has made judgments in respect of the expected performance of the product, number of customers who will actually use the maintenance warranty and how often, and the costs of fulfilling the performance of the maintenance warranty. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are included in accrued liabilities.

(y) Asset retirement obligation

The fair value of a liability for an Asset Retirement Obligation is recorded as an asset and a liability when there is a legal obligation associated with the retirement of a long-lived asset and the amount can be reasonably estimated.

2.4 Changes in accounting policies and disclosures

There were no significant or material changes in accounting policies in the financial year.

NOTE 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans, finance leases, cash and short-term deposits and occasionally derivatives.

Risk Exposures and Responses

The Group manages its exposure to key financial risks, including interest rate and currency risk, and credit risk and liquidity risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group occasionally enters into derivative transactions, principally forward currency contracts. The purpose is to manage the transactional currency risks arising from the Group's operations and its sources of finance. Where derivatives are purchased, they are specifically in forward currency contracts. These derivatives provide economic hedges, but do not qualify for hedge accounting and are based on limits set by management and authorised by the Board.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rates and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, whilst liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

(i) Interest rate risk

The Group's exposure to market interest rates is primarily related to its debt obligations and cash holdings. During the prior year the Group repaid all interest bearing liabilities. This has significantly reduced the Groups exposure to interest rate risk. As at 30 June 2017 the exposure to interest rate risk is no longer considered material to the Group.

(ii) Foreign currency risk

The Group separates the management of exchange rate risk between translational and transactional effects of currency movements.

The Group has two main operations, with approximately 57.5% of the Group business occurring within the U.S., and the other 42.5% arising from within Australia, but through servicing other markets. As a result of significant investment in operations in the U.S. the Group's statement of financial position can be affected significantly by movements in the US$ / A$ exchange rates. The U.S. business incurs all revenue and the vast majority of its expenses in US$, apart from the cost of cameras sourced from the Australian operations in A$. The U.S. business operation accounts for the vast majority of the Group's capital expenditure requirements and related borrowings and accordingly, the Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US$.

Translational effects are therefore significant to the Group results with approximately 57% (FY16: 58%) of the Group's revenues and costs incurred in currencies (predominantly US$) other than the presentation currency of the Group, and the large capital expenditure related to that business also denominated in US$. The Group does not hedge translational risk through available hedging products.

Aside from the Redflex Americas operation, the Group also has transactional currency exposures arising

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occasionally from sales or purchases by an operating entity in currencies other than the functional currency. The Group requires its operating units to consider using forward currency contracts to eliminate the currency exposures on any substantial net transaction for which receipt or payment is anticipated to be more than one month after the Group has entered into a firm commitment for a sale or purchase. Sales and purchases in currencies other than the functional currency are irregular and evaluated against the revenue streams which they derive on a case by case basis. Any forward currency contracts entered into must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place, and to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 30 June 2017 the Group had no foreign currency hedge arrangements in place (FY16: nil).

At 30 June 2017, the Group had not hedged foreign currency purchases that are firm commitments, as offsetting natural hedges substantially offset risk. Other than the Redflex Americas operation, most sales commitments were denominated in A$, other than single contracts in Hong Kong, Canada, Saudi Arabia and Ireland.

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date.

At 30 June 2017, had the Australian dollar moved, as illustrated in the table below with all other variables held constant, post-tax profit would have been affected as follows:

The net assets of Redflex Americas are reflected in the segment results shown in Note 5.

Judgments of reasonable possible movements	Post Tax Profit/(loss) Higher/(Lower)		Equity Higher/(Lower)	
	30 June 2017 $'000	30 June 2016 $'000	30 June 2017 $'000	30 June 2016 $'000
AU$/US$ +10%	2,617	603	2,617	603
AU$/US$ – 5%	(1,515)	(350)	(1,515)	(350)

Management believes the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments.

(iii) Price risk

The Group's exposure to commodity and equity securities price risk is minimal.

(iv) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in each applicable note.

The Group trades only with recognised, credit-worthy third parties and collateral is not requested nor is it the Group's policy to securities its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which include an assessment of their independent credit rating, financial position, past experience, and industry reputation. Risk limits are set for each customer in accordance with parameters set by the Board. These risk limits are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is spread. There are no significant concentrations of credit risk within the Group.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms and usually requires a letter of credit to secure the receivable.

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(v) Liquidity risk

The Group's objective is to maintain continuity of funding through the use of bank loans and committed available credit lines. The Group's policy is to lock in borrowing facilities for a period of up to three years with individual loans borrowed under the facility rolling on a quarterly basis.

The remaining contractual maturities of the Group's financial liabilities are:

Consolidated	30 June 2017 $'000	30 June 2016 $'000
6 months or less	18,190	13,691
6-12 months	6,503	–
1-5 years	11,255	–
Over 5 years	–	–
	35,948	13,691

Whilst the Group does not currently hold any debt with third party institutions (the Group has access to an A$10 million working capital facility – A$Nil at 30 June 2017) following the initial settlement of US$5 million on 31 March 2017 with the City of Chicago, the Group is required to pay a further amount of US$15 million (with a total of US$5 million payable to the City by 31 December 2017 and the balance payable, in various annual instalments, by 31 December 2023, unless this date is extended under the terms of the agreement). Further details with respect the settlement with the City of Chicago are detailed in Note 16.

Maturity analysis of financial assets and liabilities based on management's expectation

The risk implied from the values shown in the table below reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in Redflex's ongoing operations such as property, plant, equipment, and investments in working capital such as inventories and trade receivables. These assets are considered in the Group's overall liquidity risk.

To monitor existing financial assets and liabilities as well as to facilitate the effective control of future risks, Redflex has established comprehensive risk reporting that reflects management's expectations of the settlement of financial assets and liabilities.

Year ended 30 June 2017

Consolidated	<6 months $'000	6-12 months $'000	1-5 years $'000	>5 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	8,199	–	–	–	8,199
Trade and other receivables	23,880	–	–	–	23,880
Other financial assets	–	–	–	441	441
	32,079	–	–	441	32,520
Financial liabilities					
Trade and other payables	18,190	6,503	11,255	–	35,948
	(18,190)	(6,503)	(11,255)	–	(35,948)
Net maturity	13,889	(6,503)	(11,255)	441	(3,428)

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Year ended 30 June 2016

Consolidated	<6 months $'000	6-12 months $'000	1-5 years $'000	>5 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	12,442	–	–	–	12,442
Trade and other receivables	27,506	–	–	–	27,506
Other financial assets	–	–	–	441	441
	39,948	–	–	441	40,389
Financial liabilities					
Trade and other payables	13,691	–	–	–	13,691
	(13,691)	–	–	–	(13,691)
Net maturity	(26,257)	–	–	441	(26,698)

(vi) Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

NOTE 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgments

Impairment of goodwill, plant and equipment and capitalised development costs

Disclosure in relation to impairment of goodwill, plant and equipment and capitalised development costs has been discussed in Note 20.

Depreciation of property, plant and equipment

Plant and equipment mainly consists of red light and speed camera detection equipment. These assets are installed in various cities throughout the U.S, New Zealand and Mexico. The contract periods for which these assets are installed vary significantly between contracts, however most contract periods are at least five years and have extension options of either one year or two years.

The Group depreciates these assets over a maximum of seven years on a straight line basis regardless of the length of the contract. The major components of the installation relate to the construction and civil engineering works associated with the installation, in addition to the camera and detection equipment. The Group expects the infrastructure to last for decades once installed, whilst the camera and detection equipment is expected to last for a period approximating seven years.

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Despite the longevity of the installation it is impaired upon termination or non-renewal of a contract to process traffic violations (and, in some instances, the outcome of many of these events is outside the control of the Group). Accordingly, it is difficult to assess the appropriate length of time over which to depreciate these assets.

Amortisation of capitalised development costs

Capitalised development costs are mainly attributed to capitalised labour associated with the development of new technology within the traffic enforcement industry. The contract periods for which the technology is used varies significantly and similar technology can be utilised for multiple contracts.

The Group amortises these assets over a maximum of ten years on a straight line basis regardless of the length of individual contracts for which the technology is used. The Group expects the technology to last for a period of ten years from inception, due to varying requirements of its customers. Management assesses development costs at each reporting date and if the technology is no longer in use it is considered impaired. Accordingly, it is difficult to assess the appropriate length of time over which to amortise these assets.

Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits in both the Australian and North American tax jurisdictions.

Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of profit or loss.

Recoverability of receivables

The Group continues to encounter uncertainties surrounding some contracts in certain countries including in the Middle East and Mexico. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Group continues to provide against the likelihood of ultimate collectability. In the current year provisions of $3.6 million and $3.0 million have been recorded in respect of the overdue receivable balances in the Middle East and Mexico respectively.

Long service leave provision

In determining the present value of the liability, probabilities have been applied in estimating the proportion of employees who will be entitled to long service leave and a percentage applied to reflect pay increases through promotion and inflation.

Citation work in progress

Management in the U.S. reviews the expected collection rates in relation to citation work in progress which is calculated by jurisdiction.

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Share based payments

The fair value of each performance right is estimated on the date of the award using a Black-Scholes option formula, with a Monte Carlo simulation to take market conditions into consideration, with the assumptions detailed in Note 26.

Contingent assets and liabilities

Contingent assets and liabilities are recognised when the Directors consider other matters which, whilst considered remote, should be disclosed in the financial report. These matters are discussed in Note 21.

Asset retirement obligations

The asset retirement obligation liability is based on what management expects future costs will be based on experience in terminated contracts.

NOTE 5. SEGMENT INFORMATION

The operating businesses are organised and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers particular products and services to different markets.

The Group operates within two key markets, The Americas and Australia/International (which comprises all other business, outside of The Americas). The Americas Traffic business is predominantly a Build Own Operate and Maintain ("BOOM") business providing fully outsourced traffic enforcement programs. The Australia/International Traffic business involves the sale of traffic enforcement products. The executive management team review the results of the Group at this level.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between operating segments. Those transfers are eliminated on consolidation.

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the years ended 30 June 2017 and 30 June 2016.

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Year ended 30 June 2017

Operating Segments	The Americas $'000	Traffic Operations Australia/ International $'000	Total $'000
Revenue			
Revenue from operations*	69,468	51,342	120,810
Inter-segment revenue	–	1,023	1,023
Total segment revenue	69,468	52,365	121,833
Inter-segment elimination			(1,023)
Total consolidated revenue			120,810
Result			
Profit before interest, tax, depreciation, amortisation, impairment and the legal settlement with the City of Chicago	10,131	1,887	12,018
Impairment of trade receivables	–	(3,672)	(3,672)
Legal settlement with the City of Chicago	(25,509)	–	(25,509)
Depreciation	(12,498)	(2,445)	(14,943)
Amortisation	–	(4,016)	(4,016)
Inter-segment royalty	1,592	(1,592)	–
Segment result	(26,284)	(9,838)	(36,122)
Head office result ^			(1,365)
Loss before tax and finance charges			(37,487)
Finance charges			(84)
Loss before income tax			(37,571)
Income tax benefit			(6,079)
Net loss after income tax			(31,492)
Assets and liabilities			
Segment assets	68,651	58,354	127,005
Head office assets			1,357
Total assets			128,362
Segment liabilities	41,633	14,560	56,193
Head office liabilities			1,206
Total liabilities			57,399
Other segment information			
Capital expenditure**	4,864	4,890	9,754
Head office capital expenditure			–
Total capital expenditure			9,754

^ Includes corporate depreciation of $18,000

*Sales revenue shown under the Americas segment includes sales arising in Canada of $2.1 million during FY17

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Year ended 30 June 2016

Operating Segments	The Americas $'000	Traffic Operations Australia/ International $'000	Total $'000
Revenue			
Revenue from operations*	79,980	56,795	136,775
Inter-segment revenue	–	3,845	3,845
Total segment revenue	79,980	60,640	140,620
Inter-segment elimination			(3,845)
Total consolidated revenue			136,775
Result			
Profit before interest, tax, depreciation, amortisation and impairment	15,194	15,710	30,904
Impairment	(3,098)	–	(3,098)
Depreciation	(16,728)	(1,907)	(18,635)
Amortisation	(763)	(6,039)	(6,802)
Inter-segment royalty	2,054	(2,054)	–
Segment result	(3,341)	5,710	2,369
Head office result ^			(5,282)
Loss before tax and finance charges			(2,913)
Finance charges			(685)
Loss before income tax			(3,598)
Income tax benefit			1,089
Net loss after income tax			(4,687)
Assets and liabilities			
Segment assets	50,611	60,793	111,404
Head office assets			28,341
Total assets			139,745
Segment liabilities	21,084	14,019	35,103
Head office liabilities			680
Total liabilities			35,783
Other segment information			
Capital expenditure**	7,626	1,145	8,771
Head office capital expenditure			2
Total capital expenditure			8,773

^ Includes corporate depreciation of $15,000

*Sales revenue shown under the Americas segment includes sales arising in Canada of $3.7 million during FY16.

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers. The company does not have external revenues from external customers that are attributable to any foreign country other than as shown.

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Revenue by geographical location		
The Americas	69,468	79,980
Australia	39,830	39,492
Other*	11,512	17,303
Total Revenue	120,810	136,775

*other includes Saudi Arabia, United Arab Emirates, Ireland, United Kingdom, New Zealand, Mexico and Asia.

NOTE 6. REVENUE, OTHER REVENUE, OTHER INCOME AND EXPENSES

	Consolidated	
	30 Jun 2017 $'000	30 Jun 2016 $'000
Revenues and expenses		
Revenue from sales of goods and services	120,810	136,775
Total Revenue	120,810	136,775
Depreciation, amortisation and impairment costs included in income statement		
Depreciation of plant and equipment	14,961	18,650
Amortisation of intangibles	4,016	6,802
Impairment of goodwill	–	3,098
Impairment of receivables	3,672	–
	22,649	28,550
Employee benefits expense		
Wages and salaries	48,709	41,694
Payroll benefits	6,904	7,002
Contract labour	10,156	9,455
Superannuation	2,277	1,829
Payroll taxes	2,918	2,733
Share-based payment expense	160	1,108
Other payroll related expenses	1,434	1,650
	72,558	65,471
Research and development costs		
Expensed in administration expenses	1,280	612

NOTE 7. DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed during FY17 and FY16.

Franking credit balance

	Parent	
	2017 $'000	2016 $'000
The amount of franking credits available for subsequent financial years are:		
Franking account balance at the end of the financial year at 30% (FY16: 30%)	–	480
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	–	–
The amount of franking credits available for future reporting periods:	–	480

The reduction in the available franking credits is due to net tax refunds received in the current year relating to the 2012 and 2013 tax years

NOTE 8. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of dilutive options not yet converted to shares. As the Company has recorded a loss for both FY17 and FY16 the impact of any dilutive options not yet converted to shares would be nil.

The following reflects the income and share data used in the total operations basic earnings per share computations:

	30 June 2017 $'000	30 June 2016 $'000
Loss for the period for basic earnings per share	(31,492)	(4,687)
	Thousands	Thousands
Number of ordinary shares for basic earnings per share	110,910	110,762

Redflex

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 9. INCOME TAX

The major components of income tax expense for the years ended 30 June 2017 and 30 June 2016 are:

Consolidated income statement

	30 June 2017 $'000	30 June 2016 $'000
Current income tax		
Current income tax charge (benefit)	(11,971)	2,128
Deferred tax		
Relating to origination and reversal of temporary differences	5,892	(1,039)
Income tax benefit reported in the consolidated statement of comprehensive income	(6,079)	1,089

A reconciliation between tax expense and the product of accounting loss multiplied by Australia's domestic tax rate for the years ended 30 June 2017 and 30 June 2016 is as follows:

	30 June 2017 $'000	30 June 2016 $'000
Accounting loss before income tax	(37,571)	(3,598)
At the statutory income tax rate of 30% (FY16: 30%)	(11,271)	(1,079)
Tax effect of current year permanent differences	3,353	397
Impact of tax rate differential on foreign operations	(729)	(166)
Research and development tax incentives	(1,778)	(107)
Tax effect of Group tax re-structure*	4,560	–
Tax effect of goodwill impairment	–	1,050
Under provision in prior years	(214)	994
At effective income tax rate of (16.2%), (FY16: 30.3%)	(6,079)	1,089
Income tax (benefit) / expense reported in the consolidated statement of comprehensive income	(6,079)	1,089

*Since around 31 December 2008, a 100% owned subsidiary, Redflex Traffic Systems Pty Ltd, an Australian incorporated company has been a subsidiary of Redflex Traffic Systems Inc. (a United States incorporated company) and a dual tax resident of both Australia and the United States.

During the year, the ownership of Redflex Traffic Systems Pty Ltd was transferred from Redflex Traffic Systems, Inc. to Redflex Holdings Limited, resulting in it becoming a wholly owned Australian subsidiary. Redflex Traffic Systems Pty Ltd was also re-domiciled for tax purposes to Australia resulting in it ceasing its United States tax residence, such that it became solely an Australian tax resident.

A tax expense of $4.6 million was recognised in the year end result, reflecting the United States Federal income tax expense from the above transactions. There is no cash tax payable on the domestication as the tax payable was absorbed by previously recognised historical net operating losses of $4.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Deferred Tax

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	30 June 2017 $'000	30 June 2016 $'000	30 June 2017 $'000	30 June 2016 $'000
(i) Deferred tax liabilities				
Accelerated depreciation for tax purposes	–		–	
Capitalised development costs	6,060	6,073	13	(1,102)
Other	21	64	43	(73)
Gross deferred tax liabilities	6,081	6,137		
(ii) Deferred tax assets				
Employee Entitlements	1,128	1,192	(64)	1,471
Provisions	5,677	3,116	2,561	752
Deferred tax asset on fixed assets	5,190	6,950	(1,760)	(1,743)
Deferred tax asset on legal settlement	5,930	–	5,930	–
Deferred tax asset on net operating losses	2,299	4,296	(1,997)	(338)
Carry forward research & development tax offset	3,124	2,212	912	144
Other	(184)	(438)	254	(150)
Gross deferred tax assets	23,164	17,328		
Deferred tax charge			5,892	(1,039)

At 30 June 2017 there is no recognised nor unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of the consolidated entity's subsidiaries, as the consolidated entity has no liability for additional taxation should such amounts be remitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 10. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following:

	30 June 2017 $'000	30 June 2016 $'000
Cash at banks and on hand	3,099	7,219
Restricted cash	5,100	5,223
	8,199	12,442

Reconciliation of net loss after tax to net cash flows from operations

	30 June 2017 $'000	30 June 2016 $'000
Net loss after income tax	(31,492)	(4,687)
Non cash flow items		
Depreciation expense	14,961	18,650
Amortisation of intangibles	4,016	6,802
Impairment of Goodwill	–	3,098
Deferred financing costs amortisation	–	233
Share based payments	(160)	1,108
Impairment of accounts receivable	3,672	–
Change in operating assets and liabilities		
Decrease / (increase) in prepayments	983	(660)
(Increase)/ decrease in receivables	4,923	6,897
(Increase) / decrease in inventories	(899)	2,282
(Decrease) / increase in taxation provisions	252	560
(Increase) / decrease in deferred tax asset	(5,836)	302
Decrease in deferred tax liability	(56)	(1,226)
Decrease in employee entitlements	(51)	(235)
Increase / (decrease) in deferred revenue	(136)	(451)
Increase / (decrease) in payables	22,686	(5,473)
Net cash flows from operating activities	12,863	27,200

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for periods between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents, inclusive of restricted cash, is $8.2 million (FY16: $12.4 million).

The Company collects citation revenue for municipalities under some contracts. The proceeds are received in lock-box accounts and are described in the notes as restricted cash. The allocation of entitlements to a municipality and to Redflex is determined and made subsequent to each month's end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 11. TRADE AND OTHER RECEIVABLES (CURRENT)

	30 June 2017 $'000	30 June 2016 $'000
Trade receivables	25,421	32,159
Allowance for impairment losses	(8,652)	(4,653)
	16,769	27,506
Work in progress	7,111	5,110
	23,880	32,616

Trade receivables are non-interest bearing and are normally on 30 day terms, with exception of Saudi Arabia, which generally has 90 day payment terms.

Movements in the provision for impairment loss were as follows:

	30 June 2017 $'000	30 June 2016 $'000
At 1 July	4,653	3,782
Charged for the year	6,369	871
Bad Debts written off	(2,370)	–
At 30 June	8,652	4,653

Due to the ongoing attempts to recover the debt owed by a Saudi Arabian based customer it was considered appropriate to fully provide against the remaining balance. The Directors remain confident of recoverability of the outstanding debt through an arbitration process scheduled for November 2017. The value provided this year was $3.7 million, taking the total to $4.7 million.

A further provision of $3.0 million was raised against outstanding receivables from Mexico. Given the rapid growth in revenue from that market some uncertainty exists over the full recoverability of outstanding balances.

As at 30 June the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days PDNI*	+ 91 days PDNI*	+ 91 days CI*
30 June 2017	25,421	13,061	1,058	611	2,039	8,652
30 June 2016	31,191	16,506	4,040	3,222	2,770	4,653

*PDNI – Past due not impaired

*CI – Considered impaired

NOTE 12. INVENTORIES

	30 June 2017 $'000	30 June 2016 $'000
Raw materials and camera components – at cost	6,864	5,965
Inventory provision	(760)	(760)
Total raw materials and camera components – at net realisable value	6,104	5,205

Raw material and camera components represent items held for the manufacture of photo enforcement camera systems for use within the U.S. business or for resale as individual components. Inventories are held at the lower of cost or net realisable value. Impairment for the year was recognised due to an analysis of the level of inventory which the Company held against its contract obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 13. OTHER CURRENT ASSETS

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Prepayments	1,994	2,977
Other current assets	838	679
	2,832	3,656

Other assets are non-interest bearing.

NOTE 14. PLANT AND EQUIPMENT

Year ended 30 June 2017

	Plant and equipment $'000	Motor vehicles $'000	Furniture and other $'000	Computer equipment $'000	Asset Retirement Obligation* $'000	Total $'000
At 1 July 2016 net of accumulated depreciation and impairment	39,509	2,021	55	2,634	3,471	47,690
Additions	8,393	–	571	790	291	10,045
Disposals	(1,282)	(28)	–	(17)	–	(1,327)
Depreciation for the year	(11,042)	(1,058)	(101)	(1,368)	(1,392)	(14,961)
Exchange adjustment	(1,004)	(8)	(2)	(45)	(92)	(1,151)
At 30 June 2017 net of accumulated depreciation and impairment	34,574	927	523	1,994	2,279	40,296
At 30 June 2017						
Cost	92,710	5,288	2,197	16,335	7,848	124,378
Accumulated depreciation and impairment	(58,136)	(4,361)	(1,674)	(14,341)	(5,569)	(84,082)
Net carrying amount	34,574	927	523	1,994	2,279	40,296
At 30 June 2016						
Cost	103,805	5,524	1,867	20,342	7,659	139,197
Accumulated depreciation and impairment	(64,296)	(3,503)	(1,812)	(17,708)	(4,188)	(91,507)
Net carrying amount	39,509	2,021	55	2,634	3,471	47,690

* Depreciation of the asset retirement obligation shall occur over the same time period that the liability accretes, and is calculated on a straight-line basis, primarily because the underlying equipment is depreciated on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Year ended 30 June 2016

	Plant and equipment $'000	Motor vehicles $'000	Furniture and other $'000	Computer equipment $'000	Asset Retirement Obligation* $'000	Total $'000
At 1 July 2015 net of accumulated depreciation and impairment	45,800	2,629	103	2,965	2,580	54,077
Additions	7,247	405	45	1,076	2,089	10,862
Disposals	(1,077)	(2)	(30)	(29)	–	(1,138)
Depreciation for the year	(14,521)	(1,007)	(61)	(1,421)	(1,640)	(18,650)
Exchange adjustment	2,060	(4)	(2)	43	442	2,539
At 30 June 2016 net of accumulated depreciation and impairment	39,509	2,021	55	2,634	3,471	47,690
At 30 June 2016						
Cost	103,805	5,524	1,867	20,342	7,659	139,197
Accumulated depreciation and impairment	(64,296)	(3,503)	(1,812)	(17,708)	(4,188)	(91,507)
Net carrying amount	39,509	2,021	55	2,634	3,471	47,690
At 30 June 2015						
Cost	188,519	5,388	1,878	19,148	5,840	220,773
Accumulated depreciation and impairment	(142,719)	(2,759)	(1,775)	(16,183)	(3,260)	(166,696)
Net carrying amount	45,800	2,629	103	2,965	2,580	54,077

* Depreciation of the asset retirement obligation shall occur over the same time period that the liability accretes, and is calculated on a straight-line basis, primarily because the underlying equipment is depreciated on a straight-line basis.

NOTE 15. INTANGIBLES AND GOODWILL

Year ended 30 June 2017

	Development Costs $'000
At 1 July 2016, net of accumulated amortisation and impairment	20,245
Additions	7,114
Amortisation for the year	(4,016)
At 30 June 2017, net of accumulated amortisation and impairment	23,343
At 30 June 2017	
Cost	53,454
Accumulated amortisation and impairment	(30,111)
Net carrying amount	23,343
At 30 June 2016	
Cost	51,546
Accumulated amortisation and impairment	(31,301)
Net carrying amount	20,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Year ended 30 June 2016

	Development Costs $'000	Goodwill $'000	Contracts $'000	Non-compete & Trademarks $000	Total $'000
At 1 July 2015, net of accumulated amortisation and impairment	23,259	2,948	427	272	26,906
Additions	3,099	–	–	–	3,099
Impairment*	–	(3,098)	–	–	(3,098)
Amortisation for the year	(6,004)	–	(449)	(349)	(6,802)
Exchange adjustment	(109)	150	22	77	140
At 30 June 2016, net of accumulated amortisation and impairment	20,245	–	–	–	20,245
At 30 June 2016					
Cost	51,546	5,581	2,007	986	60,120
Accumulated amortisation and impairment	(31,301)	(5,581)	(2,007)	(986)	(39,875)
Net carrying amount	20,245	–	–	–	20,245
At 30 June 2015					
Cost	53,550	5,581	1,951	959	62,041
Accumulated amortisation and impairment	(30,291)	(2,633)	(1,524)	(687)	(35,135)
Net carrying amount	23,259	2,948	427	272	26,906

*An impairment of $3.1 million was recognized in the Redflex Guardian Cash generating unit as a result of managements annual impairment test, in the prior year.

DEVELOPMENT COSTS

Development costs are capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised over its useful life using the straight line method, over a maximum of 10 years. The asset is tested for impairment when an indicator of impairment arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 16. TRADE AND OTHER PAYABLES (CURRENT)

	30 June 2017 $'000	30 June 2016 $'000
Current		
Trade payables and accruals	18,190	13,555
Payable in respect of the Legal settlement with the City of Chicago	6,503	–
Deferred revenue	–	136
Trade and other payables	24,693	13,691
Non-Current		
Payable in respect of the Legal settlement with the City of Chicago	11,255	–
Trade and other payables	11,255	–

Trade payables are non-interest bearing and are normally settled on 30 day terms. Other payables are non-interest bearing and have an average term of 60 days.

NOTE 17. INTEREST-BEARING LOANS AND BORROWINGS

In February 2017, the Company secured a A$10 million bilateral working capital facility with the Commonwealth Bank of Australia ("CBA"). The CBA facility was secured to ensure the Company had the required financial resources in order to service any potential working capital requirements from upcoming new contracts. Absent renewal, the current facility expires on 21 March 2018. The existing facility has a requirement to be paid down to $Nil for five consecutive business days in each calendar quarter. As at 30 June 2017 the facility balance was $Nil.

The Company is currently assessing options to secure a longer-term debt facility to both secure potential uplift in working capital requirements and future investment in potential growth opportunities, both organically and inorganically.

The Company has a cash balance of A$8.2 million which includes restricted cash of $5.1 million. Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a $2 million (reduced from $8 million during FY16) working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers.

The cash flows from operations are expected to be sufficient to fund the Group's capital requirements during the financial year ending 30 June 2018 ("FY18").

Bank indemnity guarantees

The Group's bankers have issued indemnity guarantees to certain customers in respect of letters of credit, bid bonds and performance bonds for $1.9 million (FY16: $1.9 million).

(a) Fair value

The carrying amount of the Group's current and non-current borrowings approximates their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Details regarding the risks associated with interest rate, foreign exchange and liquidity are disclosed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 18. CURRENT LIABILITIES – PROVISIONS

	30 June 2017 $'000	30 June 2016 $'000
Employee entitlements	3,390	3,153
Provision for warranties	442	338
Asset retirement obligation – liability	5,408	5,097
	9,240	8,588

NOTE 19. NON CURRENT LIABILITIES – PROVISIONS

	30 June 2017 $'000	30 June 2016 $'000
Employee entitlements	535	823
Asset retirement obligation – liability	4,211	4,953
	4,746	5,776

(a) Movements in provisions

	Maintenance Warranties $'000	Employee Entitlements $'000	Asset Retirement Obligations $'000	Total $'000
At 1 July 2016	338	3,976	10,050	14,364
Arising during the year	112	2,343	903	3,358
Utilised during the year	–	(2,291)	(1,018)	(3,309)
Exchange adjustment	(8)	(103)	(316)	(427)
At 30 June 2017	442	3,925	9,619	13,986
Current 2017	442	3,390	5,408	9,240
Non-Current 2017	–	535	4,211	4,746
At 30 June 2017	442	3,925	9,619	13,986
Current 2016	338	3,153	5,097	8,588
Non-Current 2016	–	823	4,953	5,776
At 30 June 2016	338	3,976	10,050	14,364

Superannuation

During the year ended 30 June 2017 the Group was obligated to contribute 9.5% of an Australian employee's salary up to the maximum contributions base into a superannuation fund of the employee's choice. All of the economic entities' responsibilities in respect to superannuation commitments relating to the year ended 30 June 2017 have been discharged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

(b) Nature and Timing of Provisions

(i) Maintenance warranties

A provision is recognised for expected warranty claims on products sold during the last two years, based on past experience of the level of repairs and "make good" costs.

It is expected that most of these costs will be incurred in the next financial year.

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty period for products.

(ii) Asset retirement obligation

The "Build Own Operate and Maintain" or BOOM business within the Americas traffic division is based on individual contracts with municipalities for Redflex to install and operate red light and/or speed enforcement equipment, generally for 5 years or less. Certain of these contracts require that, upon termination, Redflex removes the equipment and restore the municipality's site to its original condition.

(iii) Employee entitlements

The movement in the employee entitlements provision relates to extra entitlements incurred net of entitlements taken during the financial year.

NOTE 20. ASSET IMPAIRMENT

The Company performed its annual impairment test in June 2017. The Company considers its relationship between its market capitalisation and book value of equity, among other factors, when reviewing for indicators of impairment. At 30 June 2017 the market capitalisation of the Company was significantly below the book value of equity.

As part of the annual impairment test an assessment has been performed at the cash generating unit ("CGU") level to assess whether the CGU's recoverable amounts exceed the carrying value of the respective asset bases in accordance with AASB 136 – Impairment of Assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Determination of CGUs

For segment reporting purposes the Chief Operating Decision Maker ("CODM") reviews the Company's results based on geographical positioning. On this basis two segments have been identified by the Company being Traffic Operations in "The Americas" and "Australia and International". The CGU's identified by the Company are therefore as follows:

- The Americas traffic operations; and
- Australian and International traffic operations.

A summary of non- current assets held by the Company, is shown below:

	The Americas traffic operations**		Aust / International traffic operations		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Plant and equipment	32,922	42,705	7,374	4,985	40,296	47,690
Intangible assets	–	–	23,343	20,245	23,343	20,245
	32,922	42,705	30,717	25,230	63,639	67,935

In the prior comparative period being 30 June 2016 management assessed that Redflex Guardian was its own CGU. During the course of 2017 the way in which the chief operating decision maker views the business changed and Redflex Guardian results are no longer viewed at a stand-alone level. All goodwill in the Redflex Guardian CGU was impaired in the prior year. From FY17 onwards the Redflex Guardian CGU has been amalgamated into the "The Americas Traffic Operations" CGU. The comparative values of the Americas Traffic Operations CGU have been adjusted to reflect this change for clarity.

**The carrying value of assets in these CGU's are subject to fluctuations in foreign exchange.

Accounting polices

In accordance with the Company's accounting policies the following valuation methodologies are applied:

CGU	VALUATION METHODOLOGY
The Americas Traffic Operations	Value in use
Australian and International Traffic Operations	Value in use

Value in use

The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from managements' budgets for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the assets performance of the CGU being tested.

The Americas traffic operations

The carrying value of assets has been tested using cash flow projections from financial budgets covering a five year period. The post-tax discount rate applied to the projections is 12.6% (FY16: 15.2%). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2% (FY16: 2%).

Sensitivity analysis

The value in use model for the Americas traffic operations model is most sensitive to the following assumptions

- Gross revenue and number of systems installed (including contract churn);
- Gross margin on service contracts;
- Variation in operating expenses; and
- Discount rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Any variation in the key assumptions used to determine the recoverable amounts would result in a change in the assessed recoverable amount as detailed in the sensitivities below. These sensitivities assume that the specific assumption moves in isolation while all other assumptions remain constant. From the sensitivities performed there are no reasonably possible changes in circumstances that identify impairment.

Gross revenue and number of systems installed

Gross revenue and the number of systems installed is based on the current portfolio of fixed contracts which will continue into subsequent periods. Management has estimated the potential impact of both new contracts being awarded and the risk associated with current contracts in the cash flows in years 1 to 5 in the impairment model. The growth rates noted above are used for growth into perpetuity.

Gross margin on service contracts

Gross margins are based on actual data from the 2017 period and the expectation on margin at completion on significant projects in the short term. Margins are expected to increase over the budgeted period due to increased efficiencies within the business.

Variation in operating expenses

Operating expenses are based on actual figures from 2017 data adjusted for the expected impact of costs reduction policies which have been committed to by management.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU taking into consideration the time value of money and individual risks of underlying assets that have not been incorporated into cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived by the Weighted Average Cost of Capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data, which includes the specific amount and timing of future tax flows in order to reflect a post-tax discount rate for the Company.

Australian and International traffic operations

The carrying value of assets has been tested using cash flow projections from financial budgets covering a five year period. The post-tax discount rate applied to the projections is 12.6% (FY16: 14.2%). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2.0% (FY16:2.0%).

As a result of the analysis management did not identify any impairment in the CGU.

Sensitivity Analysis

The value in use model for the Australian and International traffic operations model is most sensitive to the following assumptions

- Gross revenue and number of systems sold and installed (including contract churn);
- Gross margin on service contracts;
- Variation in operating expenses; and
- Discount rates.

Any variation in the key assumptions used to determine the recoverable amounts would result in a change in the assessed recoverable amount as detailed in the sensitivities below. These sensitivities assume that the specific assumption moves in isolation while all other assumptions remain constant. From the sensitivities performed there are no reasonably possible changes in circumstances that identify impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Gross revenue and number of systems installed

Gross revenue and the number of systems installed is based on the current portfolio of fixed contracts which will continue into subsequent periods. Management has estimated the potential impact of both new contracts being awarded and the risk associated with current contracts in the cash flows in years 1 – 5 of the impairment model. The growth rates noted above are used for growth into perpetuity.

Gross margin on service contracts

Gross margins are based on actual data from the 2017 period and the expected margin at completion of significant projects. Margins are expected to increase over the budgeted period due to increased efficiencies within the business.

Variation in operating expenses

Operating expenses are based on actual figures from 2017 adjusted for the impact of cost reduction policies which have been committed to by management.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU taking into consideration the time value of money and individual risks of underlying assets that have not been incorporated into cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived by the Weighted Average Cost of Capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data, which includes the specific amount and timing of future tax flows in order to reflect a post-tax discount rate for the Company.

NOTE 21. CONTINGENCIES

The Company and its legal advisors closely monitor any legal actions that may have arisen during the course of its business. The Company asserts its rights and defends claims as appropriate. Provisions are not required in respect of these matters as at the date of this report, as it is not probable that a future sacrifice of economic benefits will be required.

NOTE 22. CONTRIBUTED EQUITY

	30 June 2017 $'000	30 June 2016 $'000
Ordinary shares:		
Issued, authorised and fully paid	101,765	101,765

Movements in ordinary shares on issue

	Number of shares	$'000
At 30 June 2015	110,762,310	101,765
Issued during FY16 as a result of:		
Vesting of performance rights under LTI Plan	–	–
At 30 June 2016	110,762,310	101,765
Issued during FY17 as a result of:		
Vesting of performance rights under LTI Plan	147,455	–
At 30 June 2017	110,909,765	101,765

Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

NOTE 23. ACCUMULATED LOSSES AND RESERVES

Movements in retained earnings / (accumulated losses) were as follows:

	30 June 2017 $'000	30 June 2016 $'000
Balance 1 July	(3,790)	897
Net loss	(31,492)	(4,687)
Balance 30 June	(35,282)	(3,790)

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 26 for further details of these plans.

NOTE 24. COMMITMENTS

(a) Bank indemnity guarantees

The Group's bankers have issued to certain customers indemnity guarantees in respect of letters of credit, bid bonds, and performance bonds for $1.9 million (FY16: $1.9 million).

(b) Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain computer equipment which the Group considers it is not in its best interests to purchase.

Operating leases also pertain to leased premises in Australia and the U.S. These leases have expiry dates varying from one year to less than seven years. Renewal options exist on all major leased premises at the company's discretion for periods of up to 5 years.

	Consolidated	
	30 June 2017 $'000	30 June 2016 $'000
Within 1 year	2,923	2,688
After 1 year but not more than 5 years	7,527	6,017
More than 5 years	712	466
	11,162	9,171

(c) Capital commitments

At 30 June 2017 the Group has commitments of $0.1 million (FY16: $0.1 million). These commitments principally relate to the installation of camera systems by the Americas business. Contracts generally specify that Redflex may install a number of cameras up to a specified limit provided that Redflex and the customer agree on the location and suitability of the proposed installations. Accordingly, the company has obligations to install further camera systems but it is not possible to determine how many will ultimately be installed. The commitments shown, therefore represent only those commitments supported by firm orders that have been placed for installations.

At reporting date, the commitments contracted, but not provided for, are:

	30 June 2017 $'000	30 June 2016 $'000
Within one year	83	76
After one year but not more than five years	–	–
Longer than five years	–	–
	83	76

NOTE 25. RELATED PARTY DISCLOSURES

The financial statements include the financial statements of Redflex Holdings Limited and the subsidiaries listed in the following table:

	Country of Incorporation	Equity interest 30 June 2017 %	Equity interest 30 June 2016 %
Controlled entities of Redflex Holdings Limited			
Redflex Traffic Systems Pty Ltd [1]	Australia	100	–
Redflex Enforcement Services Pty Ltd	Australia	100	100
Redflex Pty Ltd	Australia	100	100
RTS R & D Pty Ltd	Australia	100	100
Redflex Traffic Systems (Canada) Limited	Canada	100	100
Redflex Traffic Systems Limited	UK	100	100
Redflex Traffic Systems, Inc.	U.S.	100	100
Traffic Operating Systems (Saudi Arabia), LLC [2]	Saudi Arabia	100	100
Transtoll Pty Ltd	Australia	100	100
Redflex Irish Investments Pty Ltd	Australia	100	100
Redflex Traffic Systems Malaysia Sdn Bhd	Malaysia	100	100
Controlled entities of Redflex Traffic Systems Pty Ltd			
Redflex Traffic Pty Ltd	Australia	100	100
Controlled entities of Redflex Traffic Systems, Inc.			
Redflex Traffic Systems Pty Ltd	Australia	–	100
Redflex Traffic Systems (California), Inc.	U.S	100	100
Redflex Guardian, Inc.	U.S	100	100
Controlled entities of Redflex Guardian, Inc.			
Americore Enterprises, LLC	U.S	100	100
SBL Investments, LLC	U.S	100	100
Controlled entities of SBL Investments, LLC			
SBL Atlantic, LLC	U.S	100	100

1 On 22 December 2016 Redflex Traffic Systems Pty Ltd ceased to be a 100% owned subsidiary of Redflex Traffic Systems, Inc. in the United States and was re-domiciled in Australia becoming a 100% owned subsidiary of Redflex Holdings Limited.

2 Traffic Operating Systems (Saudi Arabia), LLC is a subsidiary of Redflex Holdings Limited (10%) and Redflex Enforcement Services Pty Ltd (90%).

The ultimate parent

Redflex Holdings Limited is the ultimate parent of the Group.

Associate

Redflex Holdings Limited owns a 16% non-voting equity interest in Road Safety Operations Holdings T/A Go Safe Ireland, via its subsidiary Redflex Irish Investments Pty Ltd. This investment is shown as other financial assets on the Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made as arm's length transactions at normal market prices and on normal commercial terms. These transactions relate to the day to day activities between companies in the Group.

Compensation of the Group's key management personnel including non-executive directors

	30 June 2017 $'000	30 June 2016 $'000
Short term employee benefits	1,676	1,749
Long-term employment benefits	43	72
Share based payments	144	279
	1,863	2,100

Short term employee benefits take into account the actual cash bonuses paid during the financial year for achievement of individual KPIs together with the amount accrued for short term incentives at year end based on Group and Divisional performance and expected to be paid during the subsequent financial year.

Other transactions and balances with key management personnel and their related parties

There has been no other transactions with KMP, apart from those listed in this note, in Note 26 and in the remuneration report.

Equity Purchases

Other than the issue of shares resulting from vested performance rights, all equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

NOTE 26. SHARE BASED PAYMENT PLANS

Long Term Incentive Plan

Redflex established a Long Term Incentive Plan ("LTI Plan") for executives in 2006. The LTI Plan Rules for Australian and United States executives are published on Redflex's website. The LTI Plan is based on grants of Performance Rights which vest into shares on a 1 for 1 basis at no cost to the participating Executive, subject to satisfaction of financial and non-financial KPIs.

A specific arrangement for the Group CEO has also been initiated during the year. Specific details in relation to the plans are detailed in the Remuneration Report.

Executive Share Plan

No shares were issued under the Executive Share Plan (ESP) in the financial year ended 30 June 2017 (FY16: Nil).

Option Holdings of key management personnel

Under the Employee Option Plan, Redflex may grant non-transferable options over ordinary shares to executives and certain members of staff. Nil unlisted options were issued under this plan in the financial year ended 30 June 2017 (FY16: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

Equity-settled transactions

The Company's has two performance right models in operation as for the year ended 30 June 2017. These are detailed below:

FY15 LTI Plan

The fair value of each performance right is estimated on the date of grant using a Black-Scholes option formula, with a Monte Carlo simulation to take market conditions into consideration, with the following weighted average assumptions used for grants made during the year. The valuation of the performance rights is performed independently.

FY16 and FY17 LTI Plans

The company uses EBITDARD as a financial KPI for the FY16 and FY17 LTI Plans. EBITDARD is calculated as Earnings before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs and excludes the impact of any impairment or reversal of impairment.

To assess whether performance has been met the Company assess whether the Target EBITDRD has been met in relation to the financial year for which it relates. Performance rights vest progressively from a threshold level of performance to a maximum level.

The performance rights are valued using a discounted cash flow methodology, which uses the face value of the share at grant date less the present value of the dividend expected to be paid on the share but not received by the holder during the vesting period.

Performance rights assumptions

Year ended 30 June 2017	21 December 2016	19 January 2017
Share price at valuation date	0.35	0.46
Expected volatility	N/A	N/A
Risk-free interest rate	N/A	N/A
Expected life of performance right	N/A	N/A
Fair value of performance right	0.35	0.46
Dividend yield	0%	0%

Year ended 30 June 2016	1 December 2015
Share price at valuation date	0.37
Expected volatility	N/A
Risk-free interest rate	N/A
Expected life of performance right	N/A
Fair value of performance right	0.37
Dividend yield	0%

Year ended 30 June 2015	4 May 2015
Share price at valuation date	0.585
Expected volatility	50%
Risk-free interest rate	1.91%
Expected life of performance right	3 years
Fair value of performance right	$0.20
Dividend yield	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

The dividend yield reflects dividends previously paid and the expected life of the right is the period up to vesting. The expected volatility is based on the Company's historical volatility and is designed to be indicative of future trends, which may also not necessarily be the actual outcome.

Each performance right will convert to one fully paid ordinary share for nil consideration subject to the satisfaction of the vesting conditions.

The weighted average remaining contractual life for performance rights is generally 3 years (FY16: 3 years).

Equity-settled transactions – continued

Movements in the year

Performance rights

The following table illustrates the movements in the performance rights during the year ended 30 June.

	Total Number	Date
Issued at 1 July 2016	3,825,055	
Changes during the current year		
Vested – performance to 3 December 2015	(147,455)	3 Nov 2016
Lapsed – performance to 3 December 2015	(1,980,017)	3 Nov 2016
Lapsed – performance to 14 June 2016	(190,652)	3 Nov 2016
Granted – performance to 21 December 2016	1,347,311	21 Dec 2016
Granted – performance to 19 January 2017	3,786,520	19 Jan 2017
Lapsed – Employees leaving the company	(82,866)	2 Feb 2017
Lapsed – Employees leaving the company	(222,772)	31 Mar 2017
Lapsed – Employees leaving the company	(284,852)	27 Jun 2017
Outstanding at 30 June 2017	6,050,272	

The total share based payment expense for FY17 was $0.1 million (FY16: $0.6 million)

NOTE 27. PARENT ENTITY INFORMATION

Information relating to the parent entity, Redflex Holdings Limited.

	30 June 2017 $'000	30 June 2016 $'000
Current assets	613	1,837
Non-current assets	120,863	75,520
Total assets	121,476	77,357
Current liabilities	1,291	616
Non-current liabilities	18	3
Total liabilities	1,309	619
Net assets	120,167	76,738
Contributed equity	101,765	101,765
Accumulated losses	7,236	(36,174)
Reserves	11,166	11,147
Total shareholders' equity	120,167	76,738
Profit / (loss) of the parent entity	43,409	(764)
Total comprehensive profit / (loss) of the parent entity	43,409	(764)

Contingent liabilities

With the exception of matters disclosed in Note 21 and elsewhere in this Annual Report, Redflex Holdings Limited does not have any contingent liabilities at 30 June 2017. Details of contingent liabilities identified in FY16 are detailed in the 2016 Annual Report.

Contractual Capital Commitments

With the exception of matters disclosed in Note 24, Redflex Holdings Limited does not have any contracted capital commitments at 30 June 2017 (FY16: Nil)

Guarantees

Redflex Holdings Limited is a joint party under the Syndicated Financing Facility. This facility was fully repaid during FY16.

Related Party Transactions

Refer to Note 25 for disclosure of transactions between the parent entity and related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

NOTE 28. EVENTS AFTER BALANCE SHEET DATE

On 2 August 2017 Mr Paul Clark resigned as Group Chief Executive Officer of the Company which was effective on Monday 21 August 2017. From Monday 21 August 2017, Mr Mark J. Talbot commenced with the Company as the new Group Chief Executive Officer.

Mr Clark was originally appointed as a non-executive director of the Company in April 2014 and, at the request of the Board, transitioned to become the Group Chief Executive Officer in September 2014.

Mr Clark also resigned as a director of the Company and all group companies of which he is currently a director effective 21 August 2017. Mr Clark will remain employed by the Company to assist in the handover process until 5 September 2017. Following this, the remaining portion of Mr Clark's six-month notice period will be paid in lieu of service. At the end of Mr Clark's employment on 5 September 2017, he will be entitled to 494,560 earned but unvested performance rights (which will immediately convert to 494,560 Redflex shares).

Details of Mr Talbot's remuneration agreement is as follows;

- A base pay of US$435,000 plus employment benefits, including health care, disability care and 401k contributions;
- An entitlement to participate in the Company's STI program, which is assessed annually against KPIs, with an entitlement of 40% of Base Pay for achieving such objectives, and a maximum entitlement of 60% of Base Pay for out-performance. Any STIs earned will be calculated and payable in US$;
- A relocation package of US$150,000 (as long as he remains employed the Company for at least one year following such relocation);
- On the commencement date of his employment, the Company granted Mr Talbot 1,597,523 performance rights as part of the Company LTI Plan; and
- On 21 August 2017, the Company granted to Mr Talbot 2,218,195 options to subscribe for 2,218,195 ordinary shares in the Company. The options will vest in equal tranches over 48 months, with the first tranche vesting six months after Mr Talbot's commencement date. Each option will expire 5 years after the vesting date.

No other matter or circumstance, other than those noted above has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

NOTE 29. AUDITOR'S REMUNERATION

	30 June 2017 $	30 June 2016 $
Amount received or due and receivable by for:		
An audit and review of the financial report of the consolidated entity	428,400	420,000
Amount received or due and receivable for other services in relation to the consolidated entity for:		
Taxation services	679,625	–
Other assurance services	101,736	–
	1,209,761	420,000

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Redflex Holdings Limited I state that:

1. In the opinion of the directors:

   (a) The financial statements and notes of Redflex Holdings Limited for the financial year ended 30 June 2017 are in accordance with the Corporations Act 2001 (Cth), including:

      (i) giving a true and fair view of its financial position as at 30 June 2017 and of its performance;

      (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001 (Cth);

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.2;

   (c) As detailed in Note 2.1 of the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors by the Group Chief Executive Officer and the Group Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 (Cth) for the financial year ended 30 June 2017.

On behalf of the Board

Adam Gray
Director
29 August 2017

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Independent auditor's report

To the shareholders of Redflex Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Redflex Holdings Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017 ;
- the consolidated statement of comprehensive income for the year then ended ;
- the consolidated statement of changes in equity for the year then ended ;
- the consolidated statement of cash flows for the year then ended ;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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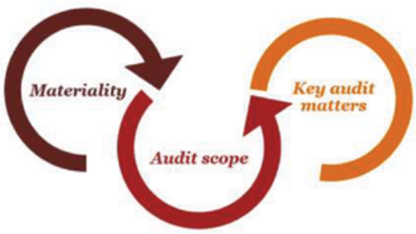
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Redflex Holdings Limited and its subsidiaries develop and manufacture a range of automated traffic enforcement products. The Group comprises two main subsidiaries: one focusing on the Australian and International markets and the other focusing on the United States of America, Canada, Mexico, Latin America and the Caribbean.



Materiality

- For the purpose of our audit we used overall Group materiality of $1.2 million, which represents approximately 1% of the Group's total revenue.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Our audit procedures were primarily performed at the principal places of business in Victoria (Australia) and in Arizona (United States of America).
- Our team included specialists in taxation and valuation.

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee:
  - Qui Tam Civil Litigation Settlement with the city of Chicago (United States of America)
  - Recoverability of receivable from debtor in Saudi Arabia
  - Impairment assessment over plant and equipment and intangible assets
  - Group restructure
- These are further described in the *Key audit matters* section of our report.

Materiality	Audit scope	Key audit matters
• We chose Group total revenue because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable revenue related thresholds.		

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Qui Tam Civil Litigation Settlement with the City of Chicago (United States of America) (Refer to notes 3(v) and 16 to the financial report) A$25.5 million The Group signed a Release and Settlement Agreement with the City of Chicago, on 4 February 2017 to settle and dismiss the Qui Tam civil litigation with the City of Chicago. Under the terms of the Release and Settlement Agreement the Group agreed to pay the City of Chicago US$20 million (A$25.5 million) with US$5 million paid in the 2017 financial year, US$5 million payable by 31 December 2017 and the balance payable in instalments by 31 December 2023. A$25.5 million was recognised as an expense for the year ended 30 June 2017, of which A$6.5 million is classified as a current liability and A$11.2 million as a non-current liability. This is a key audit matter as it has a significant impact on the results of the Group for the year ended 30 June 2017.	We inspected the Release and Settlement Agreement and recalculated the net present value of the liability based on the expected repayment terms. We tested the classification of the liability by agreeing the expected repayment dates to the Release and Settlement Agreement. We obtained legal confirmations from external and in-house legal counsel in respect of the settlement of the litigation.

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Key audit matter	*How our audit addressed the key audit matter*
Recoverability of receivable from debtor in Saudi Arabia (Refer to note 11 to the financial report) $4.7 million The Group continues to encounter uncertainties surrounding the recoverability of certain debtor balances. For a Saudi Arabian based customer, the Group has concluded to fully provide against the outstanding debtor balance of $4.7 million, increasing the provision for impairment loss by $3.7 million in the current year. This is a key audit matter due to the judgement involved surrounding the recoverability of the debtor balance.	We enquired of management and the directors as to their knowledge of the events and conditions that may cast doubt on the recoverability of the debtor balance. We inspected correspondence received from the debtor and assessed whether the matters raised indicated doubt about the recoverability of the debtor balance. We obtained legal confirmations from external and in-house legal counsel in respect of the ongoing nature of the claim with the debtor.
Impairment assessment over plant and equipment and intangible assets (Refer to note 14, 15, 20 to the financial report) As described in notes 14 and 15 to the financial report, the Group held $40.3 million of plant and equipment and $23.3 million of intangibles. The plant and equipment mostly relates to camera installations in the United States and the intangibles mostly relate to capitalised research and development. The Group assessed its cash generating units (CGU), concluding its two CGUs are the Americas traffic operations and the Australia and International traffic operations. Due to the net assets of the Group continuing to exceed its market capitalisation and the competitive environment in which the Group operates, the Group identified indicators of impairment in each of its CGUs during the year. As a result, the Group performed an impairment review for each CGU at 30 June 2017. These impairment reviews involved significant judgements made in relation to assumptions and estimates used in the value in use calculations, such as • Future trading cash flows, which are subject to uncertainty;	We assessed the judgements applied in determining the CGUs of the business and whether the composition of the Group's CGUs, being the Americas Traffic Operations and the Australia and International Traffic Operations, was consistent with our knowledge of the Group's operations. We considered the appropriateness of the methodology applied by the Group in performing the impairment review at 30 June 2017. In addition, we assessed the design and implementation of controls in respect of the impairment review process and considered the adequacy of disclosures made in the financial report, including those regarding key assumptions used in the impairment model, in light of the requirements of Australian Accounting Standards. We assessed the impairment models and calculations by: • Checking the mathematical accuracy of the impairment models; • Together with our valuation specialists comparing the discount rate and LTGR applied to the impairment reviews for each CGU to independently calculated data; • Comparing the Group's forecast annual growth rates to Board approved budgets and forecasts, externally available economic data and historical actual results; • Comparing the forecasted cash flows to actual cash flows for the period to assess the accuracy of

Key audit matter	*How our audit addressed the key audit matter*
• Discount rate utilised to discount future cashflows; • Revenue and cost assumptions; and • Long term growth rate (LTGR) applied to the calculation of the terminal value. As a result of the Group's asset impairment review at year end, no impairment was recognised. This was a key audit matter due to the judgement and subjectively in determining whether there are any impairment indicators or impairment charges.	the Group's forecasting and confirming its consistency with our knowledge of the business and the Group's strategic initiatives; • Performing sensitivity analysis in relation to key assumptions to consider the impact of changes on future cash flows and resulting valuations ; and • Evaluating the adequacy of the disclosures made, including those regarding key assumptions used in the impairment model, in light of the requirements of Australian Accounting Standards.
Group restructure (Refer to note 9 to the financial report) $4.6 million During the year, the ownership of Redflex Traffic Systems Pty Ltd (RTSPL) was transferred from Redflex Traffic Systems Inc (RTSI) to Redflex Holdings Limited (RHL), resulting in it becoming a wholly owned Australian subsidiary. RTSPL was also re-domiciled for tax purposes to Australia resulting in it ceasing its United States tax residence, such that it became solely an Australian tax resident. The Group reviewed the tax implications resulting from the change in Group structure. A tax expense of $4.6 million was recognised in the 30 June 2017 results, reflecting the United States Federal income tax expense from the Group restructure. There was no cash tax payable on the domestication as the tax payable was absorbed by previously recognised historical net operating losses of $4.5 million. This was a key audit matter due to the complexities associated with the Group operating in various tax jurisdictions and the complexity of the resulting tax implications of the Group restructure.	Our audit procedures, assisted by our tax specialists, both in the United States and Australia, included: • Obtaining the Group's restructure tax expense calculation; • Agreeing the mathematical accuracy of the tax expense and tax payable after utilising historical recognised net operating losses; and • Agreeing that the consolidation journal entries appropriately eliminate the transaction

Other information

The directors are responsible for the other information. The other information comprises the Chairman's Letter, Group Chief Executive Officer's Report, and Directors' Report included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 26 to 42 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Redflex Holdings Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
29 August 2017

ASX ADDITIONAL INFORMATION

Additional information required by ASX and not shown elsewhere in this report is as follows. This information is current as at 8 August 2017.

Distribution of equity securities

There were 1,527 holders of 110,909,765 fully paid ordinary shares quoted on the ASX. These shares carry one vote per share and carry the rights to dividends.

	Number of Holders	Ordinary shares	% of Issued Capital
1 – 1,000	395	182,269	0.16
1,001 – 5,000	574	1,463,961	1.32
5,001 – 10,000	209	1,562,320	1.41
10,001 – 100,000	293	8,772,741	7.91
100,001 – over	56	98,928,474	89.20
	1,527	110,909,765	100
Holding less than a marketable parcel of 863 shares @ $500	300	258,900	

Substantial holders

Name	Ordinary Shares	% of Issued Capital
Coliseum Capital Management	24,929,829	22.48
Sidney Ho	11,304,359	10.19
Mrs Elizabeth Cooper	8,040,058	7.25
Dumac	7,575,905	6.83
Elizabeth and Christopher Cooper	7,098,665	6.40
Ms Cheng Man Oy	6,355,305	5.73

Twenty largest holders of quoted equity securities

Name	Shares Held	% of Issued Capital
HSBC Custody Nominees (Australia) Limited-GSCO ECA	44,481,636	40.11
Mrs Elizabeth Geraldine Cooper	8,040,058	7.25
Blue Jade Pty Ltd	6,958,948	6.27
Investaco Pty Ltd	6,706,490	6.05
Ms Cheng Man Oy	6,355,305	5.73
Investaco Pty Ltd <Ho Family A/C>	4,050,622	3.65
Mr Christopher Austin Cooper	3,379,811	3.05
Citicorp Nominees Pty Limited	2,362,928	2.13
Vertex Bianca Nominees Pty Ltd <Superannuation Fund A/C>	2,149,944	1.94
Mr Graham William Davie	1,787,994	1.61
O'Connor Holdings Pty Ltd	1,571,215	1.42
J P Morgan Nominees Australia Limited	1,263,680	1.14
Vertex Bianca Nominees Pty Ltd	980,957	0.88
Character Home Sales Pty Ltd	947,242	0.85
Debuscey Pty Ltd	588,134	0.53
Mr Michael John Allen	500,000	0.45
Exton International Pty Ltd	360,343	0.32
Mr James Gerard Black	357,682	0.32
Mr Edward Sai ChiU Ho + Ms Jin Xing Ho <Superannuation Fund A/C>	296,064	0.27
Invia Custodian Pty Limited <The Morris Family AC>	293,500	0.26
Top 20 Holders of ordinary fully paid shares	93,432,553	84.23

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