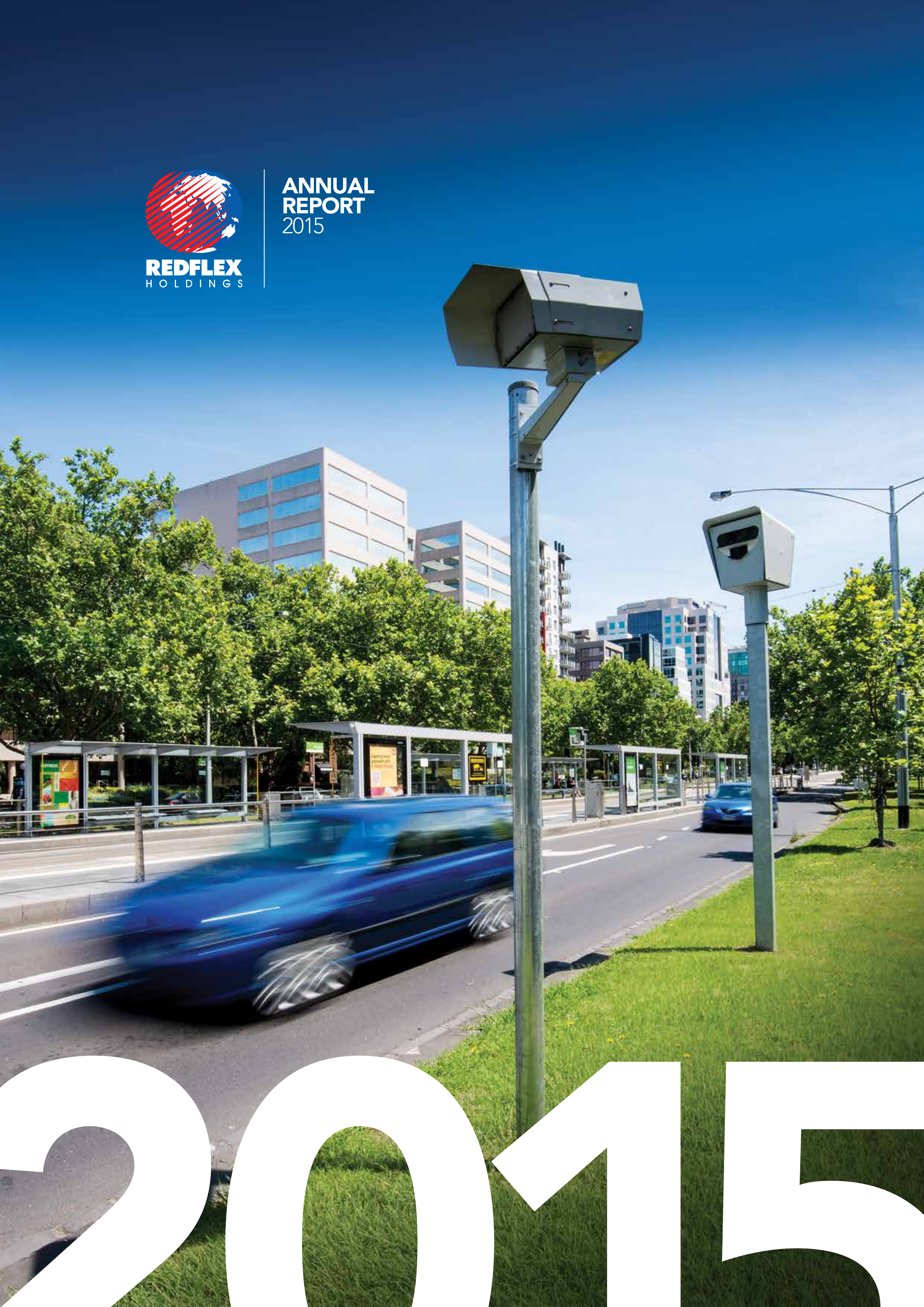
REDFLEX HOLDINGS

ANNUAL REPORT 2015



2015

MAKING A SAFER WORLD.

CONTENTS

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, the Company's 2015 ASX Corporate Governance Statement does not appear in this Annual Report and can be located on the Redflex website (www.redflex.com.au). To navigate to the Company's 2015 ASX Corporate Governance Statement and ASX Appendix 4G, please click on the "Investor Relations" tab and then on the "Corporate Governance" tab.

The URL for the 2015 ASX Corporate Governance Statement is:

http://www.redflex.com/documents/public_documents/corporate_governance/2015%20Corporate%20Governance%20Statement.pdf

The URL for the 2015 ASX Appendix 4G is:

http://www.redflex.com/documents/public_documents/corporate_governance/2015%20ASX%20Appendix%204G.pdf

REDFLEX HOLDINGS LIMITED

ABN 96 069 306 216
Redflex Holdings Limited shares are listed for quotation on the Australian Securities Exchange (ASX) under the ticker RDF.

Directors

Adam Gray, Chairman
Paul Clark, Group Chief Executive Officer
Clark Davey
Robert DeVincenzi
David McIntyre
Herman Schwarz
Terence Winters

Company Secretary

Craig Durham

Registered Office

31 Market Street, South Melbourne, Victoria, Australia 3205

Principal Places of Business

Australia

31 Market Street, South Melbourne,
Victoria, Australia 3205
Redflex Holdings Limited: Phone: +61 3 9674 1712
Redflex Traffic Systems Pty Ltd: Phone: +61 3 9674 1800

USA

23751 N 23rd Avenue, Phoenix,
Arizona 85085, USA
Redflex Traffic Systems Inc: Phone: +1 623 207 2000

Share Register

Computershare Investor Services
452 Johnston Street, Abbotsford, Vic 3067
Phone: 1300 850 505

Solicitors

KPMG Legal
10 Shelley Street, Sydney NSW 2000

Baker & McKenzie
181 William Street, Melbourne VIC 3000

Auditor

Ernst & Young
8 Exhibition Street, Melbourne VIC 3000

FINANCIAL PERFORMANCE SUMMARY

RESULTS FROM OPERATIONS

	2015	2014
Revenue ($M)	124.3	121.5
Profit before depreciation, amortisation, impairment, finance costs and tax ($M) *	18.5	27.8
Operating profit/(loss) after tax ($M)	(31.9)	(1.2)
Weighted average number of shares (million)	110.8	110.8
Basic earnings per share (cents)	(28.84)	(1.07)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents) *	16.7	23.0
Net tangible assets per share (cents)*	71.7	78.2

	2015	2014
Current assets ($M)	66.8	55.8
Non-current assets ($M)	98.9	115.6
Current liabilities ($M)	47.2	40.2
Non-current liabilities ($M)	12.4	13.4
Shareholders' equity ($M)	106.3	117.8

Previous corresponding period

The previous corresponding period is the year ended 30 June 2014.

* Note regarding non-IFRS financial information

1. Throughout this Annual Report, Redflex Holdings Limited ("the Company", 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

CONTINUING TO MEET OUR CHALLENGES

Dear Associates and fellow Shareholders,

Last year I wrote to you that Redflex continues to move forward, though there remains much work to be done. Today I am pleased to report that we are not only moving forward but continue to meet our challenges with renewed energy, urgency and the resolve to make difficult decisions intended to both protect and enhance the value of Redflex (Company).

Fundamental to this process has been accepting and dealing with past misconduct of a few former employees in the United States. I would like to assure you that your Board and management team continue to cooperate with the relevant authorities with the objective of concluding these matters as favorably and expeditiously as possible.

FY15 was a difficult financial year for the Company, but one in which the significant changes instigated by your Board and the management team have laid a strong foundation for improved performance and, ultimately, increased shareholder value over time.

Board Renewal

Since April of last year the Company has strengthened its Board of Directors, adding four new independent directors to its seven member Board. The new directors include Paul Clark, Herman Schwarz, Clark Davey and David McIntyre. These individuals bring to the Company operational and financial turnaround experience, transactional capabilities and sound business judgment. Each has enthusiastically rolled up their sleeves to help steward our course.

What we have found in our brief time is a company with significant potential and a strong core business, but one that needs (a) focus upon and expanded business development capabilities to profitably grow and diversify its revenue base; (b) rapid and effective changes to its cost structure; and (c) a high performance team aligned and able to drive transformative initiatives while bracketing risk.

While your Board is playing an active role in overseeing the execution of the business improvement initiatives I have outlined, everyone in the Company, from top to bottom, will be held accountable for our progress in achieving these objectives, and for enhancing shareholder value.

Leadership Team Renewal

During the year, we employed a leadership team that we are confident will be able to implement the Company's strategy. Paul Clark was appointed Group Chief Executive Officer just prior to last year's shareholders meeting and more recently re-appointed under an evergreen arrangement. Paul has already driven a significant amount of change within the business to better position the Company for the future.

Mr Brad Crump was appointed Group Chief Financial Officer in February 2015. Brad's primary focus has been financial reporting, management of the organization's cost base, asset productivity and working capital efficiency.

Also in February 2015, Craig Durham was appointed Group General Counsel and Company Secretary. In addition to focusing upon the Company's litigation issues, Craig has been strengthening the Company's risk and compliance and governance framework.

Mr Michael Finn was appointed Chief Executive Officer of the Company's Americas business effective July 2015. Michael's immediate focus has been to oversee the execution of strategies to improve the financial performance of the Americas business, aid in the execution of the initiatives I mentioned earlier, and expand the business into Mexico and Canada.

Cooperation with Authorities in the United States

The Company continues to respond as necessary to inquiries from the relevant authorities. This cooperation is in the best interests of the Company and importantly, the Company has not been charged in connection with the misconduct that we proactively disclosed.

We also recently announced pending action against Redflex Americas by the City of Chicago. We expect that this action will be amended by the City and we intend to mount a vigorous defense.

Our Future

Our evolving vision for the future of a global Redflex remains to enable efficient and safe traffic flows by delivering technology-led end-to-end solutions to a host of different, but related, customer groups.

Day-in and day-out, Redflex improves public safety through innovative red-light and speed enforcement solutions which are valued by customers around the globe. Simply put, the technologies and services that we provide save lives.

Among the important changes we have made:

- expanding in the United Kingdom, Europe, Canada, Mexico and Asia;
- diversifying into adjacent Intelligent Transport System markets (such as parking and tolling);
- exploring strategic alternatives to accelerate growth and diversification, as well to optimize our corporate structure
- reducing our cost base through better supply chain management and cost control;
- more effectively managing our working capital; and
- recruiting and upgrading our capabilities to create a high performing management team.

This list is by no means all-inclusive and we continue to focus precious resource on improving both our underlying business and the prospect for strategic, profitable growth.

Our Group Chief Executive Officer, Paul Clark, will provide further commentary on the Company's financial performance and the roster of key initiatives in his report to shareholders.

Conclusion

I would like to thank our management team and all of our Associates for their dedication to the Company and who, on a daily basis do what needs to be done to help save lives, improve our performance and meet the challenges that face us. I would also like to thank my fellow Board members for their commitment and courage to make the decisions to meet these same challenges.

We believe that we are moving in a positive direction and making the right, although tough, decisions to position the Company for future performance improvement and growth.

Finally, on behalf of your Company, I wish to thank you, our shareholders…your continued support is very much appreciated.

Adam L. Gray
Chairman

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX GROUP OVERVIEW

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

The Group has established itself as a world leader in the automated traffic enforcement products and services market, a market segment of the much larger Intelligent Traffic Systems (ITS) market. The ITS market is expected to grow at a CAGR of 12% between 2015 and 2020, and reach $34 Billion by 2020.

Redflex develops and manufactures a wide range of high-performing digital photo enforcement solutions including red light, speed and school bus stop arm systems which utilise the most advanced sensor and image capture technologies available. The Group also owns and operates one of the largest networks of digital speed and red-light enforcement systems in the world.

Our continuous development of new road safety products has been helping to save lives for more than 20 years.

The Redflex Group comprises two main subsidiaries: Redflex Traffic Systems Inc. is based in the United States of America ("USA"), and focuses on the Americas; and Redflex Traffic Systems Pty Ltd is based in Australia and focuses on the Australian and International markets.

In the USA, the company 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.

The Australian and International business offers a full suite of automated enforcement products and services via direct, distribution and BOOM contracts.

REDFLEX GROUP STRATEGY

As the photo enforcement market matures in the USA and Australia we have started to establish operations or relationships in selected countries and to compete for and win new contracts. We have also started to develop new products and services and more recently this has begun to yield contract wins in selected parts of the ITS market. Our strategy is to focus on those markets that have attractive growth profiles, unmet market demand and needs, acceptable risk and a high level of market fragmentation.

This aligns with the Group's strategy which is to:

- Consolidate the North American business and ensure we service our existing customers while continuing to position the Company to compete for upcoming photo enforcement contracts.
- Grow (organically and inorganically) in identified markets that suit the Company's technology and expertise while offering a stable financial and operating environment (e.g. United Kingdom ("UK"), Europe and Canada).
- Continue to pursue opportunities outside of photo enforcement that leverage our technological advantage (e.g. parking, tolling and traffic management).

To achieve our strategy Redflex is focused on the following initiatives:

- Leveraging our leading photo enforcement capability to expand more aggressively into New Zealand, Asia, Canada, Latin America, Mexico, Europe and the UK.
- Increasing the revenue from our existing photo enforcement installed base by upgrading and improving the performance of vintage systems, providing additional value added services and improving the operational effectiveness of the system installations.
- Repurposing our platform technology to diversify into adjacent ITS market segments including parking, tolling and traffic management.
- Reducing our cost base through product simplification, more efficient procurement practices and increased general cost control.
- Leveraging and increasing our competitive advantage through targeted research and development.
- Increasing shareholder value through the creation of a high performance team capable of delivering the transformational Group strategy.

REDFLEX GROUP – REVIEW OF OPERATIONS

Revenue from operations for the Group for the financial year ended 30 June 2015 (FY15) was $124.3 million, an increase of 2.3% on the previous year revenue of $121.5 million (FY14). The increased revenue was due to increased sales in the Australian and International business and a favorable exchange rate between the AUD and USA dollars ("USD") during 2015. The result was offset by lower revenues in the North American business.

Revenue in the Australian and International business increased by 29.7% to $49.4 million (FY14: $38.1 million). The increase was mainly driven by the Company enjoying a full 12 months of revenue from the New South Wales mobile speed camera contract, which commenced in the second half of FY14, and our expansion into the UK, Europe, Asia and New Zealand. We currently have a small presence in these markets but they provide Redflex with a significant opportunity to compete in growing markets and increase our revenue while reducing our reliance on the maturing USA and Australian photo enforcement markets.

The USA photo enforcement market continues to be challenging. Despite saving lives, our commercial opportunities and indeed the entire industry in the USA has been adversely impacted by negative civil rights sentiment that often results in the implementation of legislation designed to prohibit the use of photo enforcement systems in various states and precincts in the USA. The combination of these factors can and has led to contract terminations, lower contract renewal rates and the delay or abandonment of new programs. In 2015 our revenue fell to $75.0 million [1] (FY14: $83.5 million) primarily resulting from the loss of contracts in New Jersey and Ohio as previously disclosed. In addition, the FY14 result included seven months of revenue earned from the Chicago contract which ceased on 31 January 2014.

Our North American business has commenced plans to expand more aggressively into Canada and Mexico and is currently assessing the attractiveness of opportunities in the Latin American and Caribbean markets. The North American business also successfully completed the roll out of Redflex Guardian's Gwinnett County contract in the state of Georgia and is pursuing additional opportunities in other school districts.

Further, the above results have been impacted by favorable movements in the exchange rate between the AUD and USD during 2015 which the USD having appreciated on average approximately 8.8% during the year.

Profit before interest, tax, depreciation, impairment and amortisation was $18.5 million a decrease of 33.4% (FY14: $27.8 million). This decrease was due to the loss in earnings resulting from the loss of contracts in Chicago, Ohio and New Jersey.

Net loss before tax was $38.6 million, compared to the previous year loss before tax of $3.8 million. Net operating loss after tax was $31.9 million, compared to the previous year loss after tax of $1.2 million. The increased trading losses were predominately the result of non-cash impairment charges to property plant and equipment; capitalised development; inventory; and accounts receivable.

The cash flow from operations during FY15 decreased by 34.4% to $19.6 million compared to $29.9 million in FY14. The decrease was driven by the factors mentioned above.

Contributing factors to the year's results include:

- Impairment of plant and equipment of $18.1 million due to:
  - As a direct result of the recent reduction of the Redflex share price as compared with the carrying value of our assets (and pursuant to Australian Securities and Investments Commission ("ASIC") guidance) the Company was required to impair plant and equipment by $7.3 million (USD$5.6 million). More specifically, this impairment was calculated by the difference determined by the recoverable amount receivable from the fair value less costs of disposal of our North American traffic operations cash generating unit ("CGU") being below the carrying amount of assets held by the CGU ("the Carrying Value Adjustment").
  - A specific impairment of $10.8 million (USD$8.2 million) in relation to the termination of contracts in North America predominantly in New Jersey and Ohio.
- Impairment of capitalised development costs of $5.2 million due to:
  - The recoverable amount receivable from the fair value less costs of disposal of the North American traffic operations cash generating unit ("CGU") being below the carrying amount of assets held by the CGU. This resulted in an impairment of $4.5 million (USD$3.4 million) and is similar to the plant and equipment Carrying Value Adjustment discussed above.

1 Sales revenue for FY15 in local currency was USD$57.3 million & CAD$3.6 million (FY14: USD$73.6 million).

– A specific impairment of $0.7 million in relation to project costs in Redflex International.

- Impairment of inventory equal to $2.8 million in the Redflex International business.
- Impairment of accounts receivable equal to $1.7 million predominantly related to overdue receivables in the Redflex International business.

Year on year comparison

A comparison of the Group's performance for FY15 and FY14 is as follows.

	2015 $'000	2014 $'000
Profit before depreciation, amortisation, impairment, finance costs and tax	18,527	27,810
Less:		
Impairment of plant and equipment, capitalised development costs, inventory and trade receivables	27,761	2,306
Depreciation	22,945	23,276
Amortisation	5,653	4,776
Finance costs	771	1,294
Net loss before tax	(38,603)	(3,842)

During FY15, in addition to expanding into new markets and countries, we executed a number of revenue generation and cost reduction initiatives which we expect will improve the underlying performance of the business in the future.

DIVIDENDS

Dividends have not been declared in either FY15 or FY14.

NORTH AMERICAN OPERATIONS

Results for the North American Operations

Despite ongoing strong evidence that photo enforcement saves lives and improves road safety, the North American market remains challenging with banning and restricting legislation resulting in programs being abandoned or deferred and limited new programs. These issues impact the wider photo enforcement market, not just Redflex. During 2015 a number of our red light camera programs ceased, most notably New Jersey, Chicago and Ohio. Plant and equipment relating to these contracts was therefore impaired ($10.8 million) as a one off cost.

In FY15 revenue was down 10.2% to $75.0 million (FY14: $83.5 million) [2]. The total number of installed systems in the USA as at 30 June 2015 was 1,394 (FY14: 1,518), of which 1,081 were active. We also signed one new contract during FY15 (FY14: two contracts). While there has been limited new growth our renewal rate has been around 70% and we continue to provide a broader range of services to our customers. Due to the wider market dynamics discussed above, we expect that the North American market will continue to have limited growth. Our focus is to support and retain our existing customer base, grow in Mexico, Canada and Latin America, diversify into adjacent markets and reduce our cost base. In FY15, outside the USA, we won new photo enforcement contracts in Mexico City, Chihuahua State and Calgary.

Recognising the impact of the loss of the Chicago and New Jersey contracts on revenue, we implemented initiatives with a view to progressively reduce our cost base in the USA. Given the challenging market conditions we also continue to review our costs and have identified savings through process redesign, smarter procurement and organisational change, which should manifest in FY16.

During FY15 it was announced that the long running dispute with Jefferson Parish, Louisiana has, in principle, been resolved with the final hurdle being the approval of the settlement by the 24th Judicial District Court for the Parish of Jefferson. As part of the settlement, once approved, the Company will receive USD$9.0 million. The final hearing is currently scheduled for 13 November 2015.

2 Sales revenue for FY15 in local currency was USD$57.3 million & CAD$3.6 million (FY14: USD$73.6 million & CAD$1.4 million).

Redflex Guardian ™

In the USA, it is 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 Guardian™ is a photo enforcement system designed specifically on this prohibition and utilises video tracking to capture offences by drivers.

Redflex Guardian operates in a number of school districts. In December 2014 Redflex successfully executed a contract to install Redflex Guardian on an initial quantity of 300 buses for the Gwinnett County school district in the state of Georgia. Redflex Guardian generated revenue of $3.0 million [3] and has started showing improved levels of profitability in the final quarter of FY15.

We continue to pursue opportunities for Redflex Guardian with other targeted school districts throughout the USA.

Legal and Legislative Environment

The level of litigation regarding photo enforcement technology remains significant but continues to decline as the industry matures and litigation precedents accumulate. Note 21 to the Preliminary Final Report addresses legal actions that arise in the ordinary course of our business.

Redflex continues to face the challenges raised through local voter initiatives and referendums noting that citizen initiatives prevented several Redflex contracts from being renewed after their initial contract, consistent with industry dynamics.

REDFLEX INTERNATIONAL OPERATIONS

Our international business continued to expand both within Australia and internationally during FY15.

Some of the highlights for FY15 include:

Australia

Our focus in the Australian market is to continue to work with our customers to improve the effectiveness of their current photo enforcement programs, provide solutions to an increasing number of traffic management problems and provide more expansive end-to-end solutions.

New South Wales

Redflex was awarded four of the six regions of the New South Wales Roads and Maritime Services ("RMS") expanded Mobile Camera Program. Redflex had been operating the Interim Mobile Camera Program since 2010 which involved the provision of six manned vehicles together with adjudication services. The expanded program is for delivery of 7,000 hours per month, of which 4,667 hours is delivered by Redflex using thirty manned vehicles. Revenue is generated based on the number of deployment hours.

The Company also runs a network operations centre and a pre-verification processing service in Sydney, which will become a centre of excellence for Redflex's services in the region.

The Mobile Camera Program contract is valued at over $9 million per annum ($3.7 million recognised in FY 2015), and has an initial term of two and a half years, with two additional option periods of one year each. Now that we have fully developed and proven the performance of this service, our focus is to pursue opportunities in other Australian states and then overseas.

During FY15, in partnership with Skidata, Redflex has installed a total of 216 Automatic Number Plate Recognition ("ANPR") camera systems (at a value of $2.2 million) for car parks in large suburban shopping centres.

Queensland

We currently have nine photo enforcement systems and eighty-three ANPR parking systems. During FY15 we upgraded back office software and received an order to upgrade the point-to-point system to dual radar with point speed.

3 Sales revenue for FY15 in local currency was USD$ 2.4 million (FY14: USD$0.7 million).

Victoria

Redflex was awarded, late in June 2015, a contract worth more than $2.2 million to provide next generation computers and software upgrades to the existing red light and speed systems, over most of FY16. We continue to provide comprehensive maintenance services for 189 systems worth $4 million per year. During FY15 we installed 89 ANPR parking systems.

South Australia

Sixteen new point-to-point systems (worth $1.9 million) were added during the year giving a total of 24 such systems installed in South Australia. This is in addition to the 158 enforcement systems already installed.

Western Australia

In FY15 we received an order to upgrade the back office software utilised in Western Australia where we currently have 30 enforcement systems installed.

Northern Territory

We continue to maintain 18 Red Light and Speed sites on a time and materials based maintenance contract. During FY15 the back office operations contract was extended to 30 June 2016.

Redflex has a large installed base of supported installations and services in Australia. This base provides us with a number of opportunities to improve its performance through software and hardware upgrades. Our customers are also starting to outsource their back office and this is an opportunity for us to provide an end to end solution.

Asia

Our approach to the Asian market has been to develop relationships with strong local distributors. We currently have distributors and ongoing contracts in Hong Kong, Singapore, the Philippines and Malaysia. We are working on large project opportunities in the Philippines and Malaysia. These markets have large populations, traffic congestion and limited use of photo enforcement technologies, and therefore potentially represent a significant opportunity for the Group.

New Zealand

Redflex has been awarded a contract to provide fixed speed enforcement services to New Zealand Police. This is a service based contract to provide at least 18,500 days of speed enforcement per year for six years at a value of approximately $9.0 million per year.

United Kingdom

For the last few years, Redflex has been working with Highways England (formerly the Highways Agency), to introduce variable speed enforcement cameras for use on major UK roads. The ability to effectively enforce vehicle speed in locations where speed limits can be varied is an important management tool to most efficiently regulate traffic flows. Redflex received Home Office approval for the cameras during FY14 and has recently received two initial orders. During FY15 the program generated revenue of over $11 million. Whilst the program has grown significantly, part of the improved result is driven by foreign exchange appreciation of the AUD against the GBP by 6% year on year.

We have opened a UK office that will service both the UK and Europe. We believe that these markets have significant potential and therefore remain a key strategic focus for the Group.

Middle East

During 2015 the Saudi Arabian program operated in Eastern Province, Asser and Tabuk, providing services including both ticket processing and enhancements to the speed enforcement cameras. We are working with the customer to determine the operating model in FY16 as the current contract is due to finalise in October 2015.

OUTLOOK FOR THE 2016 FINANCIAL YEAR

During 2015 we made significant changes to the Group's operations to ensure we remained competitive. We have made a number of changes to the management team, introduced new systems and developed new products to create a platform for growth. In the 2016 financial year we will continue to refine the focus of the business in the following strategically critical areas that are judged most essential to building shareholder value:

Growth in Priority Markets

The company has and will continue to concentrate sales and marketing investments on its core geographic markets and a relatively small, carefully targeted set of aspirational markets. The global photo enforcement market consists of 70,000 photo enforcement systems, approximately 40% of which are located in the UK and Europe. Many of these systems are outdated technology and will be progressively replaced. To leverage this opportunity, we have established an office in London, England to service the UK and European market. As a consequence of a careful focus on priority markets, the company will be reducing its speculative investments in certain markets or technologies that are not expected to yield high probability returns in the intermediate term.

While the USA photo enforcement market offers limited growth in the intermediate timeframe, there are numerous opportunities to pursue adjacent opportunities in parking and tolling technologies and services, and to profitably expand our Redflex Guardian business.

Cost Reduction

During FY15 the business in the USA contracted through the termination or expiration of customer contracts. A number of cost reduction initiatives have been executed but it has been challenging to reduce the USA cost base at the same rate. In 2016 we will continue to focus on rapid responses to changes in our contracts portfolio and ensure that the cost model is properly sized to expected revenues through an ongoing focus on both direct and overhead cost levels. Importantly, we will also focus on protecting and expanding our existing relationships.

Optimising Cash Flow

In addition to prudent restructuring and direct and overhead cost reduction, the company will drive cash flow generation through improvements in working capital management and other initiatives to release trapped cash and capital.

Selective Capital Investment

Given that generating increased cash flow is a primary objective for the business in 2016, we will continue to critically assess all funding requests for new opportunities. These new opportunities must offer more significant growth rates or larger relative profits than our current business, align with our strategy and fit within our risk tolerance. The return on these investments will be closely measured.

Accelerated Growth

The company will continue to explore and evaluate various inorganic investment opportunities to accelerate our rate of growth, increase margins and improve profitability. As previously communicated our strategic engagement and resulting plans remain the focus of our inorganic activities.

We expect that the successful execution of the initiatives, identified in our strategic focus areas above, will improve our current operating model and our financial performance in FY16.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2015.

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-founded Coliseum Capital Management, LLC in 2006. Prior to Coliseum, Mr Gray had nearly 20 years of private equity and operating experience, working with and on behalf of firms including Metromedia Company, Texas Pacific Group, and Bain Capital.

In addition to various finance and transactional responsibilities, he has focused upon operational and financial restructurings as he helped lead organisations through highly complex and distressed situations.

Mr Gray is a Director of New Flyer Industries, Inc., United Subcontractors, Inc., Blue Bird Corporation, Uno Restaurant Holdings Corporation and Rocket Dog Brands LLC , where he serves as Chairman. 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.

He has a BSE Finance from the Wharton School and a BS Mechanical Engineering from the University of Pennsylvania.

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

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

PAUL CLARK

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

Group Chief Executive Officer

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 currently 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 period from 25 September 2014 to 28 May 2015, Mr Clark served as a member of the Risk & Compliance Committee and as a member of the Nominations Committee. From 28 May 2015, due to his appointment as Group Chief Executive Officer Mr Clark is no longer a member of any board committees at Redflex.

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

DIRECTORS' REPORT

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 presently serves as Executive Vice Chairman of the Board of Covia Health, a private health services company and is an Adjunct Professor 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.

HERMAN SCHWARZ

MBA, B.Comm

Non-executive director (Appointed 1 May 2014)

Since 2009 Mr Schwarz has served as the CEO of LogistiCare Solutions, the largest non-emergency transportation management company in the Medicaid and Medicare space with nearly US$800 million in revenues and distributed operations in 40 states in the USA, managing 58 million trips annually.

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.

DIRECTORS' REPORT

CLARK DAVEY

B.Comm, MAICD

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 ASX200 listed company.

Since 13 March 2015, Mr Davey has been the chair of the Audit Committee. Mr Clark 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

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 Seeing Machines Limited (a UK AIM listed company), Converge International Limited, and Intelledox Pty Ltd and completed his term as Chairman of Australian Home Care Services Pty Ltd on 10 September 2013.

He brings a great depth of experience in the governance and operations of international technology companies and social enterprises and he has a positive track record of leading strategic and cultural change programs at board level. After working for Motorola for 10 years, he founded Link Telecommunications Pty Ltd in Australia in 1982 and was Chief Executive Officer and/or Chairman of Link at different times until 1999 when 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 over 17 years on various boards within the Opportunity International Network (OIN) and served as global Chairman of Opportunity International Network Inc 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 was also Chairman of the Multiple Sclerosis Society of Victoria and MS Limited for 10 years until his term ended in 2007.

Mr Winters serves as Chair of the People, Culture & Remuneration Committee and is a member of the Risk & Compliance Committee and the Nominations Committee. During the last three years Mr Winters has not been a director of any other Australian listed public company.

MICHAEL MCCONNELL

former non-executive director

Mr McConnell ceased to be a director immediately following the 2014 Annual General Meeting on 13 November 2014.

Up until the date he ceased to be a director Mr McConnell was the chair of the Risk & Compliance Committee and also served as a member of the Remuneration Committee (now called the People, Culture & Remuneration Committee) and the Nominations Committee.

JOHN MURPHY

former non-executive director

Mr Murphy resigned as a non-executive director on 13 March 2015.

Up until 13 March 2015 Mr Murphy was chair of the Audit Committee and a member of the Nominations Committee.

DIRECTORS' REPORT

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 Mallesons Stephen Jaques. Mr Durham has also held senior legal and compliance roles at Foster's Group Limited in Melbourne and Foster's Wine Estates Americas (now 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 (formerly Chartered Secretaries Australia Ltd) 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	Number of Performance Rights over Ordinary Shares
Adam Gray	24,929,829	–
Paul Clark	–	–
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 2015 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	14	12	4	4	4	3	–	–	2	2
Paul Clark	14	14	3	3	–	–	3	3	–	–
Robert DeVincenzi	14	13	–	–	–	–	4	4	2	2
Clark Davey	8	8	2	2	2	2	–	–	1	1
David McIntyre	6	5	1	1	–	–	–	–	1	1
Herman Schwarz	14	13	–	–	4	4	4	4	2	2
Terence Winters	14	14	1	1	4	4	1	1	2	2
Michael McConnell	4	4	–	–	1	1	3	3	1	1
John Murphy	7	7	3	3	–	–	–	–	1	1

Notes:
Mr McConnell ceased to be a director on 13 November 2014.
Mr Murphy ceased to be a director on 13 March 2015.
Mr Davey was appointed as a non-executive director on 6 January 2015.
Mr McIntyre was appointed as a non-executive director on 13 March 2015.

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	Member to 28 May 15	–	Member to 28 May 15	Member to 28 May 15
Clark Davey	Current Chair	Member from 6 Jan 15	–	Member from 9 Jan 15
Robert DeVincenzi	–	–	Current Chair	Member
Michael McConnell	–	Member to 13 Nov 14	Chair to 13 Nov 14	Member to 13 Nov 14
David McIntyre	Member from 28 May 15	–	–	Member from 13 Mar 15
John Murphy	Chair to 13 Mar 15	–	–	Member to 13 Mar 15
Herman Schwarz	–	Member	Member	Current Chair
Terence Winters	Member to 28 May 15	Current Chair	Member from 28 May 15	Member

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Performance indicators

Management and the Board monitor the Group's overall performance, from implementation of the mission statement and strategy 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.

Operating results for the year

Revenue from operations for the Group for the financial year ended 30 June 2015 was $124.3 million, an increase of 2.3% on the previous year revenue of $121.5 million.

Profit before depreciation, amortisation, impairment, finance costs and tax was $18.5 million, a decrease of 33.5% over the previous year of $27.8 million.

Net operating loss before tax was $38.6 million, compared to the previous year loss before tax of $3.8 million.

Net operating loss after tax was $31.9 million, compared to the previous year loss after tax of $1.2 million.

These results were affected by a positive average AU$/US$ exchange rate movement of 8.8% over the year.

The cash flow from operations during FY15 decreased by 34.4% to $19.6 million compared to $29.9 million in FY14.

DIRECTORS' REPORT

REVENUE	First half $'000	Second half $'000	2015 $'000	2014 $'000	% change
North America Traffic business*	37,126	37,830	74,956	83,473	(10.2%)
Australian/International Traffic business	22,747	26,642	49,389	38,060	29.8%
Revenue	59,873	64,472	124,345	121,533	2.3%

* Includes sales of $3.7 million to Canada (2014: $1.4 million)

PROFIT BEFORE DEPRECIATION, AMORTISATION, IMPAIRMENT, FINANCE COSTS AND TAX	First half $'000	Second half $'000	2015 $'000	2014 $'000	% change
Traffic business	11,444	12,167	23,611	32,474	(27.3%)
Head Office costs	(2,102)	(2,998)	(5,100)	(4,672)	9.2%
Head office depreciation charge	7	9	16	8	100%
Profit before depreciation, amortisation, impairment, finance costs and tax	9,349	9,178	18,527	27,810	(33.4%)

LOSS BEFORE TAX	First half $'000	Second half $'000	2015 $'000	2014 $'000	% Change
Traffic business	(8,361)	(25,142)	(33,503)	830	(>100%)
Head Office costs	(2,102)	(2,998)	(5,100)	(4,672)	9.2%
Pre tax loss from operations	(10,463)	(28,140)	(38,603)	(3,842)	(>100%)

	First half $'000	Second half $'000	2015 $'000	2014 $'000
Net profit/(loss) after tax	(9,720)	(22,224)	(31,944)	(1,183)

Shareholder returns

	2015	2014	2013	2012	2011	2010	2009
Basic earnings/(loss) per share (cents)	(28.84)	(1.07)	6.61	13.69	9.33	0.68	10.54
Net tangible asset backing per share (cents)	71.70	78.22	87.90	78.32	78.36	91.69	83.64
Return on assets (%)	(19.3)	(0.7)	3.7	8.3	5.9	0.3	4.7
Return on equity (%)	(30.0)	(1)	5.8	13.2	9.9	0.6	10.8
Interest bearing debt/equity ratio (%)	18.3	13.5	20.8	21.2	35.9	69.5	91.6
Available franking credits ($'000)	480	462	26	2,356	4,757	5,931	7,839

DIRECTORS' REPORT

Liquidity and capital resources

The net debt position of the Group at 30 June 2015 was $2.4 million (including restricted cash of $5.0 million) (2014: $2.2 million including restricted cash of $3.8 million). Restricted cash is revenue collected on behalf of 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 2016 ("FY16").

Cash flows used in investing activities of $19.3 million (FY14: $23.4 million) reflect the purchase of motor vehicles and other assets to support ongoing customer servicing contracts, both in the International and the US operating segments and capitalised development costs.

Cash flows used in financing activities were nil (FY14: $13.4 million). During the period there were no repayments / drawdowns of loans. No dividend payments were made in the period.

Asset and capital structure

	2015 $'000	2014 $'000
Debt		
Interest bearing borrowings	(19,449)	(15,895)
Cash at bank, on hand, and restricted cash	17,035	13,749
Net debt	(2,414)	(2,146)
Total equity	106,319	117,766
Total capital employed	103,905	115,620
Gearing (%)	2.3%	1.8%

The Group's level of gearing is within the limits that the board considers prudent and that the Group's bankers consider acceptable.

Shares issued during the year

During FY15, nil (FY14: 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 1,468,933 performance rights on issue. At 30 June 2015, there were 1,754,607 performance rights on issue (30 June 2014: 2,824,092).

Options over shares

At the date of this report there are no options on issue (FY14: Nil).

Profile of debts

At reporting date the Company holds a Syndicated Financing Facility ("the facility") with a value of US$30.0 million (A$39.2 million). The facility expires on 7 August 2017 and also includes an accordion feature for a further US$30.0 million (A$39.2 million), which is uncommitted.

Due to the Carrying Value adjustment as detailed in Note 20, a technical covenant breach occurred and consequently the balance of the debt facilities is considered as a current liability at 30 June 2015. This breach has been remedied since that time as the Company and it's lenders entered into an Amendment and Restatement Deed on 29 September 2015.

On the same date, the Company and its lenders also amended the existing Facility Agreement and existing Security Trust Deed.

DIRECTORS' REPORT

Included within these amendments are certain specific conditions that include:

- The permanent reduction of the existing facility limit by US$9.0 million by the earlier of the date on which any member of the Redflex Group receives any proceeds connected in relation to the Jefferson Parish settlement (refer Note 11) or 31 December 2015. The draft settlement with Jefferson Parish was finalised on 9 September 2015 and the final stage of the remittance process is expected to be the final approval by the 24th Judicial District Court for the Parish of Jefferson on 13 November 2015.
- Inclusion of a review event (not considered an event of default) that if there is an award of damages against, or by agreement by, the Redflex Group to pay an amount of US$3.0 million or more in connection with the City of Chicago proceedings or any other litigation, arbitration or administrative proceedings. If such a payment is made by the Group no lender shall be obliged to fund any payment and if a majority of lenders agree, by not less than 30 days' notice they may cancel the syndicated facility and declare all outstanding amounts accrued immediately due and payable.

The Company continues to hold an A$8.0 million working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers.

The net debt position of the Group at 30 June 2015 was $2.4 million (including restricted cash of $5.0 million) (2014: $2.2 million including restricted cash of $3.8 million). Restricted cash is revenue collected on behalf of customers.

Capital expenditure

Capital expenditure for the year was $14.7 million (FY14: $16.0 million). Funds were directed to additional equipment required to service the US "BOOM" customer base, and motor vehicles to service an Australian customer's mobile speed detection requirements.

Treasury policy

Redflex Holdings Limited 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.

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). This framework 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 Company's Risk & Compliance Committee was separately formed on 24 June 2014 to assist the former Audit and Risk Committee (now Audit Committee) with its workload. Under its charter, the Risk & Compliance Committee has primary responsibility to oversee and make recommendations to the board about the Company's Risk & Compliance Policy and Framework, the effectiveness of the Company's risk and compliance program in managing such program to minimize losses and to maximize opportunities, the implementation of risk and compliance action plans prepared by management and to review these plans and the Company's global insurance program.

The Board, and through the Risk & Compliance Committee, oversees an annual assessment of the effectiveness of risk and compliance management and internal control within the Company. While the Company does not currently have a separate internal audit function, the tasks of undertaking and assessing risk management,

DIRECTORS' REPORT

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 monitoring and reviewing the compliance program, internal policies and procedures, risk management and insurance, the legal obligations of the Company, compliance investigations by management, reports and complaints, internal controls (in conjunction with the Audit Committee) 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 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 challenging the validity of our enforcement programs, causing us 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 public. 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. *Certain entities in the Group are, or may be, party to legal class actions or potential actions from ongoing investigations, which could jeopardise the Company's solvency.*

   Company strategy to mitigate – 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.

4. *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 has adopted and 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. The Company has also administered an intensive communications program with our client agencies to provide periodic updates on our actions and to seek input. The Company continues to keep the market informed of any material events during these investigations that relate to the Company or the market for its securities.

DIRECTORS' REPORT

5. *If we are unable to safeguard the integrity, security and privacy of our data or our customers' data, our business could be disrupted and our reputation impaired.*

   Company strategy to mitigate – The Company utilises sophisticated methods, standards and technologies to address our customer data integrity and security needs, as stated in their respective procurement documents.

6. *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. 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.

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

   Company strategy to mitigate – The Company vigorously defends against 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.

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

   Company strategy to mitigate – The Company's legal advisers 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.

9. *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.

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.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 17 July 2015 the City of Columbus ("Columbus") notified Redflex Traffic Systems Inc. ("RTSI") that Columbus intends to exercise their right to terminate the Columbus contract. This decision was not unanticipated by the Company and the Company had therefore previously recognised an impairment of $2.3 million in relation to Ohio assets in the half year financial report at 31 December 2014. Subsequent to this recent event, the Company has recognised a further impairment of $2.1 million resulting in a total impairment charge of $10.75 million for the year ended 30 June 2015.

On 31 August 2015 Chicago notified the Company that a qui tam legal action has been commenced in the Circuit Court of Cook County by Mr Aaron Rosenberg, a former executive of RTSI. Chicago has notified the Company that Chicago intends to intervene in this matter on behalf of the plaintiff (which means Mr Rosenberg will cease the role as plaintiff). Amongst other civil penalties, the legal action claims an award of damages treble the amount paid to RTSI by Chicago under the now terminated contracts between RTSI and Chicago. The claim alleges that the revenues earned by RTSI under the now terminated contracts were USD$100 million.

If successful, the claims and purported actions above may, individually or in aggregate, be material in nature noting however that these amounts are not capable of being accurately measured as at the date of this report.

Redflex will continue to exercise its rights as appropriate in relation to the above matters.

DIRECTORS' REPORT

There were no other significant events excluding remuneration arrangements, as detailed in section 9 of the remuneration report, subsequent to 30 June 2015 and prior to the date of this report.

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: Adam Gray, Paul Clark, Clark Davey, Robert DeVincenzi, David McIntyre, Herman Schwarz and Terence Winters and the Company Secretary, Craig Durham 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 Class Order 98/100.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, 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 Ernst & Young 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, Ernst & Young. 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 (Cth). 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 Ernst & Young in FY15 was $Nil (FY14 $Nil).

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Auditor's Independence Declaration to the Directors of Redflex Holdings Limited

In relation to our audit of the financial report of Redflex Holdings Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ashley Butler
Partner
Melbourne
29 September 2015

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2015 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 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 2015 (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. Contractual arrangements with interim chairman
7. Additional 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 Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

For the purposes of this report, the term 'executive' includes the Group Chief Executive Officer, the Group Chief Financial Officer, the Chief Executive Officers of the two operating subsidiaries and the Company Secretary of the parent for the year ending 30 June 2015.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Directors and key management personnel ("KMP")

Executive director

Paul Clark [1]	Group Chief Executive Officer, appointed on 25 September 2014

Non-executive directors

Adam Gray	Chairman (non-executive)
Clark Davey	Director (non-executive) appointed 6 January 2015
Robert DeVincenzi	Director (non-executive)
David McIntyre	Director (non-executive) appointed 13 March 2015
Herman Schwarz	Director (non-executive)
Terrence Winters	Director (non-executive)

Other KMP

Brad Crump	Group Chief Financial Officer, appointed 2 February 2015
James Saunders	Chief Executive Officer, Redflex Traffic Systems Inc, (resigned 30 June 2015)
Craig Durham	Group General Counsel and Company Secretary, appointed 9 February 2015

Former KMP

Executive director

Robert DeVincenzi [2]	Group Chief Executive Officer until 16 January 2014

Non-executive directors

John Murphy	Director (non-executive) resigned 13 March 2015
Michael McConnell	Director (non-executive) failed to be re-elected at 2014 annual general meeting on 13 November 2014
Paul Clark	Director (non-executive) resigned 24 September 2014
Albert Moyer	Director (non-executive) resigned 30 April 2014
Robin Debernardi	Director (non-executive) resigned 5 April 2014

Other KMP

Ron Johnson	Group Chief Financial Officer, ceased employment on 27 February 2015
Ricardo Fiusco	Chief Executive Officer, Redflex International (RI), ceased employment on 3 June 2015
Marilyn Stephens	Company Secretary, ceased employment on 10 February 2015

[1] Mr Clark was appointed as a non-executive director on 5 April 2014 and then subsequently appointed to the role of Group Chief Executive Officer on 25 September 2014. This disclosure in the remuneration report details Mr Clark's remuneration for his term as non-executive Director for the period from his appointment on 5 April 2014 to the date of his resignation on 24 September 2015. From 25 September 2014 until the reporting date of 30 June 2015 Mr Clark's remuneration is treated as an executive director.

[2] Mr DeVincenzi was the Group CEO until 16 January 2014 when he transitioned to a consulting role whilst remaining a member of the board as a non-executive director. The transition arrangements were completed on 15 January 2015 at which time Mr De Vincenzi role converted to that of a standard non-executive director.

Details regarding the transition agreement with Mr DeVincenzi are included in the relevant sections of this report.

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, recruitment, retention and termination policies and procedures for senior executives and other employees; executive director and senior executives' remuneration and incentives; the implementation, review and amendment of executive incentive plans; the remuneration framework for non-executive directors; the annual performance review of the Group Chief Executive Officer, the Chief Executive Officers of the subsidiary entities and other senior executives; the Company's people and culture including in relation to diversity; superannuation arrangements for all Company 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 senior executives and all awards made under the Long Term Incentive Plan (LTI), following recommendations from the PRC 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), having regard to management's recommendations.

The PCR Committee meets at appropriate times during the year. On invitation, the Group Chief Executive Officer attends certain PCR Committee meetings where management input is required. Neither the Group Chief Executive Officer, nor any senior 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 Investor Relations and Corporate Governance sections of the Redflex website.

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 2015.

Remuneration report shareholder vote

The resolution to accept the remuneration report at the 2014 Annual General Meeting (AGM) was defeated by 51% of votes cast. As this was less than a 75% majority the Company received a 'first strike' on its remuneration report. If there is a second shareholder vote on the remuneration report at the 2015 AGM that does not pass the remuneration report by the required 75% majority, the Company will receive a 'second strike'. If there is a 'second strike' a 'spill' resolution will be put to shareholders at the 2015 AGM.

During FY15, the PCR Committee has accepted 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. No changes were made to compensation policy for the Board or key management personnel during the reporting period.

Having noted this and the views of shareholders, the Board is 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 Board and shareholders.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

The Company's LTI Plan is designed to provide equity based incentives to senior executives to drive long term performance. Provided performance hurdles are met, which are aligned with shareholder interests, senior executives will be rewarded for their performance with performance rights with a 3 year vesting period and subsequent holding lock.

3. EXECUTIVE REMUNERATION ARRANGEMENTS

3a. Remuneration principles and strategy

The Company's executive remuneration strategy is designed to attract, motivate and retain high performing individuals and align the interests of executives and shareholders.

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

REDFLEX BUSINESS OBJECTIVE

To be recognised as an international leader in all markets in which the Company operates and to build long-term value for shareholders

REMUNERATION STRATEGY LINKAGES TO BUSINESS OBJECTIVE:

Align the interests of executives with shareholders

- The remuneration strategy incorporates "at-risk" components, including both short and long term elements delivered in equity.
- Performance is assessed against a suite of financial and non-financial measures relevant to the success of the Company and generating returns for shareholders.

Attract, motivate and retain high performing individuals

- Remuneration is competitive with companies of a similar size and complexity.
- Deferred and long-term remuneration is designed to encourage long term consistent performance and employee 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.
Short Term Incentive	Paid in cash.	To reward executives for their contribution to achievement of annual Group, business unit, and individual outcomes.	Linked to achievement of operational targets and key performance indicators.
Long Term Incentive	Awards are made in the form of performance rights which vest into shares or, in the USA, cash payments at the Board's discretion. No cash payments were made to any person under the LTI for the reporting period.	To reward executives for their contribution to the creation of shareholder value over the longer term.	Vesting of awards is generally dependent on the Company's Total Shareholder Return performance relative to an ASX peer group.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

3b. Approach to setting remuneration

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

Remuneration policies and arrangements for the Group Chief Executive Officer, the Group Chief Financial Officer, the Group General Counsel & Company Secretary and the CEOs of Redflex Traffic Systems Inc are reviewed by the PCR Committee and ratified by the Board each year. Remuneration policies and arrangements for the direct reports of the CEOs of Redflex Traffic Systems Inc. and Redflex Traffic Systems Pty Ltd, respectively are reviewed by them each year, as appropriate, and ratified by the Group Chief Executive Officer who reports to the Board with recommendations for the next year.

Remuneration levels are determined annually through a remuneration review that considers market data, remuneration trends, the performance of the Company, the business unit and the individual and the broader economic environment.

In FY15, the executive remuneration strategy consisted of fixed remuneration and STI and LTI incentives. In summary, the executive key management personnel (other than the Group Chief Executive Officer) have the following target remuneration mix.

	STI OPPORTUNITY	LTI OPPORTUNITY (FACE VALUE)
Business Unit CEOs, Group Chief Financial Officer and Group General Counsel & Company Secretary	30% of fixed remuneration with a maximum opportunity (if target stretch is met) of 60% of fixed remuneration	60% of fixed remuneration
Other executives	Between 10% and 20% of fixed remuneration with a maximum opportunity (if target stretch is met) of 40% of fixed remuneration	Between 0% and 40% of fixed remuneration

3c. Detail of incentive plans

Short Term Incentives (STI)

The Group operates an annual STI program that is available to senior executives and other key employees. The STI plan awards a cash bonus, subject to the attainment of clearly defined Group, business unit, and individual performance measures.

The actual payments that are awarded to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. Targets are set by a cascading process from the Board through the executive group. The targets generally consist of a number of financial and non-financial key performance indicators (KPIs). Measures such as contribution to net profit before tax, customer satisfaction, compliance and risk management, product management, and leadership/team contribution are typically included. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

In FY14 the Group introduced a Management STI Plan to provide compensation to eligible executives who had previously participated in the LTI Plan and will not participate in the plan going forward. Management STI rewards are capped to a maximum of 10% of fixed remuneration with payment measured against individual performance. FY15 will be the last year in which the Management STI Plan will be available.

On an annual basis, after consideration of performance against key performance indicators, the PCR Committee may recommend that the Board approves an overall performance rating for the Company and for each individual business unit. The individual performance of each executive is also rated and all three ratings are taken into account when determining the portion, if any, of the STI pool that is to be allocated to each executive. The process usually occurs within three months after the reporting date.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Long Term Incentives (LTI)

LTI awards are issued annually to executives in order to align remuneration with the creation of shareholder value over the long term. Accordingly, LTI awards 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 on the Redflex website. LTI awards are generally made annually in the form of performance rights that vest after three years subject to meeting the performance measure, with no opportunity to retest.

Performance Measure to determine vesting

The Company uses relative Total Shareholder Return (TSR) as the performance measure for the LTI Plan.

Relative TSR was selected as the LTI performance measure for the following reasons:

- TSR ensures an alignment between comparative shareholder return and reward for executives;
- The relative measure minimises the effects of market cycles.

For LTI awards granted in FY15, the peer group chosen for the comparison is the S&P/ASX300 constituents at the start of the performance period. This approach was used to simplify the LTI Plan and to provide better transparency and tracking of actual performance versus the index for executives in the plan.

The Group's performance is determined according to the Company's ranking against the companies in the TSR peer group over the performance period.

The vesting schedule is as follows:

RELATIVE TSR PERFORMANCE OUTCOME	PERCENTAGE OF AWARD THAT WILL VEST
Below the 50th percentile	0%
At the 50th percentile (target performance)	50%
Between the 50th and 75th percentile	Straight line vesting between 50-100%
At or above the 75th percentile	100%

TSR performance is monitored by an independent external adviser at 1 October each year.

Table 3 in section 7 provides details of LTIs awarded and vested during the year and Table 4 in section 7 provides details of the value of LTIs awarded, vested and lapsed during the year.

Change of control provisions

In the event of a change of control of the Group, the performance period end date will generally be brought forward to the date of the change of control, and awards will vest pro rata subject to performance over this shortened period and also subject to ultimate Board discretion.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

4. EXECUTIVE REMUNERATION OUTCOMES FOR FY15 (INCLUDING LINK TO PERFORMANCE)

Company performance and its link to short-term incentives

The financial performance measures driving 70% of STI Plan payment outcomes are the profit after tax of the Group and the relevant business unit for the financial year, compared to targets set at the start of the financial year.

Performance against targets

The following table outlines FY15 Group and business unit performance against targets.

Business unit	Performance measure	FY15 performance versus targets
Group	Profit after tax	Below target
USA operations	Profit after tax	Below target
International operations	Profit after tax	Below target

The following table outlines the proportion of maximum STI that was earned and forfeited in relation to FY15.

	FY15 – Proportion of maximum STI	
	% Earned	% Forfeited
Paul Clark[1]	30%	70%
James Saunders	–	100%
Brad Crump[2]	–	–
Craig Durham[3]	–	–

[1] Under Mr Clark's written employment agreement, Mr Clark is to be paid a minimum incentive amount of 30% of his base pay of $400,000 (as per the ASX announcement on 25 September 2014).

[2] Mr Crump was not in employment at the Company for the whole reporting period (commenced 2 February 2015).

[3] Mr Durham was not in employment at the Company for the whole reporting period (commenced 9 February 2015).

STI paid to former KMP

Mr Ricardo Fiusco was paid an STI amount of $81,885 in FY15 but in reference to performance over the FY14 year.

Mr James Saunders was paid an STI amount of USD$85,500 (AUD$102,344) in FY15 but in reference to performance over the FY14 year.

As detailed in Section 5 of the Remuneration Report, pro-rated STI amounts have been included in the termination consideration for Mr Ron Johnson and Mrs Marilyn Stephens.

Company performance and its link to LTI

The performance measure that drives LTI vesting for awards made in FY15 is Redflex's TSR performance relative to the TSR of companies in the S&P/ASX 300 index.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Redflex share price performance relative to the indices

During the 10 year period to 30 June 2015, the S&P/ASX300 Accumulation Index increased by 26.5%. The market performance of a Redflex share over the same period was a negative 85.2%.

Based on Redflex's share performance, as shown above:

- Performance rights in relation to the performance period which completed on 1 October 2014 did not vest; and
- Performance rights in relation to a performance period which will complete on 1 October 2015 are not expected to vest.

LTI vesting outcomes

The table below outlines both vesting and expected outcomes for outstanding awards in FY15. Projected outcomes for awards still to be tested are based on assuming a median ranking.

	GRANT 1 OCT 2011	GRANT 19 OCT 2012	GRANT 19 JUNE 2014*	GRANT 6 MAY 2015**
Relative TSR performance	Expect < 50%	Expect < 50%	Median ranking	Median ranking
Implication for vesting	At testing date 1 Oct 2014, nil vested and all performance rights lapsed.	At testing date 1 Oct 2015, nil expected to vest and all performance rights to lapse.	At testing date 1 Oct 2016, 50% of awards will vest if median ranking achieved.	At testing date 1 Oct 2017, 50% of awards will vest if median ranking achieved.

*Note for the grant on 19 June 2014 the performance period of performance rights is generally three years, however these performance rights have been granted with a shorter performance period to provide continuity of long term incentives to executives.

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

REDFLEX HOLDINGS

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Remuneration of Executive KMP

Table 1: Remuneration for the years ended 30 June 2015 and 30 June 2014

		Short term benefits				Post employment		Long term benefits	Share based payments		
		Salary and fees	Bonus^	Non monetary	Leave paid on termination	Super–annuation	Eligible termination payment	Long service leave	Performance rights	Total	Performance related
		$	$	$	$	$		$	$	$	%
Executive director											
Paul Clark [1]	2015	308,115	120,000	–	–	24,457	–	–	–	452,572	27%
	2014	–	–	–	–	–	–	–	–	–	–
KMP											
Brad Crump [2]	2015	152,084	–	–	–	14,448	–	–	12,879	179,411	7%
	2014	–	–	–	–	–	–	–	–	–	–
James Saunders [3]	2015	342,549	102,335	1,436	29,082	–	23,937	–	–	499,339	20%
	2014	301,023	97,345	1,307	–	–	–	–	43,119	442,794	32%
Craig Durham [4]	2015	97,757	–	–	–	9,287	–	–	8,407	115,451	7%
	2014	–	–	–	–	–	–	–	–	–	–
Former executive director											
Robert DeVincenzi [5]	2015	–	–	–	–	–	–	–	–	–	–
	2014	267,437	337,727	10,523	38,342	–	–	–	–	654,029	52%
Other former KMP											
Ron Johnson [6]	2015	192,473	–	–	71,250	15,787	322,599	–	–	602,109	0%
	2014	326,106	80,494	–	–	19,228	–	4,164	77,820	507,812	31%
Ricardo Fiusco [7]	2015	231,374	81,885	–	98,633	21,980	186,956	–	–	620,828	13%
	2014	246,305	80,494	2,850	–	22,783	–	4,164	64,927	421,523	34%
Marilyn Stephens [8]	2015	103,314	–	–	17,700	9,784	164,990	–	–	295,788	0%
	2014	129,842	7,658	–	–	12,718	–	2,228	27,232	179,678	19%
	2015	1,427,666	304,220	1,436	216,665	95,743	698,482	–	21,286	2,765,498	12%
	2014	1,270,713	603,718	14,680	38,342	54,729	–	10,556	213,098	2,205,836	37%

Notes to Table 1: Remuneration for the years ended 30 June 2015 and 30 June 2014

^ The bonus is calculated as being the actual cash bonus paid during the financial year for meeting individual KPIs, relating to the prior year, together with the amount accrued at year end based on Group and Divisional performance and either paid or expected to be paid during the next financial year.

* Superannuation for the period per ATO guidelines is capped at $18,873 per year. 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".

[1] Mr Clark commenced in his position of Group Chief Executive Officer ("CEO") on 25 September 2014. Prior to this date Mr Clark was a non-executive director. Mr Clark's executive remuneration is therefore noted in table 1 above. The remuneration he received in his role as non-executive director prior to his appointment as Group CEO is shown in table 2: non-executive director remuneration.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

[2] Mr Crump commenced his role as Group Chief Financial Officer ("CFO") on 2 February 2015.

[3] Mr Saunders held the position of Chief Executive Officer of Redflex Traffic Systems Inc. until his resignation on 30 June 2015.

[4] Mr Durham commenced his role as Group General Counsel and Company Secretary on 9 February 2015.

[5] The former Group CEO, Mr DeVincenzi was an executive director until 16 January 2014. For a 12 month period following this date he transitioned to a consulting role, whilst continuing to hold a position on the Board as a Non-executive director. Details of consulting remuneration Mr DeVincenzi received during FY15 a is shown in table 2: Non-executive director remuneration.

[6] Mr Johnson ceased employment as Group Chief Financial Officer on 27 February 2015.

[7] Mr Fiusco ceased employment as Chief Executive Officer of Redflex International on 3 June 2015.

[8] Ms. Stephens ceased employment as Company Secretary on 10 February 2015.

5. SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in employment agreements.

Group Chief Executive Officer Mr Paul Clark

Mr Clark is Group Chief Executive Officer of Redflex Holdings Limited and was appointed on 25 September 2014 for an initial 12 month period. Mr Clark's contract was subsequently extended on 24 September 2015. Details of his new contractual terms are contained within the respective subsequent event disclosures.

Under the terms of Mr Clark's existing employment contract:

- Mr Clark is entitled to be total fixed remuneration ("TFR") of $400,000 per annum plus superannuation.
- At the conclusion of his first year of service (30 September 2015) Mr Clark will also be entitled to an incentive payment of between 30% and 100% of his salary, depending on his achievement of agreed objectives, within 30 days of 30 September 2015. Mr Clark will receive an incentive payment of 30% of his base salary, which will be paid in cash ($120,000). The incentive will not be paid in performance rights as the resolution to issue these rights at the 2014 AGM was not passed.

Termination criteria (other than Cause):

- The agreement may be terminated by the CEO with 6 month's prior notice, or by the Company making a payment equivalent to the CEO's remuneration until the expiration of the term.

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.
- In the first year of employment Mr Crump will be entitled to participate in the Company's discretionary bonus scheme. Mr Crump will be entitled to receive a bonus of 30% of his gross base salary provided he achieves the targets and objectives set by the company. The bonus can increase to up to 60% of gross base salary for over-achievement of the objectives and targets set by the Company. As Mr Crump has not been in employment with the Company for longer than one year at 30 June 2015 no payment has been made in the current period.
- Mr Crump is entitled to receive performance rights calculated as a percentage of 40% of his TFR. On 4 May 2015 Mr Crump received 64,394 performance rights. The number of rights has been pro-rated as Mr Crump

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

commenced employment with the Company during the financial year.

Termination criteria (other than Cause):

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

President and CEO of Redflex Traffic Systems Inc. Mr James Saunders

Mr Saunders was the CEO of RTSI and headed the North America Traffic business. Mr Saunders has held this position since 17 July 2013 and resigned from the Company on 30 June 2015.

Under the terms of Mr Saunders' employment contract:

- Mr Saunders' annual TFR was US$285,000 (AU$342,549), effective 17 July 2013. As a result of the 2014 salary review no increase was approved for FY15.
- As announced in FY14 Mr Saunders was entitled to receive 30% of TFR provided he continued to serve until 30 June 2014, regardless of performance. As Mr Saunders achieved this objective a payment of US$85,500 (AU$102,335) occurred in October 2014.
- Mr Saunders was eligible to participate in the company's LTI plan and his normal maximum LTI opportunity is 60% of TFR. As Mr Saunders resigned from his position on 30 June 2015 no LTI is payable to Mr Saunders as all outstanding performance rights have been forfeited as noted in section 7 below.

Termination criteria (other than Cause)

- If Mr Saunders is terminated by the Company for any reason other than Cause, during the 12 month period following the Company's hiring of a Global CEO, the Company will pay Mr Saunders in full satisfaction of all its obligations, an amount equal to the lower of one year of Mr Saunders' current annual salary, or the maximum permitted under the termination payments provisions of Part 2D.2 of the Corporations Act 2001.
- Mr Saunders resigned as the President and CEO of Redflex Traffic Systems Inc. on 30 June 2015. Mr Saunders resigned in accordance with the terms of his employment contract and on this basis was not entitled to any compensation on exiting the business. Mr Saunders received a discretionary bonus of US$20,000 (AU$23,937) based on his performance.

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 is entitled to be paid TFR of $250,000 per annum plus superannuation.
- In the first year of employment Mr Durham will be entitled to participate in the Company's discretionary bonus scheme. Mr Durham will be entitled to receive a bonus of 30% of his gross base salary provided he achieves the targets and objectives set by the company. The bonus can increase to up to 60% of gross base salary for over-achievement of the objectives and targets set by the Company. As Mr Durham has not been in employment with the Company for longer than one year at 30 June 2015 no payment has been made in the current period.
- Mr Durham is entitled to receive performance rights calculated as a percentage of 40% of his TFR. On 4 May 2015 Mr Durham received 42,033 performance rights. The number of rights has been pro-rated as Mr Durham commenced employment with the Company during the financial year.

Termination criteria (other than Cause):

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Former Group Chief Financial Officer Mr Ronald Johnson

Mr Johnson was Group Chief Financial Officer and was employed by Redflex Holdings Limited until 27 February 2015. Additionally, Mr Johnson performed the role of Interim Chief Operating Officer for a six month period commencing on 16 January 2014 when Mr. DeVincenzi stepped down as Group CEO.

Under the terms of Mr Johnson's employment contract:

- Mr Johnson's annual TFR was AU$272,950, effective 1 October 2013. As a result of the 2014 salary review no increase was approved for FY15. Furthermore, he received an additional $50,000 for his term as Interim Chief Operating Officer for the six month period commencing 16 January 2014.
- STIs of up to 30% of TFR are normally available on achievement of performance targets with a further 30% available for over-achievement of those targets. As Mr Johnson left employment with the Company on 27 February 2015 he received a pro-rated amount of $54,590 for the period 1 July 2014 to 27 February 2015. This amount was paid when Mr Johnson left the Company and formed part of his termination package as discussed in more detail below.
- Mr Johnson was eligible to participate in the company's LTI plan and his normal maximum LTI opportunity is 60% of TFR. As Mr Johnson ceased employment on 27 February 2015 no LTI is payable to Mr Johnson as all outstanding performance rights have been forfeited as noted in section 7 below.

Termination criteria (other than Cause):

- Either Mr Johnson or the Company was able to terminate the employment relationship at any time for any lawful reason, or no reason, with or without cause. If the company terminates Mr Johnson's employment for any reason other than cause the Company would pay any total fixed remuneration due to Mr Johnson through to the last day of employment, plus any accrued bonus, and the Company would continue to pay Mr Johnson's total fixed remuneration for a period of one week for every four months of completed service up to a maximum of 39 weeks after the effective date of termination.
- As Mr Johnson ceased employment on 27 February 2015. On this basis he was entitled to the following payments which were made on termination:
  - A payment in respect of 39 weeks of Mr Johnson's salary amounting to $205,021;
  - A payment in respect of the Fair Work Act 2009 amounting to $62,988;
  - A payment of $54,590 with respect to the pro-rated amount of Mr Johnson's STI for FY15 total amount $35,000 was deposited to Mr Johnson's superannuation fund, with the balance being paid in cash to Mr Johnson;
  - A payment in respect of the five week notice period provided to Mr Johnson amounting to $26,294. (This amount has been included in "salaries and fees" in table 1).
  - A payment to Mr Johnson's for accrued annual leave not taken at 27 February 2015 amounting to $25,340; and
  - A payment to Mr Johnson's for accrued long service leave not taken at 27 February 2015 amounting to $45,910.

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REMUNERATION REPORT (AUDITED)

Former CEO of Redflex Traffic Systems Pty Ltd Mr Ricardo Fiusco

Mr Fiusco was CEO of Redflex Traffic Systems Pty Ltd until 3 June 2015, and was head of the Australian/International Traffic business.

Under the terms of Mr Fiusco's employment contract:

- Mr Fiusco's annual TFR was $272,950 effective 1 October 2013. As a result of the 2014 salary review no increase was approved for FY15.
- STIs of up to 30% of TFR are normally available on achievement of performance targets with a further 30% available for over-achievement of those targets. The payment made in October 2014 for $81,885 relates to a bonus for Mr Fiusco's performance for FY14.
- Mr Fiusco was eligible to participate in the company's LTI plan and his normal maximum LTI opportunity is 60% of TFR. As Mr Fiusco ceased employment on 3 June 2015 no LTI is payable to Mr Fiusco as all outstanding performance rights have been forfeited as noted in section 7 below.

Termination criteria (other than Cause):

- Either Mr Fiusco or the company was able to terminate the employment relationship at any time for any lawful reason, or no reason, with or without cause. If the Company terminates Mr Fiusco's employment for any reason other than cause the Company would pay any total fixed remuneration due to Mr Fiusco through to the last day of employment, plus any accrued bonus, and the Company would continue to pay Mr Fiusco's total fixed remuneration for a period of one week for every four months of completed service up to a maximum of 39 weeks after the effective date of termination.
- Mr Fiusco ceased employment on 3 June 2015. On this basis he was entitled the following payments which were made on termination:
  - A payment in respect of 39 weeks of Mr Fiusco's salary amounting to $186,956;
  - A payment to Mr Fiusco's for accrued annual leave not taken at 3 June 2015 amounting to $42,942; and
  - A payment to Mr Fiusco's for accrued long service leave not taken at 3 June 2015 amounting to $55,691.

Former Group CEO Mr Robert DeVincenzi

Transition Agreement

On 17 July 2013, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. Mr DeVincenzi continued as Group CEO up until 16 January 2014 when he became a Non-executive Director, whilst the Board conducted a search for a replacement. The key terms of the Transition Agreement with respect to FY15 are as follows:

- For a twelve month period ending on 15 January 2015, Mr DeVincenzi will provide consulting services as reasonably requested of up to 20 hours per week. Over this period he may perform services for or be employed by other companies other than a competitor. Over this period he is entitled to a consulting fee of US$25,000 per month and is entitled to be reimbursed for family health insurance premiums.
- Following the completion of the transitional period on 15 January 2015 Mr DeVincenzi transitioned to a standard non-executive director role.
- Details of fees received in respect of total services are shown in section 6, Table 2.
- Details of Mr DeVincenzi's terms as a result of leaving the position of Group CEO on 16 January 2014 are detailed in the 2014 annual report.

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REMUNERATION REPORT (AUDITED)

Former Company Secretary Mrs Marilyn Stephens

Mrs Stephen's ceased employment on 10 February 2015. On this basis she was entitled to the following payments which were made on termination:

- A payment in respect of 39 weeks of Mrs Stephen's salary amounting to $109,809;
- An additional redundancy payment of $33,787;
- A payment of $21,394 with respect to the pro-rated amount of Mrs Stephen's STI's for FY15;
- A payment in respect of the five week notice period provided to Mrs Stephen's amounting to $21,718. (This amount has been included in "salaries and fees" in table 1).
- A payment to Mrs Stephen's for accrued annual leave not taken at 10 February 2015 amounting to $1,268;
- A payment to Mrs Stephen's for accrued long service leave not taken at 10 February 2015 amounting to $4,231; and
- A payment to Mrs Stephen's for accrued personnel leave not taken at 10 February 2015 amounting to $12,201.

6. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

6a. 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 directors of the highest calibre whilst 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 NEDs of comparable companies. The board considers 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 a 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.

6b. Structure of non-executive director remuneration

With the exception of Mr DeVincenzi, each NED receives a fixed fee for being a director and a fee for the additional time commitment made by directors who serve as Chair and/or on one or more sub committees. NEDs do not receive retirement benefits, except for superannuation where this is applicable, nor do they participate in any incentive programs. The remuneration of NEDs for the years ended 30 June 2015 and 30 June 2014 is detailed in Table 2.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Table 2: NED remuneration for the year ended 30 June 2015 and comparative 2014

		Short-term benefits	Post-employment	Other short-term benefits			
		Salary and Fees	Super-annuation	Total Directors' Fees	Other fees	Non-monetary	Total
Adam Gray [1]	2015	147,500	–	147,500	–	–	147,500
	2014	68,480	–	68,480	–	–	68,480
Paul Clark [2]	2015	18,411	6,563	24,974	–	–	24,974
	2014	17,966	1,662	19,628	–	–	19,628
Robert DeVincenzi [3]	2015	47,188	–	47,188	209,456	14,139	270,783
	2014	–	–	–	–	–	–
Michael McConnell [4]	2015	–	–	–	–	–	–
	2014	263,421	–	263,421	–	–	263,421
John Murphy [5]	2015	40,513	3,524	44,037	–	–	44,037
	2014	21,233	1,964	23,197	–	–	23,197
Herman Schwarz	2015	92,639	–	92,639	–	–	92,639
	2014	13,750	–	13,750	–	–	13,750
Terence Winters	2015	86,758	8,242	95,000	–	–	95,000
	2014	96,787	8,953	105,740	–	–	105,740
Robin Debernardi [6]	2015	–	–	–	–	–	–
	2014	60,740	5,619	66,359	–	–	66,359
Albert Moyer [7]	2015	–	–	–	–	–	–
	2014	81,250	–	81,250	–	–	81,250
Clark Davey [8]	2015	36,759	3,492	40,251	–	–	40,251
	2014	–	–	–	–	–	–
David McIntyre [9]	2015	27,117	–	27,117	–	–	27,117
	2014	–	–	–	–	–	–
	2015	496,885	21,822	518,707*	209,456	14,139	742,302
	2014	623,627	18,198	641,825	–	–	641,825

[1] Mr Gray was appointed to the board on 19 December 2013 and appointed chair on 6 February 2014.

[2] Mr Clark was appointed Group Chief Executive Officer on 25 September 2014. Prior to this appointment Mr Clark held the position of non-executive director until 24 September 2014. Salary in relation to performance of NED duties up until the date of his resignation is shown above.

[3] Mr DeVincenzi transitioned to non-executive director status on 16 January 2014. Under the terms of his transition arrangements he did not receive NED fees until the 12 month transitional arrangement was completed on 15 January 2015. Mr DeVincenzi's remuneration associated with the transition is included in other fees. Following the completion of the transitional arrangements on 15 January 2015 Mr DeVincenzi commenced the role of a standard NED. Salary in relation to the performance of Mr DeVincenzi's duties from 16 January 2015 through to 30 June 2015 is shown as Directors fees.

[4] Mr McConnell was not re-elected at the 2014 Annual general meeting on 13 November 2014.

[5] Mr Murphy resigned on 13 March 2015.

[6] Mr Debernardi resigned on 5 April 2014.

[7] Mr Moyer resigned 30 April 2014.

[8] Mr Davey was appointed on 6 January 2015.

[9] Mr McIntyre was appointed on 13 March 2015

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

7. ADDITIONAL STATUTORY DISCLOSURES RELATING TO OPTIONS AND SHARES

This section provides the additional disclosures required under the Corporations Act 2001.

Table 3 discloses the LTIs (performance rights) granted to executives as remuneration during FY15. LTIs do not carry any voting or dividend rights and depending on Redflex's TSR, may or may not vest at the end of the performance period.

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

	Financial Year	Performance Rights awarded during the year	Award Date	Fair Value per LTI at Award Date	Performance period	Number vested during the year	Number lapsed forfeited or cancelled during FY15
Executive Director							
Paul Clark	2015	–	–	–	–	–	–
KMP							
Brad Crump	2015	64,394	4 May 15	$0.20	**<3 years to 1 Oct 17	–	–
James Saunders	2015	–	–	–	–	–	–
	2014	220,279	18 June 14	$0.56	*<3 years to 1 Oct 16	–	220,279
	2013	35,770	1 Oct 12	$1.20	3 years	–	35,770
	2012	50,352	1 Oct 11	$1.27	3 years	–	50,352
Craig Durham	2015	42,033	4 May 15	$0.20	**<3 years to 1 Oct 17	–	–
Former KMP							
Ron Johnson	2015	–	–	–	–	–	–
	2014	197,555	18 June14	$0.56	*<3 years to 1 Oct 16	–	197,555
	2013	75,735	1 Oct 12	$1.20	3 years	–	75,735
	2012	85,227	1 Oct 11	$1.27	3 years	–	85,227
Ricardo Fiusco	2015	–	–	–	–	–	–
	2014	197,555	18 June 14	$0.56	*<3 years to 1 Oct 16	–	197,555
	2013	75,735	1 Oct 12	$1.20	3 years	–	75,735
	2012	54,400	1 Oct 11	$1.27	3 years	–	54,400
Marilyn Stephens	2015	–	–	–	–	–	–
	2014	–	–	–	–	–	–
	2013	27,341	1 Oct 12	$1.20	3 years	–	27,341
	2012	22,476	1 Oct 11	$1.27	3 years	–	22,476

*Performance rights awarded in FY14 were made later than the normal date of 1 October. Accordingly, these rights, issued on 18 June 2014, have a performance period shorter than 3 years and will be tested on 1 October 2016.

**Performance rights awarded in FY15 were made later than the normal date of 1 October. Accordingly, these 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 $	Remuneration consisting of LTIs for the year %	Value^ of Performance Rights vested during the year $	Value^ of Performance Rights lapsed or forfeited during the year $
Executive director				
Paul Clark	–	–	–	–
KMP				
Brad Crump	12,879	7%	–	–
James Saunders	–	–	–	230,227
Craig Durham	8,407	7%	–	–
Former KMP				
Ron Johnson	–	–	–	309,751
Ricardo Fiusco	–	–	–	270,601
Marilyn Stephens	–	–	–	61,354

^ 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 2015

	Shares held at 30 June 2014	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2015
Directors – non executive				
Adam Gray	**22,840,048**	–	2,089,781	**24,929,829**
Clark Davey*	**300,358**	–	–	**300,358**
Robert DeVincenzi	–	–	–	–
Herman Schwarz	–	–	–	–
Terence Winters	–	–	–	–
David McIntyre	–	–	–	–
	23,140,406	–	2,089,781	**25,230,187**
Executive Director & KMP				
Paul Clark	–	–	–	–
Brad Crump	–	–	–	–
James Saunders	–	–	–	–
Craig Durham	–	–	–	–
	–	–	–	–

* Mr Davey's was appointed a Director on 6 January 2015. His shareholding as at the date of his appointment, was 300,358. This shareholding includes purchases by Mr Davey's related party, Anderson Park Pty Ltd and Anderson Park Super Fund.

Table 5b: Movements in Shareholdings of KMP during the year ended 30 June 2014

	Shares held at 30 June 2013	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2014
Directors – non executive				
Adam Gray	**15,737,427***	–	7,102,621	**22,840,048**
Paul Clark	–	–	–	–
Robert DeVincenzi	–	–	–	–
Michael McConnell	**50,000**	–	9,125	**59,125**
John Murphy	–	–	–	–
Herman Schwarz	–	–	–	–
Terence Winters	–	–	–	–
	15,787,427	–	7,111,746	**22,899,173**
KMP				
Ron Johnson	**119,740**	–	–	**119,740**
Ricardo Fiusco	**239,754**	–	(84,239)	**155,515**
James Saunders	–	–	–	–
Marilyn Stephens	**152,084**	–	–	**152,084**
	511,578	–	(84,239)	**427,339**

* Mr Gray was appointed a Director on 19 December 2013. His shareholding as at the date of his appointment, was 22,024,340. This shareholding includes purchases by Mr Gray's related party, Coliseum Capital Management.

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 and former KMP during the year ended 30 June 2015

	Number held at 1 July 2014	Transactions during the year: Awarded as remuneration	Forfeited	Vested	Lapsed	Number held at 30 June 2015
Executive director						
Paul Clark	–	–	–	–	–	–
KMP						
Brad Crump	–	64,394	–	–	–	64,394
James Saunders	306,401	–	(256,049)	–	(50,352)	–
Craig Durham	–	42,033	–	–	–	42,033
Former KMP						
Ron Johnson	358,517	–	(273,290)	–	(85,227)	–
Ricardo Fiusco	327,690	–	(273,290)	–	(54,400)	–
Marilyn Stephens	49,817	–	(27,341)	–	(22,476)	–
Total	1,042,425	106,427	(829,970)	–	(212,455)	106,427

Table 6b: Movement in performance rights held by KMP and former KMP during the year ended 30 June 2014

	Number held at 1 July 2013	Transactions during the year: Awarded as remuneration	Forfeited	Vested	Lapsed	Number held at 30 June 2014
Former KMP						
Ron Johnson	198,457	197,555	–	–	(37,495)	358,517
Ricardo Fiusco	168,676	197,555	–	–	(38,541)	327,690
James Saunders	107,921	220,279	–	–	(21,799)	306,401
Marilyn Stephens	79,909	–	–	–	(30,092)	49,817
Former executive directors						
Robert DeVincenzi *	129,323	–	(129,323)	–	–	–
Total	684,286	615,389	(129,323)	–	(127,927)	1,042,425

*On 17 July 2013, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. The terms of Mr DeVincenzi's Executive Transition Agreement include that Mr DeVincenzi waive his entitlement to 129,323 performance rights and 3 million options that were issued on 10 September 2012 and which he forfeited on 17 July 2013.

Movements in Options held by KMP for the year ended 30 June 2015

No Options were held or issued to Directors or KMP during the period to 30 June 2015.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Table 7a: Movements in Options held by KMP for the year ended 30 June 2014

		Transactions during the year		
	Options held 1 July 2013	Granted	Forfeited	Options held 30 June 2014
Directors				
Adam Gray	–	–	–	–
Paul Clark	–	–	–	–
Robert DeVincenzi	3,000,000*	–	(3,000,000)	–
Michael McConnell	–	–	–	–
John Murphy	–	–	–	–
Herman Schwarz	–	–	–	–
Terence Winters	–	–	–	–
	3,000,000	–	(3,000,000)	–
Former KMP				
Ronald Johnson	–	–	–	–
Ricardo Fiusco	–	–	–	–
James Saunders	–	–	–	–
Marilyn Stephens	–	–	–	–
	–	–	–	–

*On 17 July 2013, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. The terms of Mr DeVincenzi's Agreement included that Mr DeVincenzi waive his entitlement to 129,323 performance rights and 3 million options that were issued on 10 September 2012. The performance rights and options have been forfeited.

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.

9. SUBSEQUENT EVENTS

Re-appointment of Paul Clark as Group Chief Executive Officer of Redflex Holdings Limited

Paul Clark was re-appointed Group Chief Executive Officer of the Company on 24 September 2015. The term of his written employment agreement is not fixed. Mr Clark's annual gross salary is unchanged from the previous reporting period at AUD$400,000 plus statutory superannuation, although any increases will be subject to board discretion. Mr Clark will be entitled to participate in the Company's Long Term Incentive (LTI) arrangements.

In relation to the 2016 financial year, subject to agreed performance conditions being achieved, Mr Clark will be entitled to receive a LTI payment of between AUD$120,000 and AUD$420,000 in cash. The performance conditions relate to exceeding targeted EBITDARD for the 2016 financial year by certain prescribed amounts and continuity of employment. However, if approved by the Company's shareholders at the 2015 Annual General Meeting, Mr Clark and the Company have agreed that rather than paying any LTI to him in cash, Mr Clark will be issued performance rights equal to the value of his maximum LTI entitlement 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 2015 (VWAP Calculation), subject to a maximum of 1,200,000 performance rights.

Each performance right would entitle 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 performance conditions and becomes eligible for a LTI, 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 25% on 1 October 2016, as to a further 25% on 1 October 2017 and as to the last 50% on 1 October 2018, subject to Mr Clark being employed by the Company at the relevant date.

If the grant of performance rights to Mr Clark on the above basis is not approved by shareholders of the Company at the 2015 Annual General Meeting, any LTI to which Mr Clark is entitled in respect of the 2016 financial year will be paid to him in cash as follows: (i) 25% on 1 November 2016; (ii) a further 25% on 1 November 2017; and (iii) the remaining 50% on 1 November 2018 provided that he is employed by the Company on each of these dates.

Note "Targeted EBITDARD" is EBITDA as shown in the Company's audited accounts less capitalised development costs.

Appointment of Michael Finn as President and CEO of Redflex Traffic Systems Inc.

Mr Finn commenced employment with RTSI on 27 May 2015 for an initial term of 3 years. Whilst Mr Finn commenced employment prior to 30 June 2015 he did not hold full decision making power until 1 July 2015 when Mr Saunders (former CEO) left the Company. On this basis 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 ($359,056);
- Mr Finn will receive a bonus of US$150,000 ($179,533) in respect of unvested performance rights which the employee held in his previous position. 50% of this bonus will be paid on the first anniversary of employment with the remaining 50% payable on the second anniversary of employment with the Company;
- Mr Finn will receive a relocation allowance of up to US$100,000 ($119,688);
- Mr Finn will also be entitled to participate in the Company's STI program where he may be eligible to receive up to 30% of his base pay providing he meets the performance criteria set by the Company; and
- Mr Finn will also be entitled to participate in the Company's LTI plan where he may be eligible to receive up to 60% of his base pay. This incentive will be paid in cash.

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 less 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. He payments would be made in 18 monthly installments. Mr Finn would also be entitled to reimbursement of health insurance premiums for the 18 month period .

There were no other significant events subsequent to 30 June 2015 and prior to the date of this report.
Signed in accordance with a resolution of the directors.

Adam Gray

Adam Gray
Chairman
29 September 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Revenue from operations	6	124,345	121,533
Total revenue		124,345	121,533
Cost of goods sold		59,918	48,257
Cost of goods sold		59,918	48,257
Gross profit		64,427	73,276
Sales and marketing related expenses		11,135	13,376
Administrative related expenses		32,495	29,730
Costs of investigation		2,270	2,360
Profit before depreciation, amortisation, impairment, finance costs and tax		18,527	27,810
Amortisation of intangibles		5,653	4,776
Depreciation – fee for service contract assets		21,202	22,264
Depreciation – other		1,743	1,012
Impairment of plant and equipment		18,048	1,850
Impairment of inventory		2,800	–
Impairment of receivables		1,682	–
Impairment of capitalised development costs		5,231	456
Loss before tax and financing costs		(37,832)	(2,548)
Net finance costs		771	1,294
Loss before tax		(38,603)	(3,842)
Income tax benefit	9	(6,659)	(2,659)
Loss for the period		(31,944)	(1,183)
Other comprehensive loss			
Foreign currency translation		19,914	(3,546)
Total comprehensive loss for the period		(12,030)	(4,729)
Earnings (cents) per share attributable to ordinary equity holders of the parent company			
– basic for profit		(28.84)cents	(1.07)cents
– diluted for profit		(28.84)cents	(1.07)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 2015

	Note	2015 $'000	2014 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	17,035	13,749
Trade and other receivables	11	30,590	18,299
Inventories	12	16,901	20,247
Income tax refundable		–	1,582
Other assets		2,305	1,953
Total Current Assets		66,831	55,830
Non-Current Assets			
Plant and equipment	13	54,077	61,281
Deferred tax asset	9	17,464	13,076
Intangible assets and goodwill	14	26,906	31,126
Other financial assets		429	1,127
Other non-current assets	15	26	8,947
Total Non-Current Assets		98,902	115,557
TOTAL ASSETS		**165,733**	**171,387**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	16	19,904	17,826
Interest bearing borrowings	17	19,449	15,895
Income tax payable		617	917
Provisions	18	7,245	5,518
Other current liabilities		–	59
Total Current Liabilities		47,215	40,215
Non-Current Liabilities			
Deferred tax liabilities	9	7,312	9,380
Provisions	19	4,887	4,026
Total Non-Current Liabilities		12,199	13,406
TOTAL LIABILITIES		**59,414**	**53,621**
NET ASSETS		106,319	117,766
Equity attributable to equity holders of the parent company			
Contributed equity	22	101,765	101,765
Reserves	23	3,657	(14,908)
Retained earnings	23	897	30,909
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**106,319**	**117,766**
Net tangible assets per share		71.70 cents	78.22 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 2015

	Contributed Equity $'000	Foreign Currency Translation Reserve $'000	Employee Equity Benefits Reserve $'000	Retained earnings $'000	Total Equity $'000
At 1 July 2013	101,765	(13,944)	3,037	34,392	125,250
Loss for the period	–	–	–	(1,183)	(1,183)
Currency translation differences	–	(3,546)	–	–	(3,546)
Total comprehensive loss	–	(3,546)	–	(1,183)	(4,729)
Dividends paid	–	–	–	(3,323)	(3,323)
Transfer of expired equity instruments	–	–	(1,023)	1,023	–
Cost of share based payments	–	–	568	–	568
At 30 June 2014	101,765	(17,490)	2,582	30,909	117,766
At 1 July 2014	101,765	(17,490)	2,582	30,909	117,766
Loss for the period	–	–	–	(31,944)	(31,944)
Currency translation differences	–	19,914	–	–	19,914
Total comprehensive loss	–	19,914	–	(31,944)	(12,030)
Transfer of expired equity instruments	–	–	(1,932)	1,932	–
Cost of share based payments	–	–	583	–	583
At 30 June 2015	101,765	2,424	1,233	897	106,319

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 2015

	Note	2015 $'000	2014 $'000
Operating activities			
Receipts from customers		125,215	125,825
Payments to suppliers, employees and GST		(105,292)	(91,977)
Interest received		2	9
Interest paid		(611)	(1,008)
Income tax refunded / (paid)		247	(2,959)
Net cash flows from operating activities	10	19,561	29,890
Investing activities			
Purchase of property, plant and equipment		(14,772)	(15,970)
Return of investment		686	938
Capitalised development costs paid		(5,177)	(8,397)
Net cash flows (used in) investing activities		(19,263)	(23,429)
Financing activities			
Repaid bank borrowings		–	(10,089)
Lease liability (repaid) incurred		–	(4)
Dividends paid		–	(3,323)
Net cash flows (used in) financing activities		–	(13,416)
Net increase / (decrease) in cash held		298	(6,955)
Effect of exchange rate changes on cash		2,988	(542)
Cash and cash equivalents at beginning of financial year		13,749	21,246
Cash and cash equivalents at the end of financial year	10	17,035	13,749
Reconciliation of cash			
Cash at the end of the period consists of:			
Cash at banks and on hand		17,035	13,749
Cash at banks and on hand	10	17,035	13,749

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 2015

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Redflex Holdings Limited (a for profit entity) for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of directors on 29 September 2015.

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

The nature of the operations and principal activities of the Group are described in the Directors' Report.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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REDFLEX HOLDINGS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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 ASIC class order 98/100. The company is an entity to which the class order applies.

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 and 28 of the financial report.

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.

2.3 ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in accounting policy and disclosures

In the current year, the Group has applied a number of new and revised AASBs and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2014.

The following new and revised Standards and Interpretations have been adopted in the current period. The adoption only affected the disclosures in the notes to the financial statements.

STANDARD	CHANGES / IMPACT
AASB 2012-3 – Offsetting Financial Assets and Financial Liabilities	This standard adds application guidance to AASB 132 to address applying some of the offsetting criteria of AASB 132.
AASB 2013-3 – Amendments to AASB136 – Recoverable Amount Disclosures for Non-Financial Assets	These amendments address disclosure of information about the recoverable amount of impaired assets if that recoverable amount is based on fair value less costs of disposal, this is applicable for impairment modelling in Redflex Traffic Systems Inc. ("RTSI").
AASB 2013-7 – Amendments to AASB 1038 arising from AASB 10 in relation to Consolidations and interests of policyholders	This Standard removes the specific requirements in relation to consolidation from AASB 1038, leaving AASB 10 as the sole source for consolidation requirements applicable to life insurer entities. AASB 10 is not expected to have a material impact on the Company.
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	This standard amends certain Australian Accounting Standards to remove references to AASB 1031 as part of the AASB's decision to withdraw the Australian specific guidance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

(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 2015 are outlined in the tables below.

STANDARD	Mandatory date for annual reporting periods beginning on or after)	Reporting period standard adopted by Redflex
AASB 9 Financial Instruments and related standards	1 January 2018	1 July 2018
AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 July 2016
AASB 15 Revenue from Contracts with Customers and AASB 2014-5	1 January 2017*	1 July 2017
AASB 2014-9 Equity method in separate financial statements	1 January 2016	1 July 2016
AASB 2015-1 Annual improvements 2012-2014 cycle	1 January 2016	1 July 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 July 2016
AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 July 2015	1 July 2015

* On 11 September 2015, the International Accounting Standards Board (IASB) issued an amendment to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018. It is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that the application date of this standard for Redflex will move from 1 July 2017 to 1 July 2018.

Management are currently assessing the impact of these new and revised standards, however, they are not expected to have a material impact on the company.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2015.

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.

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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 remeasured 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 remeasured. Subsequent settlement is accounted for within equity.

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(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 acquire 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:

- North American Traffic Operations;
- Redflex Guardian; 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.

(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

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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 startup 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.

(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.

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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. Refer also to Note (Z).

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, control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Under this method revenue recognised is measured by the percentage of costs incurred to date to total estimated costs for each contract. Stage of completion is measured by reference to the material costs and labour hours incurred to date as a percentage of total material costs and estimated labour hours 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.

Additional revenue in the United States is derived from the sale of photo enforcement equipment to municipal governments under fixed contracts. Revenue on these equipment sales is recorded over the duration of the contract.

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.

(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.

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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 Holdings Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The head entity Redflex Holdings Limited and the controlled entities in the tax consolidated 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 consolidated group.

In addition to its own current and deferred tax amounts, Redflex Holdings Limited 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 consolidated 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.

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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 of five to seven years

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

Derecognition

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 derecognition 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 fulfillment 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.

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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 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:

	CONTRACTS ACQUIRED	NON-COMPETE COMPENSATION	TRADE NAMES	GOODWILL	DEVELOPMENT COSTS
Useful lives	Finite	Finite	Finite	Indefinite	Finite
Amortisation method used	Amortised over the contract lives	Amortised over the non-compete period	Amortised over expected use period	No amortisation.	Amortised over the period of expected future benefit from the related project on a straight-line basis. The amortisation period is generally 10 years.
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired	Internally generated.
Impairment testing			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 derecognition 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.

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(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 USA 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. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. 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 Company has assessed that the probability of future payments or receipts are considered remote, however, the Directors consider should be disclosed as they are not disclosed elsewhere in the financial report.

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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.

(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.

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.

(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 derecognition

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);
- 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.

(z) Deferred costs asset

Under contracts with the City of Chicago, which was terminated in FY14, the company is required to sell cameras and installations, as well as providing full service back office processing of citations along similar lines to all other contracts performed under the BOOM model, however the sale and provision of services are dependent on each other. This dependency determines that the sale and provision of services be bundled together as a single transaction and accounted for accordingly.

Where the timing of the supply of fully installed cameras and provision of services are not in alignment with customer payment terms, a Deferred Costs Asset is created and released progressively over the contract term to align expected revenues with the full provision of the contracted services.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 and Risk Management 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. The Group's debt level is disclosed in Note 17.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk.

	Consolidated 2015 $'000	Consolidated 2014 $'000
Financial assets		
Cash at banks and in hand	12,028	9,996
Cash – restricted lockboxes	5,007	3,753
	17,035	13,749
Financial liabilities		
Interest bearing liabilities	19,449	15,895
	19,449	15,895
Net exposure	(2,414)	(2,146)

The Group's policy is to manage its finance costs using predominantly variable rate debt associated with the currency in which the cash flows relating to the borrowings arise. The Group constantly analyses its interest rate exposure and considers alternative financing, alternative hedging positions, and a mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures at the reporting date:

At 30 June 2015, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgments of reasonable possible movements

Consolidated	Post Tax Profit/(Loss) Higher/(Lower) 2015 $'000	Post Tax Profit/(Loss) Higher/(Lower) 2014 $'000	Equity Higher/(Lower) 2015 $'000	Equity Higher/(Lower) 2014 $'000
+1% (100 basis points)	(194)	(159)	(194)	(159)
-0.5% (50 basis points)	97	79	97	79

The movements in profit are due to higher/lower interest costs/income from variable rate debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

(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 60% of the Group business occurring within the USA, and the other 40% arising from within Australia, but through servicing other markets. As a result of significant investment in operations in the USA and large purchases of inventory from the USA, the Group's statement of financial position can be affected significantly by movements in the US$/AU$ exchange rates. The USA business incurs all revenue and the vast majority of its expenses in US$, apart from the cost of cameras sourced from the Australian operations in AU$. The USA 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 60% (FY14: 69%) 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 hedge products.

Aside from the USA operation, the Group also has transactional currency exposures arising 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 2015 the Group had no foreign currency hedge arrangements in place.

The Group has a US$ denominated borrowing of $19.4 million (US$15.0 million) (FY14 $15.9 million: {US$15.0 million}) which is a natural hedge of the net investment in the USA operation.

At 30 June 2015, the Group had not hedged foreign currency purchases that are firm commitments, as offsetting natural hedges substantially offset risk. Other than the USA operation, most sales commitments were denominated in AU$, 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 2015, 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 the USA operation are reflected in the segment results shown in Note 5.

Judgments of reasonable possible movementsPost Tax Profit/(loss)

	Post Tax Profit/(loss) Higher/(Lower)		Equity Higher/(Lower)	
Judgments of reasonable possible movements	**2015 $'000**	**2014 $'000**	**2015 $'000**	**2014 $'000**
AU$/US$ +10%	2,841	210	(3,450)	(4,752)
AU$/US$ – 5%	(1,645)	(105)	1,998	2,376

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

(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.

(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		2015 $'000	2014 $'000
6 months or less		39,353	33,721
6-12 months	–	–	
1-5 years		–	–
Over 5 years		–	–
		39,353	33,721

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Year ended 30 June 2015

Consolidated	<6 months $'000	6-12 months $'000	1-5 years $'000	>5 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	17,035	–	–	–	17,035
Trade and other receivables	30,590	–	–	–	30,590
Other financial assets	–	429	–	–	429
	47,625	429	–	–	48,054
Financial liabilities					
Trade and other payables	19,904	–	–	–	19,904
Interest bearing loans and borrowings *	19,449	–	–	–	19,449
	39,353	–	–	–	39,353
Net maturity	8,272	429	–	–	8,701

* Please refer to note 17 for details regarding liquidity risk of interest bearing loans and borrowings.

Year ended 30 June 2014

Consolidated	<=6 months $'000	6-12 months $'000	1-5 years $'000	>5 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	13,749	–	–	–	13,749
Trade and other receivables	18,299	–	8,947	–	27,246
Other financial assets	–	–	1,127	–	1,127
	32,048	–	10,074	–	42,122
Financial liabilities					
Trade and other payables	17,826	–	–	–	17,826
Interest bearing loans and borrowings *	15,895	–	–	–	15,895
	33,721	–	–	–	33,721
Net maturity	(1,673)	–	10,074	–	8,401

* The Company's financing facility was renewed on 8 August 2014 for a further 3 years. On the basis that the renewal occurred after the reporting date (30 June 2014), the interest bearing liabilities have been classified as short term borrowings. Had the renewal occurred prior to the reporting date, the liability of $15.9 million would have been classified as a non-current liability and shown in years 1-5 in the above table.

(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

Depreciation and impairment of property, plant and equipment

The major Group assets are represented by property, plant and equipment consisting mainly of red light and speed camera detection equipment. These assets are installed in various cities throughout the USA. 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 seven year period 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 company 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.

Despite the longevity of the installation it is impaired upon termination or non-renewal of a contract to process traffic violations. Accordingly, it is difficult to assess the appropriate length of time over which to depreciate these assets.

The Group assesses impairment of all assets at each reporting date based on each contract and evaluates conditions specific to the Group and to the particular assets that may lead to impairment. These include contract termination date, any cost neutrality issues, legislative and legal challenges combined with economic and political environments and the market capitalisation of the Company in comparison to the carrying value of assets. This review is performed on both a specific contract by contract basis and at a cash generating unit level as described in Note 20.

If an impairment trigger exists, the recoverable amount of the asset is determined and a write-down taken.

During the year ended 30 June 2015, the pilot program in the State of New Jersey expired and will remain inoperable until or unless reauthorization legislation passes; and the Ohio legislature recently passed legislation significantly reducing the viability of red light systems operating within the state, which has subsequently resulted in the program being terminated. As a result management has recognised an impairment charge associated with these specific contracts. The Company continues to monitor other contracts is jurisdictions across the USA and will make appropriate adjustments to carrying values of assets if required.

Furthermore, management has concluded that an impairment charge exists in the North American Traffic Operations CGU at 30 June 2015. This has resulted in an additional impairment charge of US$9 million ($11.8 million). Management has used the fair value less costs of disposal model to determine this charge. This and the appropriate assumptions used have been described further in Note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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 unrecouped 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.

At 30 June 2015, foreign tax credits have not been recognised in totality as a deferred tax asset following the de-recognition adjustment posted in December 2014 for $3.1 million. The adjustment reflects the decrease in anticipated future taxable profits from the operations of the North American business. This adjustment was charged to deferred income tax expense, reducing the income tax benefit for the period in the Consolidated Statement of Comprehensive Income, with a corresponding decrease in deferred tax assets in the Consolidated Statement of Financial Position.

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.

Uncertainty arising as a result of group tax restructure

During the year ended 30 June 2009, the Group's global tax affairs were restructured to provide a more efficient flow of funds around the Group. The outcome of the restructure involves a significant degree of uncertainty, and as such the company commissioned independent advice from its professional legal and tax advisors. The outcome of the restructure could result in future potential tax liabilities of up to $10.65 million, with corresponding off-setting tax benefits arising over future years. The likelihood of any such current tax liability is not considered probable.

Recoverability of receivables

The company continues to encounter uncertainties surrounding some contracts in the Middle East. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Company continues to provide against the likelihood of ultimate collectability. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts that might be necessary should the Company's judgments differ from future circumstances.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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

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 notes 21 and note 28.

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, North America and Australia/International (which comprises all other business, outside of North America). The Traffic business in the USA 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 segmental split segregates the operating units into revenue from recurring fee for service business and revenue related to the sale of goods and services.

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 2015 and 30 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Year ended 30 June 2015

Operating Segments	Traffic Operations North America $'000	Traffic Operations Aust/ International $'000	Total $'000
Revenue			
Revenue from operations*	74,956	49,389	124,345
Inter-segment revenue	–	5,190	5,190
Total segment revenue	74,956	54,579	129,535
Inter-segment elimination			(5,190)
Total consolidated revenue			124,345
Result			
Profit before interest, tax, depreciation, amortisation and impairment	12,295	11,316	23,611
Impairment	(22,512)	(5,249)	(27,761)
Depreciation	(21,202)	(1,727)	(22,929)
Amortisation	(1,629)	(4,024)	(5,653)
Inter-segment royalty	1,797	(1,797)	–
Segment result	(31,251)	(1,481)	(32,732)
Head office result			(5,100)
Loss before tax and finance charges			(37,832)
Finance charges			(771)
Loss before income tax			(38,603)
Income tax benefit			6,659
Net loss after income tax			(31,944)
Assets and liabilities			
Segment assets	58,773	83,871	142,644
Head office assets			23,089
Total assets			165,733
Segment liabilities	38,690	18,775	57,465
Head office liabilities			1,949
Total liabilities			59,414
Other segment information			
Capital expenditure**	12,262	2,410	14,672
Head office capital expenditure			100
Total capital expenditure			14,772

*Sales revenue shown under the North America segment includes sales arising in Canada of $3.7 million during FY15.

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Year ended 30 June 2014

Operating Segments	Traffic Operations North America $'000	Traffic Operations Aust/ International $'000	Total $'000
Revenue			
Revenue from sale of goods and services to external customers*	1,479	17,596	19,075
Revenue from fee for service contracts	81,994	20,464	102,458
Finance revenue	–	9	9
Inter-segment revenue	–	4,193	4,193
Total segment revenue	83,473	42,262	125,735
Inter-segment elimination			(4,193)
Head office finance revenue			–
Total consolidated revenue			121,542
Result			
Earnings before interest, tax, depreciation and amortisation	20,514	9,663	30,177
Inter-segment royalty	1,744	(1,744)	–
Depreciation	(22,264)	(1,004)	(23,268)
Amortisation	(1,594)	(3,182)	(4,776)
Segment result	(1,599)	3,733	2,133
Head office expenses			(4,672)
Loss before tax and finance charges			(2,539)
Finance charges			(1,303)
Loss before income tax			(3,842)
Income tax expense			2,659
Net loss after tax			(1,183)
Assets and liabilities			
Segment assets	64,242	83,667	147,909
Head office assets			23,478
Total assets			171,387
Segment liabilities	35,981	17,153	53,134
Head office liabilities			487
Total liabilities			53,621
Other segment information			
Capital expenditure**	11,093	4,845	15,938
Head office capital expenditure			32
Total capital expenditure			15,970

*Sales revenue shown under the North America segment includes sales arising in Canada of $3.7 million during FY15.

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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 2015 $'000	30 June 2014 $'000
Revenue by geographical location		
North America	74,956	83,473
Australia	31,337	20,303
Other*	18,052	17,766
Total Revenue	124,345	121,542

*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 2015 $'000	30 Jun 2014 $'000
Revenues and expenses		
Revenue from sales of goods and services	124,345	121,533
Total Revenue	124,345	121,533
Depreciation, amortisation and impairment costs included in income statement		
Depreciation of assets in fee for service business	21,202	22,264
Depreciation of other assets	1,743	1,012
Amortisation of intangibles	5,653	4,776
Impairment of inventories	2,800	–
Impairment of receivables	1,682	–
Impairment on property plant and equipment	18,048	1,850
Impairment of capitalised development costs	5,231	456
	56,359	30,358
Employee benefits expense		
Wages and salaries	45,867	41,143
Payroll benefits	5,825	5,965
Contract labour	4,130	2,124
Superannuation	1,921	1,681
Payroll taxes	2,877	2,741
Share-based payment expense	583	567
Other payroll related expenses	1,344	2,190
	62,547	56,411
Research and development costs		
Expensed in administration expenses	1,042	858

REDFLEX HOLDINGS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

NOTE 7. DIVIDENDS PAID AND PROPOSED

Recognised and unrecognised amounts

	Consolidated	
	2015 $'000	2014 $'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for FY13: 3.0 cents per share paid during FY14	–	3,312
	–	3,312

The directors have not declared an interim or final dividend in respect of FY15 or FY14.

Franking credit balance

	Parent	
	2015 $'000	2014 $'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance at the end of the financial year at 30% (FY14: 30%)	462	441
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	18	21
The amount of franking credits available for future reporting periods:	480	462

NOTE 8. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit / 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 profit 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 FY15 and FY14 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:

	2015 $'000	2014 $'000
Loss for the period for basic earnings per share	(31,944)	(1,183)
	Thousands	Thousands
Number of ordinary shares for basic earnings per share	110,762	110,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

NOTE 9. INCOME TAX

The major components of income tax expense for the years ended 30 June 2015 and 30 June 2014 are:

Consolidated income statement

	2015 $'000	2014 $'000
Current income tax		
Current income tax charge (benefit)	(203)	1,749
Deferred tax		
Relating to origination and reversal of temporary differences	(6,456)	(4,408)
Income tax expense/(benefit) reported in the consolidated statement of comprehensive income	(6,659)	(2,659)

A reconciliation between tax expense and the product of accounting profit/(loss) multiplied by Australia's domestic tax rate for the years ended 30 June 2015 and 30 June 2014 is as follows:

	2015 $'000	2014 $'000
Accounting loss before income tax	(38,603)	(3,842)
At the statutory income tax rate of 30% (2014: 30%)	(11,581)	(1,153)
De-recognition of foreign tax credits	3,382	–
Permanent differences	159	–
Impact of tax rate differential on foreign operations	(731)	(509)
Research and development tax incentives	(496)	(946)
Under / (Over) provision in prior years	2,608	(51)
At effective income tax rate of (17.3%), (2014: 69.0%)	(6,659)	(2,659)
Income tax benefit reported in the consolidated statement of comprehensive income	(6,659)	(2,659)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Deferred Tax

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
(i) Deferred tax liabilities				
Accelerated depreciation for tax purposes	–	2,494	(2,494)	(7,832)
Capitalised development costs	7,175	6,880	295	1,273
Other	137	6	131	6
Gross deferred tax liabilities	7,312	9,380		
(ii) Deferred tax assets				
Employee Entitlements	2,663	1,490	(1,173)	928
Provisions	7,826	5,033	(2,793)	2,734
Deferred tax asset on fixed assets	5,207	–	(5,207)	–
Deferred tax asset on foreign tax credits	–	3,132	3,132	353
Deferred tax asset on net operating losses	–	–	–	1,551
Carry forward research & development tax offset	2,356	3,421	1,065	(3,421)
Other	(588)	–	588	–
Gross deferred tax assets	17,464	13,076		
Deferred tax charge			(6,456)	(4,408)

Deferred tax relates to the following:

The consolidated entity has Net operating loses of $9.8 million (FY14: nil) available for offset against future taxable profits in the US. In addition the company has unutilised foreign tax credits with a tax value of $3.1 million (FY14: $0.8 million) available to offset against future US tax liabilities where non US income is included in the USA tax returns.

At 30 June 2015 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.

Tax Consolidation

Redflex Holdings Limited and its 100% Australian owned subsidiaries are a tax consolidated group. Members of the Group have entered into a tax sharing arrangement and a tax funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the reporting date, the possibility of default is remote. The head entity of the tax consolidated group is Redflex Holdings Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

NOTE 10. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

	2015 $'000	2014 $'000
Cash at banks and on hand	12,028	9,996
Restricted cash	5,007	3,753
	17,035	13,749

Reconciliation of net profit after tax to net cash flows from operations		
Net profit after income tax	(31,944)	(1,183)
Non cash flow items		
Depreciation expense	21,202	22,264
Asset retirement obligation depreciation	1,743	1,012
Amortisation of intangibles	5,653	4,776
Impairment of property, plant and equipment	18,048	1,850
Impairment of capitalised development costs	5,231	456
Deferred financing costs amortisation	162	295
Share based payments	583	568
Impairment of inventories	2,800	–
Impairment of accounts receivable	1,682	–
Change in operating assets and liabilities		
Decrease/(Increase) in prepayments	(47)	121
(Increase)/Decrease in receivables	(8,583)	7,048
Decrease in non-current trade receivables	10,657	–
Increase in tax refund	(232)	(1,582)
(Increase)/Decrease in inventories	2,981	(189)
Decrease in taxation provisions	(2,220)	(1,798)
Decrease / (Increase) in deferred tax asset	(1,338)	2,145
Decrease in deferred tax liability	(4,493)	(6,038)
Increase (Decrease) in employee entitlements	(31)	430
(Decrease)/Increase in deferred revenue	(433)	302
Decrease in payables	(1,700)	(740)
Decrease/(Increase) in deferred costs asset	(160)	153
Net cash flows from operating activities	19,561	29,890

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 $17,034,561 (2014: $13,748,505). The carrying value is equal to the fair value.

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 2015

NOTE 11. TRADE AND OTHER RECEIVABLES (CURRENT)

	2015 $'000	2014 $'000
Trade receivables	34,372	19,899
Allowance for impairment losses	(3,782)	(1,600)
	30,590	18,299

Trade receivables are non-interest bearing and are generally on 30 day terms, with exception of the following

- Trade receivables with Saudi Arabia are generally on 90 day terms; and
- The settlement with Jefferson Parish is expected to take place in November 2015 following the final approval by the 24th Judicial District Court for the Parish of Jefferson. This receivable has been classified in the + 91 days past due not impaired category at 30 June 2015.

Movements in the provision for impairment loss were as follows:

	2015 $'000	2014 $'000
At 1 July 2014	1,600	2,425
Charged (utilised) for the year	2,182	(825)
At 30 June 2015	3,782	1,600

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*
2015	34,372	16,057	2,660	432	11,441	3,782
2014	19,899	8,957	3,933	1,734	3,675	1,600

*PDNI – Past due not impaired
*CI – Considered impaired

NOTE 12. INVENTORIES (CURRENT)

	2015 $'000	2014 $'000
Work in progress- at cost	9,522	7,388
Total work in progress	9,522	7,388
Raw materials and camera components – at cost	10,179	12,859
Impairment of raw material and camera components	(2,800)	–
Total raw materials and camera components – at net realisable value	7,379	12,859
	16,901	20,247

Raw material and camera components represent items held for the manufacture of photo enforcement camera systems for use within the USA 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.

NOTE 13. PLANT AND EQUIPMENT

Year ended 30 June 2015

	Plant and equipment $'000	Motor vehicles $'000	Furniture and other $'000	Computer equipment $'000	Asset Retirement Obligation* $'000	Total $'000
At 1 July 2014 net of accumulated depreciation and impairment	52,977	3,354	130	2,399	2,421	61,281
Additions	12,978	147	9	1,638	1,671	16,443
Reclassification	(43)	39	4	–	–	–
Impairment**	(18,048)	–	–	–	–	(18,048)
Disposals	–	–	–	–	(489)	(489)
Depreciation for the year	(18,961)	(951)	(59)	(1,393)	(1,581)	(22,945)
Exchange adjustment	16,897	40	19	321	558	17,835
At 30 June 2015 net of accumulated depreciation and impairment	45,800	2,629	103	2,965	2,580	54,077
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
At 30 June 2014						
Cost	171,211	5,401	1,957	16,890	5,077	200,536
Accumulated depreciation and impairment	(118,234)	(2,048)	(1,828)	(14,491)	(2,656)	(139,256)
Net carrying amount	52,977	3,354	130	2,399	2,421	61,281

* 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.

**The impairment loss is represented by the following:

- $10.8 million in relation to assets associated with contracts, which have been terminated during the year, principally in New Jersey and Ohio.
- $7.3 million in relation to impairment identified in the North American traffic operation Cash Generating Unit ("CGU") as a result of management's annual impairment test. Please refer to Note 20 for further details.

All impairment losses were recognised in the statement of comprehensive income at 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Year ended 30 June 2014

	Plant and equipment $'000	Motor vehicles $'000	Furniture and other $'000	Computer equipment $'000	Asset Retirement Obligation* $'000	Total $'000
At 1 July 2013 net of accumulated depreciation and impairment	67,887	606	265	1,713	1,897	72,368
Additions	10,625	3,414	–	1,931	1,309	17,279
Reclassification	34	–	(34)	–	–	–
Impairment	(1,723)	–	–	–	(127)	(1,850)
Disposals	–	(143)	–	–	(138)	(281)
Depreciation for the year	(21,013)	(518)	(97)	(1,197)	(451)	(23,276)
Exchange adjustment	(2,833)	(5)	(4)	(48)	(69)	(2,959)
At 30 June 2014 net of accumulated depreciation and impairment	52,977	3,354	130	2,399	2,421	61,281
At 1 July 2013						
Cost	185,219	2,446	2,276	15,432	4,711	210,084
Accumulated depreciation and impairment	(117,332)	(1,839)	(2,011)	(13,719)	(2,814)	(137,716)
Net carrying amount	67,887	606	265	1,713	1,897	72,368
At 30 June 2014						
Cost	171,211	5,401	1,957	16,890	5,077	200,536
Accumulated depreciation and impairment	(118,234)	(2,048)	(1,828)	(14,491)	(2,656)	(139,256)
Net carrying amount	52,977	3,354	130	2,399	2,421	61,281

* 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.

Leased Assets

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2015 is $nil (FY14: $nil).

NOTE 14. INTANGIBLES AND GOODWILL

Year ended 30 June 2015

	Development Costs $'000	Goodwill $'000	Contracts $'000	Non-compete & Trademarks $000	Total $'000
At 1 July 2014, net of accumulated amortisation and impairment	27,584	2,396	743	403	31,126
Additions	4,752	–	–	–	4,752
Impairment*	(5,231)	–	–	–	(5,231)
Amortisation for the year	(4,998)	–	(450)	(205)	(5,653)
Exchange adjustment	1,152	552	134	74	1,912
At 30 June 2015, net of accumulated amortisation and impairment	23,259	2,948	427	272	26,906
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
At 30 June 2014					
Cost	46,976	4,536	1,585	779	53,876
Accumulated amortisation and impairment	(19,392)	(2,140)	(842)	(376)	(22,750)
Net carrying amount	27,584	2,396	743	403	31,126

*The impairment loss is represented by the following:

- $0.7 million in relation to capitalised development costs in Redflex International which are unlikely to generate cash flows for the Company
- $4.5 million in relation to impairment identified in the North American traffic operation Cash Generating Unit ("CGU") as a result of management's impairment annual impairment test. Please refer to Note 20 for further details.

All impairment losses were recognised in the statement of comprehensive income at 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Year ended 30 June 2014

	Development Costs $'000	Goodwill $'000	Contracts $000	Non-Compete $000	Trademarks $000	Total $'000
At 1 July 2013, net of accumulated amortisation and impairment	23,984	2,471	1,175	135	468	28,233
Additions	8,045	–	–	–	–	8,045
Impairment	(456)	–	–	–	–	(456)
Amortisation for the year	(4,168)	–	(417)	(53)	(138)	(4,776)
Exchange adjustment	179	(75)	(15)	(5)	(4)	80
At 30 June 2014, net of accumulated amortisation and impairment	27,584	2,396	743	77	326	31,126
At 1 July 2013						
Cost	39,317	4,606	1,635	274	530	46,362
Accumulated amortisation and impairment	(15,333)	(2,135)	(460)	(139)	(62)	(18,129)
Net carrying amount	23,984	2,471	1,175	134	468	28,233
At 30 June 2014						
Cost	46,976	4,536	1,585	265	514	53,876
Accumulated amortisation and impairment	(19,392)	(2,140)	(842)	(188)	(188)	(22,750)
Net carrying amount	27,584	2,396	743	77	326	31,126

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, usually over 10 years. The asset is tested for impairment when an indicator of impairment arises.

GOODWILL

Goodwill was acquired upon the acquisition of the business and business assets of Smart Bus (now known as 'Redflex Student Guardian') and is tested for impairment on an annual basis (please refer to Note 20 for details).

NOTE 15. OTHER NON CURRENT ASSETS

	Consolidated 2015 $'000	2014 $'000
Trade receivables*	–	9,354
Allowance for impairment losses	–	(500)
Other non-current assets	26	93
	26	8,947

Trade receivables are non-interest bearing.

*The balance fully related to a long term receivable from Jefferson Parish. This amount is expected to be recovered within the next 12 months and has thus been classified as 'current' at 30 June 2015. Further details have been provided in note 11 – Trade and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Movements in the provision for impairment loss were as follows:

	2015 $'000	2014 $'000
At 1 July	500	–
Charged (written back) for the year	(500)	500
At 30 June	–	500

At 30 June, the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days PDNI*	61-90 days CI*	+ 91 days PDNI*	+ 91 days CI*
2015	–	–	–	–	–	–	–
2014	9,354	–	–	–	–	8,854	500

*PDNI – Past due not impaired
*CI – Considered impaired

NOTE 16. TRADE AND OTHER PAYABLES (CURRENT)

	2015 $'000	2014 $'000
Current		
Trade payables and accruals	19,323	16,869
Deferred revenue	581	957
Trade and other payables	19,904	17,826

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.

Deferred revenue represents payments received for which services remain to be provided. Amounts are recognised as revenue only when service has been provided. Deferred revenue normally applies to periods under one year in duration.

NOTE 17. INTEREST-BEARING LOANS AND BORROWINGS

	2015 $'000	2014 $'000
Current		
Bank borrowings	19,595	15,962
Deferred financing costs	(146)	(67)
	19,449	15,895

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 $1,918,668 (30 June 2014: $1,782,868).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

FINANCING FACILITIES AVAILABLE

	2015 $'000	2014 $'000
Total facilities committed		
Bank borrowings	39,190	74,318
AU$ working capital facility	8,000	8,000
	47,190	82,318
Facilities used at reporting date		
Bank borrowings	19,595	15,926
Security for letters of credit issued to customers	1,919	1,783
	21,514	17,709
Facilities unused at reporting date	25,676	64,609

At reporting date the Company holds a Syndicated Financing Facility ("the facility") with a value of US$30.0 million (A$39.2 million). The facility expires on 7 August 2017 and also includes an accordion feature for a further US$30.0 million (A$39.2 million), which is uncommitted.

Due to the Carrying Value adjustment as detailed in Note 20, a technical covenant breach occurred and consequently the balance of the debt facilities is considered as a current liability at 30 June 2015. This breach has been remedied since that time as the Company and it's lenders entered into an Amendment and Restatement Deed on 29 September 2015.

On the same date, the Company and its lenders also amended the existing Facility Agreement and existing Security Trust Deed.

Included within these amendments are certain specific conditions that include:

- The permanent reduction of the existing facility limit by US$9.0 million by the earlier of the date on which any member of the Redflex Group receives any proceeds connected in relation to the Jefferson Parish settlement (refer Note 11) or 31 December 2015. The draft settlement with Jefferson Parish was finalised on 9 September 2015 and the final stage of the remittance process is expected to be the final approval by the 24th Judicial District Court for the Parish of Jefferson on 13 November 2015.
- Inclusion of a review event (not considered an event of default) that if there is an award of damages against, or by agreement by, the Redflex Group to pay an amount of US$3.0 million or more in connection with the City of Chicago proceedings or any other litigation, arbitration or administrative proceedings. If such a payment is made by the Group no lender shall be obliged to fund any payment and if a majority of lenders agree, by not less than 30 days' notice they may cancel the syndicated facility and declare all outstanding amounts accrued immediately due and payable.

The Company continues to hold an A$8.0 million working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers.

The net debt position of the Group at 30 June 2015 was $2.4 million (including restricted cash of $5.0 million) (2014: $2.2 million including restricted cash of $3.8 million). Restricted cash is revenue collected on behalf of customers.

(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.

NOTE 18. CURRENT LIABILITIES – PROVISIONS

	2015 $'000	2014 $'000
Employee entitlements	3,450	3,337
Provision for warranties	130	35
Asset retirement obligation – liability	3,665	2,146
	7,245	5,518

NOTE 19. NON CURRENT LIABILITIES – PROVISIONS

	2015 $'000	2014 $'000
Employee entitlements	719	566
Asset retirement obligation – liability	4,168	3,460
	4,887	4,026

(a) Movements in provisions

	Maintenance Warranties $'000	Employee Entitlements $'000	Asset Retirement Obligations $'000	Total $'000
At 1 July 2014	35	3,903	5,606	9,544
Arising during the year	95	723	1,986	2,804
Utilised during the year	–	(1,186)	(1,130)	(2,316)
Exchange adjustment	–	729	1,371	2,100
At 30 June 2015	130	4,169	7,833	12,132
Current 2015	130	3,450	3,665	7,245
Non-Current 2015	–	719	4,168	4,887
At 30 June 2015	130	4,169	7,833	12,132
Current 2014	35	3,337	2,146	5,518
Non-Current 2014	–	566	3,460	4,026
At 30 June 2014	35	3,903	5,606	9,544

Superannuation

During the year ended 30 June 2015 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 2015 have been discharged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(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" business within the North American 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 2015. The Company considers its relationship between its market capitalization and book value of equity, among other factors, when reviewing for indicators of impairment. At 30 June 2015 the market capitalization 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.

Determination of Cash Generating Unit's ("CGU's")

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 "North America" and "Australia and International". From a CGU perspective Redflex Guardian generates independent cash-flows. Whilst at a segment level this business is included within the North American segment (due to Redflex Guardian operating in North America), for the purpose of asset impairment testing this business has been treated as a stand-alone CGU. The CGU's identified by the Company are as follows:

- North American traffic operations;
- Redflex Guardian; and
- Australian and International traffic operations.

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

	Redflex Guardian*		North American traffic operations*		Aust / International s traffic operation		Total	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Goodwill	2,948	2,396	–	–	–	–	2,948	2,396
Plant and equipment	7,720	3,792	40,314	52,161	6,043	5,328	54,077	61,281
Intangible assets	772	1,264	–	4,451	23,186	23,015	23,958	28,730
	11,440	7,452	40,314	56,612	29,229	28,343	80,983	92,407

*The carrying value of assets in these CGU's are subject to fluctuations in foreign exchange. For the North American traffic operations the recoverable amount is equal to the carrying amount.

Accounting polices

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

CGU	VALUATION METHODOLOGY
North American traffic operations	Fair value less costs of disposal
Redflex Guardian	Value in use
Australian and International traffic operations	Value in use

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Fair value less costs of disposal ("FVLCOD")

The FVLCOD for the CGU is assessed based on the most recent forecasted profit before interest tax, depreciation and amortisation ("PBITDA"), prepared as part of management's budgeting and forecasting process, less the incremental costs from disposing of the asset. These business transactions are corroborated by valuation multiples. The valuation multiples are determined by quoted share prices for publicly traded companies or other available fair value indicators.

The Fair Value estimates are considered to be level 3 fair value measurements (as defined by accounting standards) as they are derived from valuation techniques that include inputs that are not based on observable market data. The company considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

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 recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

North American traffic operations

The FVLCOD for the CGU has been calculated using the most recent forecasted profit before interest, tax, depreciation, and amortization ("PBITDA") prepared as part of management's budgeting and forecasting process. A valuation multiple of 4 times has been used in order to calculate the enterprise value of the CGU, which is managements best estimate based on the fair value indicators available as at 30 June 2015. Costs of disposal are estimated as 5% of the total enterprise value of the CGU, which is accordance with management's policy.

As detailed in the Redflex Group's review of operations section of this report the US photo enforcement market continues to be challenging. As a result of the analysis management has identified a total impairment of $11.8 million (USD$ 9.0 million) at 30 June 2015. The impairment charge has been recognised against capitalised development costs $4.5 million (USD$3.4 million) and plant and equipment $7.3 million (USD$5.6 million).

Furthermore, independent of the analysis management identified an additional impairment of plant and equipment of $10.8 million driven predominantly by termination and expiry of contracts held within the CGU.

Sensitivity analysis

The FVLCOD model is most sensitive to the following assumptions:

- Forecasted profit before interest, tax, depreciation, and amortisation; and
- External valuation multiples.

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 sensitivity's assume that the specific assumption moves in isolation while all other assumptions remain constant.

Profit before interest, tax, depreciation, and amortisation (PBITDA)

PBITDA is based on both revenue generation, gross margin and operating expenses. Revenue generation has been determined using the CGU's 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, which are currently in place in the budgeting and forecasted process. Operating expenses have been determined using management's budget which takes into consideration cost reduction strategies which have already been formally committed to.

A decrease in budgeted PBITDA of 5% would result in an additional impairment of $3.0 million (USD$ 2.3 million) the North American traffic operations CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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External valuation multiple

The external valuation multiple is considered from the view of a market participant and is derived from value indicators such as quoted share prices for publicly traded companies and external information provided to the Company.

It is noted that a decrease in the external valuation multiple of 5% would result in an additional impairment of $2.9 million (USD$2.2 million) in the North American traffic operations CGU.

Redflex Guardian

As the Redflex Guardian CGU contains Goodwill this has been assessed separately as part of the annual impairment testing.

Goodwill

The key assumptions used in cash flow projections to undertake impairment testing of goodwill are:

- Revenue growth has been determined by extrapolating the number of new systems, anticipated issuance and paid citation rates for near term opportunities which have already been identified. These assumptions are based on historical performance and also the assumptions underlying the Company's financial budgets covering a five year period

  a. An approximate 4.5% (CAGR) growth in systems over the five year period.

  b. The volume of citations identified per system to remain constant with 2015 actual levels and to increase by 0.44% over the five year period.

- Margins based on performance in the preceding year, increased for expected efficiency improvements.
- The yield on a ten year USA based Government Bond rate consistent with external informational sources is utilised;
- Projected cash flows have been discounted using an after-tax discount rate of 15.2% (FY2014: 15.5%). The Pre-tax equivalent discount rate is 20.2% ; and
- An extrapolated growth rate of 2% in the installed base has been used beyond the forecast period.

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

Other assets excluding goodwill

The carrying value of other assets has been tested using cash flow projections covering a five year period. The post- tax discount rate applied to the projections is 15.2% (2014: 15.5%). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2.0% (2014:2.0%).

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

Sensitivity Analysis

The value in use model for Redflex Guardian is most sensitive to the following assumptions

- Gross revenue and number of systems installed (including contract churn)
- Citation rates per day
- Discount rates
- Impact of movements in foreign exchange

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 reasonable possible change in circumstances that identify impairment.

REDFLEX HOLDINGS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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, which are currently in place with reference to cash flows in years 1-5 of the impairment model. The growth rates noted above are used for growth into perpetuity.

Citation rates per day

The revenue model in the Redflex Guardian CGU's is linked to the number of citations issued by each camera per day. The citation rate is based on actual data received since the commencement of programs in combination with future business expectations and advancements in technology which would increase the number of citations issued per day.

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 factor 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.

Impact of movements in foreign exchange

The Redflex Guardian and North American Traffic Operation CGU's cash flows are affected by movements in foreign exchange. Whilst these movements into the future cannot be reliably measured management has assessed the impact on changes to the rates through sensitivity analysis.

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 14.2% (2014: 14.2%). The pre-ta equivalent discount rate is 19.6%. Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2.0% (2014:2.0%).

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 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 reasonable possible change in circumstances that identify impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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, which are currently in place with reference to 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 2015 period and the expectation on margin at completion on significant projects in the short term. Margins are set 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 2015 data adjusted for the expecting 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 factor 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

There has been no change in contingent assets or liabilities since 30 June 2015 except as set out below and in Note 28.

The Company's U.S. subsidiary, RTSI, is currently a party to various legal actions and investigations that have arisen during the course of its business. Any liabilities arising from such actions are uncertain and indeterminate as at the date of this report but may, in certain circumstances, be expected to have a material adverse effect on the Group. The Company and our legal advisors closely monitor these actions and the Company continues to assert its rights and defend claims as appropriate. Provisions are not required in respect of these matters as at the date of this report, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Chicago and Ohio

After the balance date, the City of Chicago (Chicago) notified the Company that it intends to intervene in a qui tam civil legal action in Chicago commenced by a former Redflex executive (the "qui tam" action). Amongst other civil penalties, the legal action claims an award of damages treble the amount paid to the Company by Chicago under the now terminated contracts. However, the actual amount of recovered damages in qui tam actions is typically much lower than the amount of damages claimed by the plaintiff in the complaint. The claim alleges that the revenues earned by the Company under these terminated contracts were USD$100 million.

The Company is also subject to a continuing investigation by the U.S. Department of Justice (the "DOJ") in regard to the Company's historical dealings with Chicago and in the State of Ohio. The DOJ has not yet confirmed any conclusion to its investigation and it is possible that the Company may be subject to a monetary fine. Separate from any potential consequences of the DOJ investigation and the qui tam action Chicago also has the ability to issue a variety of penalties for local ordinance violations ranging from monetary penalties to debarment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

At this point in time it is not possible to estimate the timing for completion of the DOJ investigations nor the Chicago legal actions and any quantum or recoveries in relation to these matters is not capable of being measured. No amounts have been expensed or provided for in relation to these matters at 30 June 2015. At this time the Company does not expect penalty outcomes from any Ohio jurisdiction in which the Company operated.

The matters above may individually or in aggregate, be material in nature and the Company continues to exercise its rights as appropriate in relation to the above matters. The Company will avail itself of all legal defences available to it in the qui tam action in order to defend itself and to minimise its exposure to potential financial harm.

If the matters noted above resulted in negative judgements and damages at levels that could not be funded by the Company based on the level of financial resources available to it at such time, there is significant uncertainty as to whether the consolidated entity could continue as a going concern.

NOTE 22. CONTRIBUTED EQUITY

	2015 $'000	2014 $'000
Ordinary shares:		
Issued and fully paid	101,765	101,765

Movements in ordinary shares on issue

	Number of shares Thousands	$'000
At 30 June 2013	110,762	101,765
Issued during FY14 as a result of:		
Vesting of performance rights under LTI Plan	–	–
At 30 June 2014	110,762	101,765
Issued during FY15 as a result of:		
Vesting of performance rights under LTI Plan	–	–
At 30 June 2015	110,762	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. RETAINED EARNINGS AND RESERVES

Movements in retained earnings were as follows:

	2015 $'000	2014 $'000
Balance 1 July	30,909	34,392
Net profit/(loss)	(31,944)	(1,183)
Dividends paid	–	(3,323)
Transfer of expired equity instruments	1,932	1,023
Balance 30 June	897	30,909

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.

Movements in reserves were as follows:

	Foreign currency translation $'000	Employee equity benefits reserve $'000	Total $'000
At 30 June 2013	(13,944)	3,037	(10,907)
Cost of share based payments	–	568	568
Transfer of expired equity instruments	–	(1, 023)	(1,023)
Effect of exchange rate movement	(3,546)	–	(3,546)
At 30 June 2014	(17,490)	2,582	(14,908)
Cost of share based payments	–	583	583
Transfer of expired equity instruments	–	(1,932)	(1,932)
Effect of exchange rate movement	19,914	–	19,914
At 30 June 2015	2,424	1,233	3,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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 $1,918,668 (FY14: $1,782,868).

(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 USA. 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	
	2015 $'000	2014 $'000
Within 1 year	2,247	3,948
After 1 year but not more than 5 years	2,139	3,011
More than 5 years	–	–
	4,386	6,959

(c) Capital commitments

At 30 June 2015 the Group has commitments of $103,795 (30 June 2014: $1,405,681). These commitments principally relate to the installation of camera systems by the North American 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:

	2015 $'000	2014 $'000
Within one year	104	1,406
After one year but not more than five years	–	–
Longer than five years	–	–
	104	1,406

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 2015 %	Equity interest 2014 %	Investment 2015 $'000	Investment 2014 $'000
Controlled entities of Redflex Holdings Limited					
Redflex Enforcement Services Pty Ltd	Australia	100	100	–	–
Redflex Pty Ltd	Australia	100	100	3,357	3,357
Aerospace Systems Ltd	Australia	100	100	100	100
RTS R & D Pty Ltd	Australia	100	100	–	–
Redflex Traffic Systems (Canada) Inc	Canada	100	100	–	–
Redflex Traffic Systems Limited	UK	100	100	–	–
Redflex Traffic Systems Inc	USA	100	100	41,842	49,110
Traffic Operating Systems (Saudi Arabia) LLC *	Saudi Arabia	100	100	14	14
Transtoll Pty Ltd	Australia	100	100	–	–
Redflex Irish Investments Pty Ltd	Australia	100	100	–	–
Redflex Traffic Systems Malaysia Sdn Bhd	Malaysia	100	100	–	–
				45,313	52,581
Controlled entities of Redflex Traffic Systems Inc					
Redflex Traffic Systems Pty Ltd	Australia	100	100		
Redflex Traffic Systems (California) Inc	USA	100	100		
Redflex Guardian, Inc	USA	100	100		
Controlled entities of Redflex Traffic Systems Pty Ltd					
Redflex Traffic Pty Ltd	Australia	100	100		
Controlled entities of Redflex Guardian Inc					
SBL Investments LLC	USA	100	100		
Americore Enterprises LLC	USA	100	100		

*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.

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.

REDFLEX HOLDINGS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

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

	2015 $'000	2014 $'000
Short term employee benefits	2,454	2,513
Post-employment benefits	–	11
Long-term employment benefits	334	111
Termination payments	698	–
Share based payments	22	213
	3,508	2,848

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 (LTIP) for executives in 2006. The LTIP Rules for Australian and United States executives are published on Redflex's website. The LTIP is based on grants of Performance Rights which vest into shares on a 1 for 1 basis at no cost to the employee, subject to satisfaction of performance hurdles.

Executive Share Plan

No shares were issued under the Executive Share Plan (ESP) in the financial year ended 30 June 2015 (FY14: 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 2015 (FY14: Nil).

In the prior year, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. The terms of Mr DeVincenzi's Agreement include that Mr DeVincenzi has waived his entitlement to 129,323 performance rights and 3 million unlisted options that were issued on 10 September 2012 and these were forfeited on 17 July 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Equity-settled transactions

The fair value of each performance right is estimated on the date of the 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 was performed independently by a suitably qualified external party.

The following table lists the inputs to the model used for the LTIP for the years ended 30 June 2015 and 30 June 2014.

Performance rights formula

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
Dividend yield	0%

Year ended 30 June 2014	18 June 2014
Share price at valuation date	$1.00
Expected volatility	42%
Risk-free interest rate	2.68%
Expected life of performance right	3 years
Dividend yield	4.1%

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.

The weighted average remaining contractual life for the performance rights is generally 3 years (FY14: 3 years).

Movements in the year

Performance rights

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

	2015		2014	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	2,824,092	–	2,343,047	–
Granted during the year	997,742	–	1,344,159	–
Cancelled outgoing CEO arrangements	–	–	(129,323)	–
Forfeited during the year	(1,302,594)	–	(197,627)	–
Vested during the year	–	–	–	–
Lapsed during the year	(764,633)	–	(536,164)	–
Outstanding at the end of the year	1,754,607	–	2,824,092	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2015

Options

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

	2015		2014	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	–	–	3,000,000	–
Granted during the year	–	–	–	–
Forfeited during the year	–	–	(3,000,000)	–
Vested during the year	–	–	–	–
Lapsed during the year	–	–	–	–
Outstanding at the end of the year	–	–	–	–

WAEP: Weighted average exercise price

NOTE 27. PARENT ENTITY INFORMATION

Information relating to the parent entity, Redflex Holdings Limited.

	2015 $'000	2014 $'000
Current assets	6,080	5,618
Non-current assets	72,224	74,130
Total assets	78,304	79,748
Current liabilities	1,164	1,586
Non-current liabilities	674	–
Total liabilities	1,838	1,586
Net assets	76,466	78,162
Contributed equity	101,765	101,765
Accumulated losses	(36,096)	(33,817)
Reserves	10,797	10,214
Total shareholders' equity	76,466	78,162
Profit /(loss) of the parent entity	(2,855)	(1,178)
Total comprehensive income/(loss) of the parent entity	(2,855)	(1,178)

Contingent liabilities

With the exception of matters disclosed in Note 21 & 28, Redflex Holdings Ltd does not have any contingent liabilities at 30 June 2015. Details of contingent liabilities identified in FY14 are detailed in the 2014 annual report.

Contractual Capital Commitments

With the exception of matters disclosed in Note 24, Redflex Holdings Ltd does not have any contingent liabilities at 30 June 2015. (2014: Nil)

Guarantees

As at 30 June 2015 (and 30 June 2014) Redflex Holdings Ltd is a joint party under the Syndicated Financing Facility which is described in Note 17.

Related Party Transactions

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

NOTE 28. EVENTS AFTER BALANCE SHEET DATE

On 17 July 2015 the City of Columbus ("Columbus") notified RTSI that Columbus intends to exercise their right to terminate the Columbus contract. This decision was not unanticipated by the Company and the Company had therefore previously recognised an impairment of $2.3 million in relation to Ohio assets in the half year financial report at 31 December 2014. Subsequent to this recent event, the Company has recognised a further impairment of $2.1 million resulting in a total impairment charge of $10.75 million for the year ended 30 June 2015.

On 31 August 2015 Chicago notified the Company that a qui tam legal action has been commenced in the Circuit Court of Cook County by Mr Aaron Rosenberg, a former executive of RTSI. Chicago has notified the Company that Chicago intends to intervene in this matter on behalf of the plaintiff (which means Mr Rosenberg will cease the role as plaintiff). Amongst other civil penalties, the legal action claims an award of damages treble the amount paid to RTSI by Chicago under the now terminated contracts between RTSI and Chicago. The claim alleges that the revenues earned by RTSI under the now terminated contracts were USD$100 million.

If successful, the claims and purported actions above may, individually or in aggregate, be material in nature noting however that these amounts are not capable of being accurately measured as at the date of this report.

Redflex will continue to exercise its rights as appropriate in relation to the above matters.

Re-appointment of Paul Clark as Group Chief Executive Officer of Redflex Holdings Limited

Paul Clark was re-appointed Group Chief Executive Officer of the Company on 24 September 2015. The term of his written employment agreement is not fixed. Mr Clark's annual gross salary is unchanged from the previous reporting period at AUD$400,000 plus statutory superannuation, although any increases will be subject to board discretion. Mr Clark will be entitled to participate in the Company's Long Term Incentive (LTI) arrangements.

In relation to the 2016 financial year, subject to agreed performance conditions being achieved, Mr Clark will be entitled to receive a LTI payment of between AUD$120,000 and AUD$420,000 in cash. The performance conditions relate to exceeding targeted EBITDARD for the 2016 financial year by certain prescribed amounts and continuity of employment. However, if approved by the Company's shareholders at the 2015 Annual General Meeting, Mr Clark and the Company have agreed that rather than paying any LTI to him in cash, Mr Clark will be issued performance rights equal to the value of his maximum LTI entitlement 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 2015 (VWAP Calculation), subject to a maximum of 1,200,000 performance rights.

Each performance right would entitle 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 performance conditions and becomes eligible for a LTI, 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 25% on 1 October 2016, as to a further 25% on 1 October 2017 and as to the last 50% on 1 October 2018, subject to Mr Clark being employed by the Company at the relevant date.

If the grant of performance rights to Mr Clark on the above basis is not approved by shareholders of the Company at the 2015 Annual General Meeting, any LTI to which Mr Clark is entitled in respect of the 2016 financial year will be paid to him in cash as follows: (i) 25% on 1 November 2016; (ii) a further 25% on 1 November 2017; and (iii) the remaining 50% on 1 November 2018 provided that he is employed by the Company on each of these dates.

Note "Targeted EBITDARD" is EBITDA as shown in the Company's audited accounts less budgeted capitalised development costs.

NOTE 29. AUDITOR'S REMUNERATION

	2015 $'000	2014 $'000
Amount received or due and receivable by Ernst & Young (Australia) for:		
An audit or review of the financial report of the consolidated entity	375	303
Amount received or due and receivable by Ernst & Young (Australia) for other services in relation to the consolidated entity for:		
Assurance related matters	9	25
Amount received or due and receivable by related practices of Ernst & Young (Australia) for:		
Audits or reviews of subsidiaries	263	282
	647	610

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 2015 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 2015 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 2015.

On behalf of the board

Adam Gray
Director
29 September 2015

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Independent auditor's report to the members of Redflex Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Redflex Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Building a better working world

Opinion

In our opinion:

a. the financial report of Redflex Holdings Limited is in accordance with the Corpor*ations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 21 and 28 in the financial report where there is information detailed in relation to contingent liabilities reported by the consolidated entity.

As a result of these matters, there is a significant uncertainty whether the consolidated entity will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. 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.

Opinion

In our opinion, the Remuneration Report of Redflex Holdings Limited for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ashley Butler
Partner
Melbourne
29 September 2015

ASX ADDITIONAL INFORMATION

Additional information required by ASX and not shown elsewhere in this report is as follows. This information is current as at 26 August 2015.

Distribution of equity securities

There were 1,666 holders of 110,762,310 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	426	200,164	0.18
1,001-5,000	617	1,574,610	1.42
5,001-10,000	251	1,863,604	1.68
10,001-100,000	316	8,819,474	7.96
100,001-over	56	98,304,458	88.76
	1,666	110,762,310	
Holding less than a marketable parcel of 2,000 shares @ $500	656	525,225	

Substantial holders

Name	Ordinary Shares	% of Issued Capital
Coliseum Capital Management	24,929,829	22.51
Sidney Ho	11,304,359	10.21
Thorney Investment Group	8,538,867	7.71
Mrs Elizabeth Cooper	8,500,058	7.67
Dumac	7,575,905	6.84
Christopher Austin Cooper	6,509,811	5.88
Ms Cheng Man Oy	6,355,305	5.74

Twenty largest holders of quoted equity securities

Name	Shares Held	% of Issued Capital
HSBC Custody Nominees (Australia) Limited-GSCO ECA	26,875,932	24.26
National Nominees Limited	8,707,008	7.86
HSBC Custody Nominees (Australia) Limited	8,653,641	7.81
Mrs Elizabeth Geraldine Cooper	8,500,058	7.67
Investaco Pty Ltd	6,706,490	6.05
Ms Cheng Man Oy	6,355,305	5.74
Mr Christopher Austin Cooper	6,309,811	5.70
Investaco Pty Ltd <Ho Family A/C>	4,050,622	3.66
Blue Jade Pty Ltd	3,583,948	3.24
Vertex Bianca Nominees Pty Ltd <Superannuation Fund A/C>	2,149,944	1.94
Citicorp Nominees Pty Limited	1,944,432	1.76
Mr Graham William Davie	1,788,701	1.61
O'Connor Holdings Pty Ltd	1,571,215	1.42
J P Morgan Nominees Australia Limited	1,108,542	1.00
Vertex Bianca Nominees Pty Ltd	980,957	0.89
Character Home Sales Pty Ltd	947,242	0.86
Debuscey Pty Ltd	588,134	0.53
Mr Michael John Allen	500,000	0.45
Sandhurst Trustees Ltd <Endeavor Asset Mgmt DA>	429,596	0.39
Exton International Pty Ltd <Exton family account>	360,343	0.33
Top 20 Holders of ordinary fully paid shares	92,111,921	83.17

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