

The logo for Redflex 90, featuring the word "Redflex" in a white sans-serif font, followed by a stylized "90" in a green, rounded font.

Redflex 90

ANNUAL
REPORT
2018

FOR A WORLD ON THE MOVE

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CORPORATE GOVERNANCE STATEMENT

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

Accordingly, Redflex Holdings Limited's ("the Company") 2018 ASX Corporate Governance Statement does not appear in this Annual Report and can be located on the Company's website (www.redflex.com). To navigate to the Company's 2018 ASX Corporate Governance Statement and ASX Appendix 4G, please click on the "Investors/ Governance" tab.

The URL for the 2018 ASX Corporate Governance Statement is:

http://www.redflex.com/application/files/3215/3534/9642/2018_Corporate_Governance_Statement.pdf

The URL for the 2018 ASX Appendix 4G is:

http://www.redflex.com/application/files/8315/3534/9662/2018_ASX_Appendix_4G.pdf

REDFLEX HOLDINGS LIMITED

ABN 96 069 306 216

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

Corporate Directory

Directors

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

Company Secretary

Craig Durham

Registered Office

31 Market Street, South Melbourne, Victoria, 3205, Australia

Principal Places of Business

Australia

31 Market Street, South Melbourne, Victoria, 3205, Australia
Phone: +61 3 9093 3324

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Burnetts Lane,
West End Southampton Hampshire SO30 2PA, United Kingdom

USA

5651 West Talavi Boulevard,
Suite 200,
Glendale AZ 85306-1893
United States of America

Share Register

Computershare Investor Services

452 Johnston Street, Abbotsford, Victoria, 3067, Australia
Phone: 1300 850 505

Solicitors

KPMG Law

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

Baker McKenzie

181 William Street, Melbourne, Victoria, 3000, Australia
Auditor

PricewaterhouseCoopers

2 Riverside Quay, Southbank, Victoria, 3006, Australia

FINANCIAL PERFORMANCE SUMMARY

RESULTS FROM OPERATIONS

	2018	2017
Revenue (\$ Million)	105.6	120.8
Profit before depreciation, amortisation, impairment, finance costs and tax (\$ Million)*	12.3	10.7
Loss after tax (\$ Million)	(12.1)	(31.5)
Weighted average number of shares (Million)	132.0	110.9
Basic earnings per share (Cents)	(9.18)	(28.41)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (Cents)*	9.31	13.19
Net tangible assets per share (Cents)*	38.71	42.94
	2018	2017
	(\$M)	(\$M)
Current assets	54.1	41.0
Non-current assets	76.4	87.4
Current liabilities	29.3	35.3
Non-current liabilities	24.9	22.1
Shareholders' equity	76.3	71.0

Reporting period

The current reporting period is the year ended 30 June 2018 ("FY18"). The previous corresponding period is the year ended 30 June 2017 ("FY17").

* Note regarding non-IFRS financial information

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

CHAIRMAN'S LETTER

BUILDING A PLATFORM FOR SUSTAINED SUCCESS

Dear Fellow Shareholders and Associates,

FY18 was a transformative year as Redflex progressed a number of key initiatives to strengthen and integrate our global sales, business development, marketing and operational capability. Today, our existing customers are more engaged, and our business model more efficient. The key for FY19 will be conversion of bid activity to sales orders, and then continued, efficient delivery of our technology solutions and services.

At a macro level we are seeing promising tailwinds, including:

- Federal, state and large municipal transportation agencies have complicated traffic and roadway safety issues and are more aggressively looking for advanced technology solutions. Redflex has established credentials and the agility to both partner with and seamlessly integrate an expansive suite of technology solutions for larger clients.
- The world is gaining greater comfort with, and looking to greater leverage cloud-based and portable solutions. Our enhanced Alcyon back office and middleware systems offer both quick and nimble set-up and processing/management tools, with solid early reception from customers across the globe.
- The US market, for years described as "low growth", is showing signs of a more progressive orientation toward utilizing technology to address road safety and traffic management. Redflex is well placed to provide proprietary solutions to meet these opportunities.

Across the globe, particularly in our priority markets, we are gaining a deeper understanding of our customer's needs and aspirations to improve road safety and reduce traffic congestion, which has advanced the Company's ability to anticipate opportunities to sell our innovative technology. Geographically, we are gaining traction in the U.K. and Europe, while our existing operations have us well positioned to expand our presence in the Middle East, Asia, and the U.S. We are further pursuing adjacent markets for the sale of vehicle parking solutions and the supply of infringement processing services.

Improved Financial Results and Strengthened Balance Sheet; Positioned for Future Growth

As set out more fully in the Group CEO's Report that follows, your Board and management have been focussed on improving the Company's financial performance through revenue and PBITDA growth, while investing in expanded global capabilities, new business and key projects, all of which are enabled by our successful capital raising in late 2017.

For fiscal year 2018, the overall financial result was a 15% improvement in underlying profit before depreciation, amortisation, impairment, finance costs and tax (PBITDA) to AUD12.3 million (FY17 PBITDA: AUD10.7 million). Despite modest reductions in total revenue, right-sizing and efficiency initiatives improved PBITDA margins from 8.8% to 11.6% (with similar improvements in profit margin across each of the International and US markets).

The most notable changes that Mark and his team have driven over the past ten months are rooted in a "go get" sales orientation and a drive for efficiency across the globe with a One Redflex mentality. The aperture and quality of our sales pipeline for both project and recurring revenue in the near and medium-term has expanded. And although we still have work to be done, confidence in our ability to convert our fair share of the total contract value of qualified bids in which we are participating has also grown. Having rightsized the business and driven efficiencies throughout our operations, growth in revenue should flow through to meaningfully improved bottom line results.

Conclusion

I would like to thank you, our shareholders and associates, for your continued support of and engagement with the company as we leverage new and advanced road safety technologies for communities around the world – to save lives by helping to change driver behaviour, to improve traffic management and to enhance public safety – and in so doing, to deliver future revenue and earnings growth with prudent capital stewardship.

With best wishes,



Adam L. Gray
Chairman

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX GROUP-REVIEW OF OPERATIONS

FY18 Highlights

International

- Focus has been on growing our sales and business development capability by adding specialist sales staff in Australia, the U.S. and the U.K.;
- Confirmed sales orders for annuity and project revenue streams have grown compared to FY17;
- Significant financial investment supporting new revenue generating contracts;
- Improved PBITDA performance despite a decline in FY18 revenue.

Americas

- Market growth as some states in the U.S. have passed positive legislative changes around road safety and traffic management;
- Streamlined our U.S. operating model to maximise earnings;
- Growth in PBITDA performance compared to FY17;
- Canada is emerging as an exciting market for further expansion based on existing customer relationships;

Globally

- 15.2% improvement in Group PBITDA over FY17 despite lower revenue; and
- Net loss after tax has reduced from FY17: \$31.5 million to FY18: \$12.1 million.

International Operations

The focus within the International business has been to grow the sales and business development capability to support the sales pipeline opportunities that exist in the key markets in which Redflex competes. We have increased the capability of these teams with additional resources in the U.K. and other International markets. These resources have enhanced our ability to identify sales opportunities with our existing customer base while also developing sales opportunities with new customers. Encouragingly, in FY18 we have seen growth in confirmed sales orders for both annuity and project revenue streams compared to FY17.

In November 2017 we successfully renewed and expanded our contract with NSW Roads and Maritime Services for the provision of outsourced mobile speed enforcement services. The expanded contract is expected to generate revenue of approximately \$65 million over five years with the provision of services commencing in July 2018. During FY18 the Company invested significant capital expenditure in preparing for this contract including the fit out of equipment to the fleet of vehicles which support the program. The award of the expanded scope of this contract to Redflex was a major milestone and demonstrated the success of our customer service and performance over many years.

The U.K. installation work on the variable speed enforcement camera systems on England's M1 and M6 motorways was completed during FY18 and the program has transitioned to maintenance support for the period to 30 April 2024. This was a significant milestone in the maturity of our U.K. operations and has solidified our relationship with Highways England. We are confident of further works and upgrades in the U.K. market.

We continue to grow our presence in the European market. Having first supplied mobile speed systems in Belgium during FY17, Redflex was also contracted to supply fixed speed systems and additional mobile systems there during FY18. In Ireland, we continue to participate in the GoSafe (Road Safety Operations Ireland Limited) consortium (16% share).

Revenue from International operations for FY18 of \$45.5 million represented a decline of 11.3% to the prior year (FY17: \$51.3 million). The decline was due to the completion of the violation processing contract in Saudi Arabia in January 2017 and the completion of the installation phase on projects in the U.K and New Zealand. Revenue in FY18 was also impacted by customer deferment of some key projects to future periods.

Despite the revenue decline, underlying PBITDA from International operations grew by \$1.3 million to \$3.2 million

(FY17: \$1.9 million). This improved result highlights the continued focus on cost control as resource requirements were managed to match the completion of some projects. Increased discipline in the deployment of resources to product development initiatives also reduced costs as the substantive development of Halo and Alcyon platforms were completed in FY17.

Americas

The U.S. photo enforcement market has historically been slow to grow due to lack of new legislation expanding photo enforcement. However, in 2018 we have seen increasing activity around proposed enabling legislation in various states with new laws enacted in Oregon and Georgia providing growth opportunities. The market is now recognising the safety and traffic congestion management benefits of increased compliance resulting in legislative advancement. We will continue to participate as an industry leader to educate and promote automated traffic enforcement as a key road safety initiative.

In addition to the long-term investment in growing our markets, the near term focus will remain on improving the efficiency of our operating model to maximise earnings, elevating customer satisfaction to maintain retention rates, ensuring positive customer advocacy and engaging new customers to demonstrate our capabilities and service offerings.

Underlying PBITDA in the Americas of \$10.3 million grew on the prior year (FY17: \$10.1 million). The result was achieved despite lower revenue and reflects the benefit of operational efficiency improvements and lower legal expenses. The decline in revenue to \$60.1m (FY17: \$69.5m) is largely due to the completion of the program in Mexico and the discontinuation of our programs in Jacksonville, FL and Rochester, NY.

We remain excited about the opportunity for further expansion in Canada. With a solid pipeline of sales opportunities and a strong customer base in Alberta and British Columbia we are seeking to expand and extend our current customer relationships as well as attracting new customers.

During the second half of FY18 Redflex completed its contractual obligations with a distributor for the provision of services in Mexico. As disclosed in the notes to the financial statements, a provision has been set aside for a significant proportion of the outstanding receivable. We continue to pursue recovery of all amounts outstanding under this contract.

Group Financial Performance

Underlying PBITDA amounted to \$12.3 million which was an improvement of 15.2% on FY17: \$10.7 million. This improved result was achieved against a backdrop of lower revenue and was driven by improved margins and continued prudent cost management across both the International and Americas segments.

Revenue of \$105.6 million was 12.6% lower than the prior year (FY17: \$120.8 million). The decrease was a result of the conclusion of the Saudi Arabian traffic violation processing centre contract in January 2017, completion of the installation phase on several International contracts which transitioned to maintenance support and the completion of some contracts in the Americas business.

As announced in November 2017, Redflex entered into a written settlement agreement for \$3.0 million to recover a long-standing receivable in Saudi Arabia. During FY18, Redflex received approximately \$1.1 million of the settlement amount from our former customer. We continue to vigorously pursue the remaining balance which remains fully provisioned due to the protracted nature of the recovery.

Net loss after tax of \$12.1 million in FY18, compared to the previous year loss after tax of \$31.5 million. The reduction in the reported loss is due to improved underlying earnings and the recognition in the prior financial year of the City of Chicago settlement. The loss in the current financial year includes increased amortization charges of \$4.2 million due to a change in the useful life of intangible assets from seven years to five. The change in the estimated useful life is to more appropriately align these assets with the duration of key customer contracts.

Cash flow from operations during FY18 was \$1.6 million, compared to \$12.9m in FY17. Cash flow from operations in the current year was unfavourably impacted by a payment in respect of the City of Chicago of \$6.4m and an unfavourable movement in working capital of \$2.7m. The working capital movement relates mainly to the payment of creditors carried forward from FY17. Effective working capital management remains a priority and production and inventory requirements are managed against confirmed orders.

Capital Raising

In November 2017 the Company announced a fully underwritten 1 for 3 Accelerated Non-Renounceable Entitlement Offer. The capital raising was fully subscribed and raised \$15.3 million net of transaction costs.

As stated in the Entitlement Offer Presentation (released to the ASX on 15 November 2017), the additional capital was raised to support the growth aspirations of the Company. During FY18, the Company has been able to pursue several initiatives based on its strengthened balance sheet which include:

- Expenditure associated with the expansion of the New South Wales Mobile Speed Camera Operations. This contract has estimated revenue of \$65 million over a five-year period from July 2018;
- Additional sales and business development people which have been added to the U.K. and other International markets. These additional people enhance our global sales and business development capability to identify sales opportunities with our existing customers while also pursuing sales opportunities with new customers and new markets.

Balance Sheet

The balance sheet has been strengthened by the capital raising in December 2017 and proceeds from the drawdown of term debt.

The net book value of plant and equipment continues to decline as depreciation on U.S. assets supporting "BOOM" customer contracts outpaces new equipment installed. The value of intangible assets has declined in line with increased amortisation charges associated with the change for the estimated useful life of these assets from seven years to five.

Deferred tax assets have been restated following the change to the U.S Federal tax rate from 34% to 21%.

Group liabilities have declined due to the settlement of creditors carried forward from FY17.

Year on year comparison

A comparison of the Group's performance for FY18 and FY17 is as follows.

	2018 \$'000	2017 \$'000
Profit before depreciation, amortisation, impairment, finance costs and tax	12,294	10,671
Less:		
Impairment / (recovery) of trade receivables	(1,067)	3,672
Legal settlement with the City of Chicago	–	25,509
Depreciation	11,762	14,961
Amortisation	8,223	4,016
Legal costs associated with debt recovery	888	–
Restructuring costs	598	–
Finance costs	986	84
Net loss before tax	(9,096)	(37,571)

FINANCIAL RESOURCES

On 18 December 2017, the Company announced that its U.S. subsidiary, Redflex Traffic Systems, Inc., had entered into a US\$10 million credit facility agreement with Western Alliance Bank consisting of a US\$5 million revolving credit line and a US\$5 million three-year term loan. These facilities are used to support the operating and working capital requirements of the Americas business.

Maturity for the revolving credit facility is 14 December 2018 and the term loan is 14 December 2020.

As at 30 June 2018 the Company has an outstanding term loan of \$6.3 million, of which \$0.8 million is due within twelve months. No balance is outstanding against the revolving credit facility.

The Company has a cash balance of A\$18.9 million which includes restricted cash of A\$4.5 million. Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a A\$4 million facility with the Commonwealth Bank of Australia for bank guarantees and bonds required to support bids and contracts with certain customers.

The cash flows from operations are expected to be sufficient to fund the Group's capital requirements during the financial year ending 30 June 2019 ("FY19").

DIVIDENDS

Dividends have not been declared in either FY18 or FY17.

OUTLOOK FOR THE 2019 FINANCIAL YEAR

During 2018 a significant amount of activity was undertaken to transform the organization into a more focused and deliberate structure. We aligned our organization by function globally. We became more efficient in our delivery and support functions, generating better returns on our revenue base while investing in product development, marketing and new business sales pursuits. We also assessed our market at the segment level and geographically in order to align investment and business development resources. We will remain focused on delivering market leading solutions where we can have the greatest return.

The net result has been three new certifications for products in Belgium, Australia and the Netherlands, and we have completed successful field demonstrations in Canada and the Middle East. All of which puts us in position to compete for future sales opportunities with industry leading solutions. We expect to accelerate our product innovation and certification activities in 2019 as we continue to mature and extend the Halo and Alcyon platforms into the broader managed motorway and intelligent transportation systems marketplace.

We have recruited additional business development people and launched a standardized sales incentive plan to reward performance. This will drive the Company's pursuit of profitable growth while ensuring we can attract, reward and retain the best business development people in the industry. We are confident our approach to investing in our solutions and rewarding success in selling those solutions will drive greater conversion from our existing sales pipeline, as well as create more opportunities where we can compete and win.

Major investments in intelligent transportation systems are occurring globally although at varying levels and in some cases emphasizing different aspects of smart motorway management. We will continue to position ourselves in each of our target markets to ensure we are a leading provider of solutions that drive compliance, improve road safety, increase travel time predictability, reduce traffic congestion and related harmful vehicle emissions.

Growth in Developed Markets

In 2018 the core photo enforcement market in the U.S. remained challenging due to slow growth of new customer opportunities. However, the 2018 legislative session was active. Oregon and Georgia each passed new laws creating new growth opportunities. In addition, Iowa, Florida and Ohio successfully defended challenges to their photo enforcement programs. In 2019 we will seek to grow by expanding existing customer engagements, becoming more competitive and aggressively marketing states where new laws have created future sales opportunities.

In Australia and Europe, we will continue to expand our footprint with our existing customers. In Europe, we will expand into targeted countries in early 2019 as expected significant photo enforcement and managed motorway opportunities arise.

Investment in new solutions is yielding benefits with our direct customers and established channel partners. As our customers evaluate their managed motorway programs, we will continue our participation in live demonstrations of our technology and capability to position us for future sales opportunities. We extended our current panel contract with Highways England through FY2019 and expect additional hardware orders from them as a result. We continue to expand our point to point ("P2P") solution in Australia with 20 new point installations ordered this year which will bring our total installed to 101 as of June 30, 2018. In addition, we received approval for our first Halo P2P solution in NSW during the fiscal year.

We also continue to pursue adjacent opportunities in parking and infringement processing in these markets, where we can easily leverage our platform investments and subject matter expertise. During FY18 we added over 230 of our Automatic Number Plate Recognition ("ANPR") cameras, expanding our frictionless parking solution at major retail shopping centres throughout Australia. We have now delivered 892 ANPR cameras as of June 30, 2018 and are very satisfied with the performance of these systems. We continue to evaluate market entry options via partnerships, acquisition and/or direct sales. As expected our Halo and Alcyon platforms can be readily deployed and configured for a variety of ANPR related solutions.

Entering Emerging Markets

The Middle East and Asia are emerging markets for photo enforcement. We have established operations in these regions as there are significant growth opportunities in these markets. However, access will most likely be through local distributors who can shape demand and assist us in developing a winning solution unique to the region. In determining which distributors to engage, Redflex has a thorough review and authorisation process to ensure our distributors are qualified and who are capable of representing the Redflex brand.

Most markets in this category have opportunities for immediate growth for their photo enforcement and managed motorways as part of a significant investment in roadway infrastructure. We will continue to ensure we have a locally approved and market leading solutions while relying on our local partners and distributors to market that solution.

Continuing Product Expansion

The focus during FY18 was to market and sell our two new product platforms, Halo and Alcyon.

Halo provides a multi-functional solution within one system, giving the options of speed and red-light enforcement, ANPR capability, video and traffic management. In addition to this, the infrastructure costs of civil works have been dramatically reduced due to the non-intrusive nature of the Halo system.

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

Alcyon has now been deployed and has become our standard offering in all future BOOM contracts. For our non-BOOM contracts, we will continue to offer Alcyon as an end to end asset management and workflow processing platform. This enables greater control of the customer program, as well as, configurable integration points to existing managed motorway technologies and sensors. Redflex's Alcyon EXPRESS has been designed to allow it be a single point of data ingestion for installed managed motorway technology to enhance roadway safety, reduce traffic congestion and minimise harmful vehicle emissions.

The marketing and sale of Halo and Alcyon is a two-part process. Firstly, we must ensure Halo is certified locally in each market segment, where required. Secondly, we must cultivate customer demand for the unique features and functionality these solutions can deliver.

Our efforts in securing local certifications of Halo are progressing and yielding results and our sales pipeline continues to grow. We expect these to be competitive offerings in FY19 and anticipate the pipeline conversion to accelerate throughout the year.

We also expect to add more managed motorway opportunities to our sales pipeline that will not only include our core solutions but an integration of third party technology where appropriate to offer the best possible solution.

Reducing Cost, Complexity and Risk

Overall, we will continue to drive and reward a culture of innovation and efficiency. We will address inefficient processes to reduce our operating costs while improving customer care. By increasing our responsiveness and reducing our costs we will be more competitive in the marketplace.

However, this is not at the expense of monitoring risk in our business. Redflex has an automated Risk, Compliance and Incident Reporting System ('RiCIR') which operates globally. RiCIR together with management focus, ensures a standardized high level of risk and compliance monitoring, management and reporting across the Group.

With a heavy focus on new business development, we have implemented a opportunity approval process that ensures every deal is reviewed, and as appropriate approved, by management. This involves cross-functional input to ensure we are providing a competitive offer that we can deliver profitably. We will win as a team and deliver as a team with complete alignment from the original offer to project conclusion.

High Performance Work Culture

Redflex has continued to develop and invest in a high-performance work culture. In 2018 we put in place a more focused management reporting structure that measures system level performance, service levels and profitability down to the program level. Managers will be incentivized to achieve financial goals as well as measurable key performance indicators focused on improved efficiency and customer satisfaction.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2018.

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. Paul Clark, former Group Chief Executive Officer was a director for only part of FY18 until 21 August 2017 (the date that Mr Clark resigned).



ADAM GRAY

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

Non-executive chairman Appointed 19 December 2013

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

Mr Gray serves as non-executive Chairman of The Pas Group Limited and on the board of directors of New Flyer Industries, Inc. and Purple Innovations, Inc. Previously, he served as a Director of DEI Holdings, Inc. until the sale of the company in 2011, Benihana, Inc. until the sale of the company in August 2013 and Blue Bird Corporation until September 2017.

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

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



ROBERT DEVINCENZI

BSBA, MA-Org'l

Non-executive director Appointed 30 September 2012

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

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

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

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

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

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

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

DIRECTORS' REPORT



HERMAN SCHWARZ

MBA, B.Comm

Non-executive director Appointed 1 May 2014

Mr Schwarz is the Executive Chairman of PatientCare Logistics Solutions, one of the largest ground-based ambulance service providers in the U.S. PatientCare serves cities and counties in five U.S. states and transports more than 350,000 patients a year.

From 2009 to 2017, Mr Schwarz served as the CEO of LogistiCare Solutions. LogistiCare, the largest division of a publicly traded corporation, is the leading non-emergency transportation management company in the Medicaid and Medicare

space with over US\$1.2 billion in revenues. Mr Schwarz was hired in 2007 as the COO of LogistiCare, which manages 65 million trips annually operating in 39 states in the USA.

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

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

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

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

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



TERENCE WINTERS

FAICD

Non-executive director Appointed 7 August 2013

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

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

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

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

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

DIRECTORS' REPORT



CLARK DAVEY

B.Comm, MAICD, CTA

Non-executive director Appointed 6 January 2015

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

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

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



DAVID MCINTYRE

CPA, 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



MARK J TALBOT

B. Science, MBA

Group Chief Executive Officer

Mr Talbot was appointed as Group Chief Executive Officer of Redflex Holdings Limited on 21 August 2017 and Managing Director on 29 November 2017.

Prior to joining Redflex, Mr Talbot was the General Manager of State and Local Solutions of Conduent (formed through a divestiture from Xerox Corporation). Prior to this role, Mr Talbot spent nine years in Xerox's Transportation Sector segment rising to Group President Americas managing a portfolio of transportation related

businesses before becoming Global Sales Leader for the entire Transportation Solutions Group with annual revenue in excess of US\$850 million.

Mr Talbot has extensive experience in product development, sales and strategy in the Intelligent Transportation Services market and has operated effectively throughout the major markets in the world.

Mr Talbot holds a Bachelor of Science from Catholic University of America and a Masters of Business Administration from the University of Maryland.

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 expects to be admitted as an attorney-at-law in the Appellate Division of the Supreme Court of New York in the United States of America on 13 September 2018.

Mr Durham has worked at national law firms Corrs Chambers Westgarth and King & Wood Mallesons (formerly Mallesons Stephen Jaques). Mr Durham has also held senior legal and compliance roles at Foster's Group Limited in Melbourne and Treasury Wine Estates in California in the U.S. Prior to joining Redflex, Mr Durham was General Counsel & Company Secretary at a Melbourne based company in the gaming technology industry.

Mr Durham is a Member of the Australian Institute of Company Directors, a Fellow of the Governance Institute of Australia, a Member of the Institute of Chartered Secretaries and Administrators and a Member of the New York State Bar Association.

Directors' interests in the share capital of the Company

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

Number of Relevant Interests over Ordinary Shares

Adam Gray	35,848,321
Clark Davey	444,478
Robert DeVincenzi	150,000
Herman Schwarz	—
Terence Winters	64,345
David McIntyre	—

DIRECTORS' REPORT

Directors' and Board Committee meetings

Directors' and Board Committee meetings held and attended during the year ended 30 June 2018 were:

	Board		Audit Committee		People, Culture & Remuneration Committee		Risk & Compliance Committee		Nominations Committee	
No. of meetings	Available	Attended	Available	Attended	Available	Attended	Available	Attended	Available	Attended
Adam Gray	19	15	6	6	3	3	–	–	2	2
Mark Talbot	9	8	–	–	–	–	–	–	–	–
Robert DeVincenzi	19	18	–	–	–	–	4	4	2	2
Clark Davey	19	19	6	6	3	3	–	–	2	2
David McIntyre	19	14	6	4	–	–	–	–	2	1
Herman Schwarz	19	17	–	–	3	3	4	4	2	2
Terence Winters	19	18	–	–	3	3	4	4	2	2
Paul Clark	1	1	–	–	–	–	–	–	–	–

Board Committee membership

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

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

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Performance indicators

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

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

REVENUE	First half \$'000	Second half \$'000	2018 \$'000	2017 \$'000	% change
The America's Traffic business*	32,001	28,066	60,067	69,468	(13.5%)
Australian/International Traffic business	21,229	24,315	45,544	51,342	(11.2%)
Revenue – Traffic business	53,230	52,381	105,611	120,810	(12.6%)

* Includes sales of \$1.6 million in Canada (FY17: \$2.1 million)

PROFIT BEFORE DEPRECIATION, AMORTISATION, IMPAIRMENT, FINANCE COSTS AND TAX ("PBITDA")

	First half \$'000	Second half \$'000	2018 \$'000	2017 \$'000	% change
Traffic business (The America's and Australia / International)	6,360	7,209	13,569	12,018	11.0%
Head Office costs	(822)	(453)	(1,275)	(1,347)	22.7%
PBITDA	5,538	6,756	12,294	10,671	15.2%

LOSS BEFORE TAX	First half \$'000	Second half \$'000	2018 \$'000	2017 \$'000	% Change
Traffic business (The America's and Australia / International)	(4,165)	(3,656)	(7,821)	(36,206)	78.3%
Head Office costs	(822)	(453)	(1,275)	(1,365)	8.6%
Pre-tax loss	(4,987)	(4,109)	(9,096)	(37,571)	75.8%

	First half \$'000	Second half \$'000	2018 \$'000	2017 \$'000	% Change
Net loss after tax	(10,810)	(1,310)	(12,120)	(31,492)	61.5%

DIRECTORS' REPORT

Shareholder returns

	2018	2017	2016	2015	2014	2013	2012
Basic earnings/(loss) per share (cents)	(9.18)	(28.41)	(4.23)	(28.84)	(1.07)	6.61	13.69
Net tangible asset backing per share (cents)	38.71	42.94	75.58	71.70	78.22	87.90	78.32
Return on assets (%)	(9.2)	(24.5)	(3.4)	(19.3)	(0.7)	3.7	8.3
Return on equity (%)	(15.9)	(44.4)	(4.5)	(30.0)	(1)	5.8	13.2
Interest bearing debt/equity ratio (%)*	8.3	N/A	N/A	18.3	13.5	20.8	21.2
Available franking credits (\$'000)**	0	0	480	480	462	26	2,356

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

**Reduction in the available franking credits in 2017 is due to net tax refunds received in that year relating to the 2012 and 2013 tax years

Liquidity and capital resources

The net cash position of the Group at 30 June 2018 was \$12.5 million (including restricted cash of \$4.5 million) (FY17: \$8.2 million including restricted cash of \$5.1 million). Restricted cash is revenue collected on behalf of customers.

Cash flows used in investing activities of \$12.5 million (FY17: \$16.9 million). Funds were used to support the commencement of the Mobile Speed Camera Operations in New South Wales, other revenue generating contracts in the International business, and additional equipment required to service the U.S. "BOOM" customer base. Capitalised development costs were \$1.8 million in FY18.

Cash flows from financing activities were \$21.3 million (FY17: \$nil) as a result of the Company completing a capital raising during the year and drawing on interest bearing debt facilities.

Asset and capital structure

	2018 \$'000	2017 \$'000
Debt		
Interest bearing liabilities	(6,347)	–
Cash at bank, on hand, and restricted cash	18,864	8,199
Net cash	12,517	8,199
Total equity	76,341	70,963
Total capital employed	88,858	79,162

Shares issued during the year

During FY18, 38,184,520 shares were issued during FY18 pursuant to an Accelerated Non-Renounceable Entitlement Offer (FY17: Nil). Additionally, 910,949 shares were issued pursuant to the vesting of performance rights pertaining to executive remuneration (and which related to the achievement of non-financial KPIs) (FY17: 147,455).

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 4,452,757 performance rights on issue. At 30 June 2018 there were 4,452,757 performance rights on issue (FY17: 6,050,272).

Options over shares

On 21 August 2017, the Company granted to Mr Talbot 2,218,195 options to subscribe for 2,218,195 ordinary shares in the Company in aggregate. (FY17: Nil).

DIRECTORS' REPORT

Capital expenditure

Capital expenditure for the year was \$9.0 million (FY17: \$9.7 million). Funds were used to support the commencement of the Mobile Speed Camera Operations in New South Wales, other revenue generating contracts in the International business, and additional equipment required to service the U.S. "BOOM" customer base.

Treasury policy

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

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

Risk management

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

The Board is therefore responsible for overseeing and approving the Risk & Compliance Policy and Framework (which is available on the Redflex website and which is reviewed annually by the Board) and the Company's risk appetite. This Risk & Compliance Policy and Framework, along with the implementation of the Company's risk and compliance policies and procedures sets the tone and the expectations for the proper governance and oversight of these matters within the Company. The Company believes that its approach to risk and compliance management supports the achievement of the Company's commercial and financial goals and objectives.

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

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

The Board has several 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 strategy which is designed to meet the needs of stakeholders and to appropriately manage business risk; and
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of key performance indicators of both a financial and non-financial nature.

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

DIRECTORS' REPORT

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. Change in regulatory and legal frameworks

Redflex has operations in a number of overseas jurisdictions and is exposed to a range of different legal and regulatory regimes, including in new jurisdictions in which the Company is expanding its operations. As the Company expands its presence in new international jurisdictions, the Company is subject to the risks associated with doing business in regions that may have political, legal and economic instability or less sophisticated legal and regulatory systems and frameworks including: (i) unexpected changes in, or inconsistent application of applicable foreign laws and regulatory requirements; (ii) less sophisticated technology standards; (iii) difficulties with engaging local resources; and (iv) potential for political upheaval or civil unrest. As the Company enters newer and less familiar regions, there is a risk that it fails to understand the law, regulations and business customs of these regions. This gives rise to risks relating to labour practices, foreign ownership restrictions, tax regulation, difficulty in enforcing contracts, changes to or uncertainty in the relevant legal and regulatory regimes and other issues in foreign jurisdictions in which the Company may operate. This could interrupt or adversely affect parts of the Company's business.

Company strategy to mitigate-The Company maintains an active communications and legislative affairs program to minimise the risks associated with changes in regulatory and legal frameworks in overseas jurisdictions, including any banning and restrictive legislation impacting upon the Company's product offerings. 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. The Company has and complies with a Group policy in relation to entering new or unfamiliar geographic markets. This policy requires rigorous assessment of these markets on aspects of size and type of market, legal framework to support our technology and to support our contracts the potential financial opportunity and a competitor analysis.

2. Internal investigative disclosures

The potential contagion effect of the Company's internal investigative disclosures may impact its ability to continue to retain existing customers and win new contracts and this may materially negatively affect operations, profitability and solvency.

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

3. Potential legal action

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

Company strategy to mitigate – In conjunction with our client agencies, the Company maintains an active outreach and communications program to communicate photo enforcement benefits and validity. The Board and the Company's legal advisors 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. Security breaches and hacker attacks

A malicious attack on the Company's systems, processes or people from external or internal sources could put the integrity and privacy of customers' data and business systems used by the Company at risk. The impact of loss or leakage of customer or business data could include costs for rebates, potential service disruption, litigation, and brand damage resulting in reduced revenues.

Company strategy to mitigate-The Company utilises sophisticated methods, standards, technologies and tools to address its data integrity and systems security needs. Where appropriate or where it is permitted to

DIRECTORS' REPORT

do so, the Company offers its assistance to its customers relating to the safeguarding of customer data and systems security. In some instances, where customer networks are closed, Redflex will offer advice where it is qualified to do so, but Redflex is not legally responsible for those networks.

5. Cessation of Customer Contracts

The uneven nature of the Company's contracts outside of the North American business make it difficult to predict future performance. In addition, the non-performance, termination or non-renewal of contracts with any key customers in any jurisdiction could have a negative impact on the Company. The Company will likely enter into further contracts, which will also be material to the Company's business. Some of these contracts are, or will be, governed by laws other than the laws of Australia. There may be difficulties in enforcing contracts in jurisdictions other than Australia.

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

6. Infringement of third party intellectual property rights

If a third party accuses the Company of infringing its intellectual property rights or if a third party commences litigation against the Company for the infringement of patents or other intellectual property rights, the Company may incur significant costs in defending such action, whether or not it ultimately prevails. Typically, patent litigation is expensive. Costs that Redflex incurs in defending third party infringement actions would also include diversion of management's and technical personnel's time. In addition, parties making claims against the Company may be able to obtain injunctive or other equitable relief that could prevent the Company from further developing discoveries or commercialising its products. In the event of a successful claim of infringement against the Company, it may be required to pay damages and obtain one or more licences from the prevailing third party. If it is not able to obtain these licences at a reasonable cost, if at all, it could encounter delays in product introductions and loss of substantial resources while it attempts to develop alternative products. Defence of any lawsuit or failure to obtain any of these licences could prevent Redflex from commercialising available products and could cause it to incur substantial expenditure.

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

7. Compliance with contractual obligations (including debt covenants)

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

8. Competition and Technology

The emergence of new competitors in the market, or any technological development providing an alternative to the Company's product offerings and services could impact the market share that the Company is able to acquire and cause downward price pressure on its products, which would result in a reduction in the Company's margins and revenue. Further, existing providers of similar products and services may also respond aggressively to retain or regain market share, which could also negatively impact the Company's margins and revenues.

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

DIRECTORS' REPORT

investment in, developing new and innovative products and services in the photo enforcement and adjacent intelligent transport systems markets as well as a desire to be 'first to market' with quality solutions.

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

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

10. Concentrated revenue and failure to retain and attract customers

The Redflex Group's revenue is significantly concentrated around a small number of large value customers, particularly in the International business. The Company's ability to generate revenue and profit depends on the sales it makes on its products offerings. As with any business, there is a risk that the Company's marketing strategies are not effective in generating the increased customer scale the Company is targeting.

Company strategy to mitigate – The Company is actively seeking to diversify its revenue and vendor base including into new geographies and product offerings.

11. Brand and reputation risk

The reputation and brand of Redflex and its individual products and services are important in attracting potential customers. Any reputational damage or negative publicity around the Company, the brand or its products and services could adversely impact the Company's business.

Company strategy to mitigate – As a sound basis for ethical decision-making, the Company continues to actively engage in the implementation of its global risk and compliance program. The Company also regularly engages with its customers, suppliers, commercial intermediaries, insurers, financiers, business partners and other stakeholders in relation to the Company's reputation and brand and about the performance of its products and services. The Company also engages in a sales and marketing program that accurately describes its products and services.

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

DIVIDENDS

Dividends have not been declared in either FY18 or FY17.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

DIRECTORS' REPORT

ROUNDING

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

INDEMNIFICATION OF AUDITORS

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

AUDITOR INDEPENDENCE

The directors received an auditor independence declaration (which appears in this report) from the auditor of Redflex Holdings Limited. This auditor's declaration forms part of the Directors' Report.

NON AUDIT SERVICES

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

Total non-audit, services provided by PricewaterhouseCoopers in FY18 was \$358,541 (FY17 \$757,391).



Auditor's Independence Declaration

As lead auditor for the audit of Redflex Holdings Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
27 August 2018

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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2018 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its Regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented in the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements:
 - a. Remuneration principles and strategy
 - b. Approach to setting remuneration
 - c. Detail of incentive plans
4. Executive remuneration outcomes for 2018 (including link to performance)
5. Summary of executive contractual arrangements
6. Non-executive director remuneration arrangements
 - a. Remuneration policy for non-executive directors
 - b. Structure of non-executive director remuneration
 - c. Special exertion payment for Mr Robert DeVincenzi
7. Additional statutory disclosures relating to options and shares
8. Other transactions and balances with key management personnel and their related parties.
9. Subsequent events

1 INTRODUCTION

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

For the purposes of this report, the term "executive" includes the Group Chief Executive Officer and Managing Director, the Group Chief Financial Officer, the former President and Chief Executive Officer of Redflex Traffic Systems, Inc. and the SVP, Group General Counsel & Company Secretary of Redflex for the year ending 30 June 2018.

Directors and KMP

Executive director

Mark Talbot	Group Chief Executive Officer and Managing Director (appointed 21 August 2017)
Paul Clark	Group Chief Executive Officer (resigned effective 21 August 2017)

Non-executive directors

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

Other KMP

Neville Joyce	SVP, Group Chief Financial Officer (appointed 26 February 2018)
Craig Durham	SVP, Group General Counsel and Company Secretary
Brad Crump	SVP, Group Chief Financial Officer (resigned effective 10 November 2017)
Michael Finn	SVP, Sales and Marketing in the Americas (transitioned from President and Chief Executive Officer, Redflex Traffic Systems, Inc on 1 December 2017)

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

2 REMUNERATION GOVERNANCE

People, Culture & Remuneration Committee

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

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

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

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

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

Remuneration report shareholder vote

The resolution to accept the remuneration report at the 2017 Annual General Meeting ("AGM") was passed by the required majority of votes cast under the Corporations Act. The results of the 2017 were released to the ASX. The Company's remuneration report for FY18 will be laid before the 2018 AGM. If the remuneration report for FY18 is not passed by more than 75% of the votes cast at the 2018 AGM the Company will receive a 'first strike'.

As with all previous years, during FY18, the PCR Committee and the Board respects the views of shareholders and continues to assess the appropriateness of the Company's remuneration policies and competitiveness, with particular focus on executive remuneration to ensure it aligns with the Company's performance against key business goals and objectives. The Board is also committed to further elevating the links between strategy, performance and compensation for KMP and to ensure there is continued demonstrable alignment between the Company and its shareholders.

No changes were made to compensation policy for the Board during FY18.

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Use of remuneration consultants

To ensure the PCR Committee is fully informed when making remuneration decisions, it periodically seeks external remuneration advice on strategy and processes to ensure best practice and to benchmark remuneration arrangements against the industry and the markets in which Redflex operates.

No remuneration recommendations have been made by external consultants for the year ended 30 June 2018.

3 EXECUTIVE REMUNERATION ARRANGEMENTS

3.A Remuneration principles and strategy

The Company's executive remuneration principles and strategy for FY18 was designed to attract, motivate and retain high performing individuals but also to align the interests of executives and shareholders.

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

REDFLEX BUSINESS OBJECTIVE: To be the global leader in the provision of photo enforcement products and services and intelligent traffic solutions and to build long-term value for shareholders			
REMUNERATION PRINCIPLES AND STRATEGY LINKAGES TO REDFLEX BUSINESS OBJECTIVE:			
ALIGN THE INTERESTS OF EXECUTIVES WITH SHAREHOLDERS		ATTRACT, MOTIVATE AND RETAIN HIGH PERFORMING INDIVIDUALS	
<ul style="list-style-type: none"> The remuneration principles and strategy incorporates "at-risk" components of long term elements delivered in a combination of cash and equity for the Group Chief Executive Officer and a combination of cash and equity for senior executives (the latter payable, if earned, in three tranches). Performance is assessed against a suite of financial measures (set by the Board) and non-financial measures (set by the Board for the Group CEO and by the Group CEO for senior executives) relevant to the success of the Company and generating returns for shareholders. 		<ul style="list-style-type: none"> Remuneration is competitive with companies of a similar size and complexity. Long-term remuneration is designed to encourage long term consistent performance and executive retention. 	
REMUNERATION COMPONENT	VEHICLE	PURPOSE	LINK TO PERFORMANCE
Fixed Remuneration	Represented by Total Fixed Remuneration ("TFR"). Comprises base salary, superannuation contributions (in Australia), annual leave and other benefits. Senior 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	The Group Chief Executive Officer's short term incentive arrangements were announced to the market through the ASX on 2 August 2017.	To reward the Group Chief Executive Officer for his contribution to the creation of shareholder value over the short term.	For the Group Chief Executive Officer vesting of the short term incentive is weighted 85% related to achievement of financial measures (set by the Board) and 15% related to the achievement of individual performance objectives (also set by the Board).
Long Term Incentive	The Group Chief Executive Officer's long term incentive arrangements were announced to the market through the ASX on 2 August 2017. For senior executives (other than the Group Chief Executive Officer) awards, if earned, are made in a combination of 50% cash, 25% performance rights and 25% performance rights which vest into shares (over three tranches respectively and a further one year "holding lock" on shares).	To reward the Group Chief Executive Officer and senior executives for their contribution to the creation of shareholder value over the longer term.	For the Group Chief Executive Officer vesting of the FY18 LTI Plan awards is dependent on the Group Chief Executive Officer remaining employed on 21 August 2018, 21 August 2019 and 21 August 2020 respectively, as the Group Chief Executive Officer's LTI award is payable in three equal instalments on these dates. For senior executives vesting is dependent on the achievement of financial measures set by the Board (weighted 70%) and non-financial measures (weighted 30%), as set by or noted by the Board, as appropriate.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

3.B 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 arrangements for the Group Chief Executive Officer, the SVP, Group Chief Financial Officer and the SVP, Group General Counsel & Company Secretary are reviewed by the PCR Committee and approved by the Board. In the case of the SVP, Group Chief Financial Officer and the SVP, Group General Counsel & Company Secretary, the PCR Committee and the Board consider the Group Chief Executive Officer's views.

Remuneration arrangements for the direct reports of the Group Chief Executive Officer (other than the SVP, Group Chief Financial Officer and the SVP, Group General Counsel & Company Secretary) are reviewed by him each year and are noted by the Board.

The Company has continued to develop its Performance Management Framework during FY18. These developments are aimed to ensure senior executive remuneration continues to be aligned to Group financial performance as well as to the achievement of defined business outcomes including effectively managing our risk and compliance obligations (including workplace, health and safety), demonstrating continual improvement in our customer engagement and nurturing a culture of accountability and achievement of high performance in our people.

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

In FY18, the senior executive remuneration strategy consisted of fixed remuneration and LTI Plan incentives. In summary, the senior executives have the following target remuneration mix.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

	STI OPPORTUNITY	LTI PLAN OPPORTUNITY (FACE VALUE)
Group Chief Executive Officer	<p>The Group Chief Executive Officer's Short Term Incentives (STIs) will be assessed annually against key performance indicators (KPIs), with an entitlement of 40% of Base Pay for achieving such objectives, and a maximum entitlement of 60% of Base Pay for out-performance. Any STIs earned will be calculated and payable in USD. The weighting of KPIs for the purposes of determining STIs will be assessed annually by the Board on a scale between zero and the maximum payable:</p> <ul style="list-style-type: none"> • 85% related to achievement of certain financial metrics set by the Board of the Company; and • 15% related to individual performance objectives set by the Board of the Company. <p>The STI outcomes are expected to be determined on or about 1 October each year after consideration of the financial year results and individual performance for the previous year ending 30 June. STIs earned (if any) will be paid on or before 15 March of the calendar year following the calendar year in which the financial year is completed.</p> <p>The first STI assessment will occur with respect to FY18. The Group Chief Executive Officer is entitled to a minimum STI payment of US\$120,000 for FY18 only.</p>	<p>On 21 August 2017, the Company granted the Group Chief Executive Officer 1,597,523 performance rights.</p> <p>Each performance right entitled the Group Chief Executive Officer to be issued one fully paid ordinary share in the Company ("Share") on vesting for nil consideration and will be granted in accordance with, and subject to, the terms of the Company's Long Term Incentive Plan Rules ("Rules"). A full copy of the Rules is contained in the Investors / Governance / Remuneration section of the Company's website.</p> <p>The performance rights will vest in three equal tranches over three years from the date of commencement of the Group Chief Executive Officer's employment (being 21 August 2017), with each tranche vesting on the anniversary date of the commencement of his employment provided that the vesting of each tranche will be subject to the Group Chief Executive Officer continuing to be engaged by a member of the Group at all times from the commencement of his employment up to and including the relevant vesting date.</p> <p>Performance rights will be deemed to be exercised upon vesting, following which the Company will apply for the Shares issued on exercise of that performance right to be admitted for quotation on the Official List of the ASX. Should the Group Chief Executive Officer be terminated without cause, all performance rights issued to him will vest on termination, subject to any restrictions imposed by applicable law. Any Shares so issued will be subject to a 12 month holding lock.</p>
Executives (other than the Group Chief Executive Officer and the former Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States)	NIL	45% of Base Pay (or 60% of Base pay for the former Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States), with the price of each right being determined by the average of the 90-Day VWAP (volume weighted average market price), 180-Day VWAP and the 360-Day VWAP of the Company's shares as at 1 October 2017.
Other Employees	Between 0% and 10% of fixed remuneration (Base Pay) based on achievement of financial measures (as set by the Board) and non-financial measures (as set by the relevant senior executive in that department).	NIL

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

3.C Detail of incentive plans

Short Term Incentives ("STI")

For FY18 the Group operated an STI Plan for all employees (other than the Group Chief Executive Officer and the senior executives who participated in the LTI Plan). The STI Plan awards a cash bonus of between 0% and 10% of fixed remuneration ("Base Pay") based on performance measured against Key Performance Indicators ("KPIs") (including the achievement of clearly defined Group and individual performance measures).

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

Long Term Incentives

For FY18, LTI Plan grants were issued to senior executives in order to align remuneration with the creation of shareholder value over the long term. Accordingly, LTI Plan grants are made to senior executives who can impact the Group's performance against the relevant long-term performance measure.

Structure

LTI awards are made under the Company's LTI Plan, the rules of which are published in the Investors / Governance / Remuneration section of the Redflex website. LTI Plan awards are generally made annually in the form of cash and /or performance rights that vest in three tranches subject to meeting KPIs (for FY18 these KPIs were constituted by a Board determined Target PBITDA hurdle, with no opportunity to retest along with specified non-financial KPIs set by the Group Chief Executive Officer and approved by the Board). Target PBITDA is a Target Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs set by the Board.

Performance Measure to determine vesting

For FY18, the Company applied a Board set Target PBITDA amount as the financial KPI for the LTI Plan.

A Target PBITDA amount was selected as the LTI Plan performance measure for FY18 the following reasons:

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

Target PBITDA will:

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

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

Furthermore, up to 30% of senior executive's LTI Plan is measured on non-financial performance measures. The Group Chief Executive Officer sets and the Board approves KPIs on an individual basis for senior executives participating in the LTI Plan. These are subsequently assessed at the end of each reporting period and the Board determines in its discretion whether the financial and non-financial performance hurdles (the latter based on the Group Chief Executive Officer's recommendations) have been met and to what extent.

Change of control provisions

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

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REMUNERATION REPORT (AUDITED)

4 EXECUTIVE REMUNERATION OUTCOMES FOR FY18 (INCLUDING LINK TO PERFORMANCE)

Short-term incentives

Other than the STI award for the Group Chief Executive Officer outlined above (which was disclosed to the market through the ASX on 2 August 2017), there were no short term incentive payments made to senior executives for FY18.

Company performance and its link to LTI

For FY18, the performance measure that drives the vesting of long term incentives is the Company's achievement, or otherwise, of financial (set by the Board) and non-financial performance measures (approved by the Board).

LTI vesting outcomes

The table below outlines both vesting and expected outcomes for outstanding awards in FY18.

	GRANT 1 December 2015	GRANT * 19 January 2017 (Other Executives)	GRANT 21 August 2017 (Group Chief Executive Officer only)	GRANT 2 October 2017 (Other Executives)	GRANT ** 14 December 2017 (SVP, Global Operations only)	GRANT ** 5 April 2018 (Group Chief Financial Officer only)
Target PBITDA Performance	Expect < 100% achievement	Expect < 100% achievement	N/A	Expect < 100% achievement	Expect < 100% achievement	Expect < 100% achievement
Implication for vesting	At testing date 1 Oct 2016, 52% of performance rights vested	At testing date 1 Oct 2017, a maximum of 30% of performance rights (related to achievement of non- financial performance KPIs) vested.	On 21 August 2018, only 531,975 (First Tranche) of performance rights are expected to vest.	At testing date 1 Oct 2018, a maximum of 30% of performance rights (related to achievement of non- financial performance KPIs) are expected to vest.	At testing date 1 Oct 2018, a maximum of 30% of performance rights (related to achievement of non- financial performance KPIs) are expected to vest	At testing date 1 Oct 2018, a maximum of 30% of performance rights (related to achievement of non- financial performance KPIs) are expected to vest.

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

** Note the grants on 14 December 2017 and 5 April 2018 were retrospective grant effective 1 October 2017 (but pro-rated from the date of appointment).

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REMUNERATION REPORT (AUDITED)

Remuneration of Executive KMP

Table 1: Remuneration for the years ended 30 June 2018 and 30 June 2017

		Short term benefits					Long term benefits			Total	Performance related
		Salary and fees	Bonus	Other benefits	Term- ination benefits	Super- annuation*	Cash bonus	Options	Performance rights		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Executive directors											
Mark Talbot ¹	2018	463,964	–	27,116	–	–	–	71,569	235,191	797,840	38%
	2017	–	–	–	–	–	–	–	–	–	–
Paul Clark ²	2018	175,274	–	–	233,538	5,012	–	–	52,074	465,898	11%
	2017	460,000	–	–	–	19,616	–	–	57,404	537,020	11%
KMP											
Neville Joyce ³	2018	85,295	–	–	–	6,811	–	–	19,760	111,866	18%
	2017	–	–	–	–	–	–	–	–	–	–
Brad Crump ⁴	2018	185,152	–	–	–	8,353	24,638	–	–	218,143	11%
	2017	365,000	–	–	–	19,616	24,638	–	18,862	428,116	10%
Michael Finn ⁵	2018	172,886	–	8,340	–	–	–	–	121,169	302,395	41%
	2017	402,184	100,531	23,702	–	–	–	–	55,009	581,426	9%
Craig Durham	2018	281,191	–	–	–	20,049	17,934	–	32,309	351,483	14%
	2017	265,692	–	–	–	19,616	17,934	–	13,184	316,426	10%
	2018	1,363,762	–	35,456	233,538	40,225	42,572	71,569	460,503	2,247,625	24%
	2017	1,492,876	100,531	23,702	–	58,848	42,572	–	144,459	1,862,988	10%

Notes to Table 1: Remuneration for the years ended 30 June 2018 and 30 June 2017

¹ Mr Talbot was appointed Group Chief Executive Officer from 21 August 2017 and also assumed the role of Managing Director on 29 November 2017.

² Mr Clark resigned effective 21 August 2017. Consistent with his employment contract, the Company made a payment equivalent to the six-month base salary in lieu of the notice period. 494,560 performance rights issued to Mr Clark on 21 December 2016 vested following his resignation, based on the determination by the Board of the non-financial performance hurdles.

³ Mr Joyce was appointed as SVP, Group Chief Financial Officer on 26 February 2018 and became a member of KMP from this date.

⁴ Mr Crump resigned effective on 10 November 2017.

⁵ Mr Finn transitioned to the role of SVP, Global Sales & Marketing on 1 December 2017.

*Superannuation for the period per Australian Taxation Office guidelines is capped at \$20,531 per year (FY17 \$19,616). 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".

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REMUNERATION REPORT (AUDITED)

5 SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in written employment agreements.

Group Chief Executive Officer and Managing Director – Mr Mark Talbot

Mr Talbot is the Group Chief Executive Officer and Managing Director of Redflex Holdings Limited and was appointed on 21 August 2017 and 29 November 2017, respectively.

Under the terms of Mr Talbot's employment contract:

- Mr Talbot was entitled to be paid TFR of US\$435,000 per annum.
- If there is any agreement reached to relocate, Mr Talbot is also entitled to a relocation reimbursement benefit of up to US\$150,000 as long as he remained employed by the Company for at least one year following the relocation. No payment was made in the current year in respect of this.
- Mr Talbot is entitled to participate in the Company's short term incentive ("STI") plan. STIs will be assessed annually against key performance indicators with an entitlement of 40% of base pay for achieving such objectives and a maximum entitlement of 60% of base pay for out performance. The weighting of the STI is structured as 85% in relation to certain financial measures set by the Board and 15% as a result of individual performance measures set by the Board.
- Mr Talbot is entitled to receive performance rights as part of his long term incentive. On commencement Mr Talbot was issued 1,597,523 performance rights. The performance rights will vest in equal tranches over 3 years from the date of commencement of his employment being 21 August 2017. Vesting is contingent on Mr Talbot's continued employment with the Company. Any shares issued will be subject to a 12 month holding lock.
- Mr Talbot was issued 2,218,195 options by the Company on 21 August 2017 as part of his long term incentive. The options are exercisable at AUD48.14 cents and vest in 48 equal tranches over 48 months commencing from 21 February 2018, conditional on the executive being in continued employment with the Company at the vesting date. The options expire 5 years after they vest.

Termination criteria (other than Cause):

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

SVP, Group Chief Financial Officer – Mr Neville Joyce

Mr Joyce is SVP, Group Chief Financial Officer of Redflex Holdings Limited and was appointed on 26 February 2018. Details of remuneration received from this date are disclosed in the table above.

Under the terms of Mr Joyce's employment contract:

- Mr Joyce was entitled to be paid TFR of \$254,469 per annum plus superannuation. In line with Mr Joyce's employment contract, from 1 July 2018, Mr Joyce's TFR increased to \$279,469 per annum plus superannuation.
- Mr Joyce is entitled to receive performance rights calculated as a percentage of 45% of his TFR (pro-rated for his first year of employment in this role).
- On 5 April 2018 Mr Joyce was granted 81,318 performance rights and a cash component of \$42,960 in respect of his LTI. The performance rights and cash component retained by Mr Joyce would vest dependent on Mr Joyce meeting the Company's KPIs (70%) and performance of non-financial KPIs (up to 30%). Subject to the criteria being met the performance rights and cash component would vest as follows:
 - 1 October 2018 – The full cash component would vest;

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- 1 October 2019 – 25% of performance rights (40,659) would vest; and
- 1 October 2020 – The final 25% of the performance rights (40,659) would vest.
- The vesting terms above are subject to Mr Joyce being employed by the Company at the relevant date.
- Based on a determination by the Board of the non-financial performance hurdles, only a proportion of the performance rights and cash component issued to Mr Joyce on 5 April 2018 are expected to vest.

Termination criteria (other than Cause):

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

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

Mr Finn commenced employment with Redflex Traffic Systems, Inc. on 27 May 2015. On 1 December 2017 Mr Finn transitioned to the role of SVP, Sales & Marketing in the Americas. After this date Mr Finn was no longer deemed KMP for the purpose of this report.

When Mr Finn held the position of President and Chief Executive Officer of Redflex Traffic Systems, Inc., his total base salary was US\$300,000 (\$386,946) between 1 July 2017 and 31 July 2017. From 1 August 2017 Mr Finn's base salary increased to US\$330,000 (\$425,642).

- Mr Finn was granted 762,068 Performance Rights on 2 October 2017.
- If Mr Finn satisfies the relevant Company performance hurdles and becomes eligible for a LTI award to vest, that number of performance rights equal in value to the cash value of the LTI, (based on the VWAP Calculation) would be retained by Mr Finn and any remaining performance rights would immediately lapse. The performance rights retained by Mr Finn would then vest as to 50% on 1 October 2018, as to a further 25% on 1 October 2019 and as to the last 25% on 1 October 2020, subject to Mr Finn being employed by the Company at the relevant date.
- Mr Finn also received benefits in FY18 amounting to US\$5,116 (\$6,599) in respect of medical and dental insurance costs, which were paid by the Company. In addition, the Company matched Mr Finn's 401K contribution in FY18 to a total value of US\$1,350 (\$1,741).
- Based on a determination by the Board, only a proportion of the performance rights issued to Mr Finn on 2 October 2017 are expected to vest.

Termination criteria (other than Cause):

- Under Mr Finn's employment agreement for the role of President and Chief Executive Officer of Redflex Traffic Systems, Inc, that agreement could have been terminated by Mr Finn with 90 days prior notice, or by the Company making a payment equivalent to the lesser of 12 months of Mr Finn's average salary or the aggregate base pay Mr Finn would receive for the remainder of the term if he was not terminated. Mr Finn's payments would be made in 18 monthly instalments. Mr Finn would also be entitled to reimbursement of health insurance premiums for the 18 month period.
- Under Mr Finn's employment agreement for the role of SVP, Sales & Marketing, either party may terminate the agreement on written notice to the other party or by the Company (other than for 'Good Cause') making a payment of Mr Finn's base salary and the premiums associated with COBRA of Mr Finn's medical insurance coverage for 12 months.

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SVP, Group General Counsel and Company Secretary – Mr Craig Durham

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

Under the terms of Mr Durham's employment contract:

- Mr Durham was entitled to be paid TFR of \$281,191 per annum plus superannuation.
- Mr Durham is entitled to receive performance rights calculated as a percentage of 45% (FY17: 45%) of his TFR.
- On 2 October 2017 Mr Durham was granted 132,960 performance rights and a cash component of \$70,242 in respect of his LTI. The performance rights and cash component retained by Mr Durham would vest dependent on Mr Durham meeting the Company's KPIs (70%) and performance of non-financial KPIs (up to 30%). Subject to the criteria being met the performance rights and cash component would vest as follows:
 - 1 October 2018 – The full cash component would vest;
 - 1 October 2019 – 25% of performance rights (66,480) would vest; and
 - 1 October 2020 – The final 25% of the performance rights (66,480) would vest.
- The vesting terms above are subject to Mr Durham being employed by the Company at the relevant date.
- Based on a determination by the Board, only a proportion of the performance rights and cash component issued to Mr Durham on 2 October 2017 are expected to vest.

Termination criteria (other than Cause):

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

6 NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

6.A Remuneration policy for non-executive directors

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

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

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

6.B Structure of non-executive director remuneration

With the each non-executive director receives a fixed fee for being a director and a fee for the additional time commitment made by directors who serve as Chair of one or more Board committees. Non-executive directors do not receive retirement benefits, except for superannuation where this is applicable, nor do they participate in any incentive programs. The remuneration of non-executive directors for the years ended 30 June 2018 and 30 June 2017 is detailed in Table 2.

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REMUNERATION REPORT (AUDITED)

Table 2: NED remuneration for the year ended 30 June 2018 and 30 June 2017

		Short-term benefits Salary and Fees	Post- employment Super annuation	Total Directors Fees	Other short-term benefits Other fees	Total
Adam Gray	2018	155,000	–	155,000	–	155,000
	2017	155,000	–	155,000	–	155,000
Robert DeVincenzi ¹	2018	107,500	–	107,500	–	107,500
	2017	107,500	–	107,500	53,616	161,116
Herman Schwarz	2018	102,500	–	102,500	–	102,500
	2017	102,500	–	102,500	–	102,500
Terence Winters	2018	93,607	8,893	102,500	–	102,500
	2017	93,607	8,893	102,500	–	102,500
Clark Davey	2018	98,173	9,327	107,500	–	107,500
	2017	98,173	9,327	107,500	–	107,500
David McIntyre	2018	92,500	–	92,500	–	92,500
	2017	92,500	–	92,500	–	92,500
	2018	649,280	18,220	667,500*	–	667,500
	2017	649,280	18,220	667,500*	53,616	721,116

¹ In the prior year Mr DeVincenzi received additional fees for special exertion services provided to the Company. In the current period no special exertion services were performed by Mr DeVincenzi. Details of these arrangements were disclosed in the 2017 annual report.

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

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7 ADDITIONAL STATUTORY DISCLOSURES RELATING TO OPTIONS AND SHARES

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

Table 3 discloses the LTI Plan (performance rights) granted to executives as remuneration during FY18. LTI Plan performance rights do not carry any voting or dividend rights and depending on achievement of KPIs may or may not vest at the end of the performance period.

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

	Financial Year	Performance Rights awarded during the year Number	Award Date	Fair Value per LTI at Award Date	Performance period	Number vested during the year	Number lapsed or forfeited or cancelled during FY18
Executive Director							
Mark Talbot	2018	1,597,523	21 Aug 17	\$0.53	21 August 2018	–	–
Paul Clark	2017 2016	1,347,311 958,029	21 Dec 16 1 Dec 15	\$0.35 \$0.37	To 21 August 2018 Performance to 30 Jun 16, assessed on 1 Oct 16	265,044 229,516	1,082,267 –
KMP							
Neville Joyce	2018	81,318	5 Apr 18	\$0.53	Performance to 30 Jun 18, assessed on 1 Oct 18	–	–
Brad Crump	2018	182,656	2 Oct 17	\$0.53	Performance to 30 Jun 18, assessed on 1 Oct 18	–	182,656
	2017	318,472	19 Jan 17	\$0.46	Performance to 30 Jun 17, assessed on 1 Oct 17	–	318,472
	2016	187,328	1 Dec 15	\$0.37	Performance to 30 Jun 16, assessed on 1 Oct 16	48,706	113,100
Michael Finn	2018	762,068	2 Oct 17	\$0.53	Performance to 30 Jun 18, assessed on 1 Oct 18	–	–
	2017	1,207,920	19 Jan 17	\$0.46	Performance to 30 Jun 17, assessed on 1 Oct 17	118,812	970,296
	2016	1,018,458	1 Dec 15	\$0.37	Performance to 30 Jun 16, assessed on 1 Oct 16	70,950	–
Craig Durham	2018	132,960	2 Oct 17	\$0.53	Performance to 30 Jun 18, assessed on 1 Oct 18	–	–
	2017	231,824	19 Jan 17	\$0.46	Performance to 30 Jun 17, assessed on 1 Oct 17	–	172,636
	2016	128,308	1 Dec 15	\$0.37	Performance to 30 Jun 16, assessed on 1 Oct 16	33,360	–

For the "Performance Period" column, all performance rights granted are evaluated against Individual performance and the performance of the Company in the manner described in Table 3 above.

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REMUNERATION REPORT (AUDITED)

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

	Value^ of Performance Rights awarded during the year \$	Value^ of Performance Rights vested during the year \$	Value^ of Performance Rights lapsed or forfeited during the year \$
Executive directors			
Mark Talbot	846,687	—	—
Paul Clark	—	177,686	(378,793)
KMP			
Neville Joyce	43,099	—	—
Brad Crump	96,808	18,021	(285,152)
Michael Finn	403,896	80,904	(446,336)
Craig Durham	70,469	12,343	(79,413)
	1,460,959	288,954	(1,189,694)

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

Table 5a: Movements in Shareholdings of KMP during the year ended 30 June 2018

	Shares held at 1 July 2017	Vested Performance Rights	Cessation of being a Director or KMP	Bought (Sold) on market*	Shares held at 30 June 2018
Directors-non executive					
Adam Gray	24,929,829	—	—	10,918,492	35,848,321
Clark Davey	300,358	—	—	144,120	444,478
Robert DeVincenzi	—	—	—	150,000	150,000
Herman Schwarz	—	—	—	—	—
Terence Winters	—	—	—	64,345	64,345
David McIntyre	—	—	—	—	—
	25,230,187	—	—	11,276,957	36,507,144
Executive Directors & KMP					
Mark Talbot	—	—	—	—	—
Paul Clark	76,505	494,560	(571,065)	—	—
Neville Joyce	—	—	—	—	—
Brad Crump	—	48,706	(48,706)	—	—
Michael Finn	70,950	189,762	(260,712)	—	—
Craig Durham	—	33,360	—	11,120	44,480
	147,455	766,388	(880,483)	11,120	44,480

* Includes shares purchased in the 1 for 3 Accelerated Non-Renounceable Entitlement Offer.

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REMUNERATION REPORT (AUDITED)

Table 5b: Movements in Shareholdings of KMP during the year ended 30 June 2017

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

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

Table 6a: Movement in performance rights held by KMP during the year ended 30 June 2018

	Transactions during the year						
	Number held at 1 July 2017	Awarded as remuneration	Forfeited	Vested	Lapsed	Cessation of being a Director or KMP	Number held at 30 June 2018
Executive directors							
Mark Talbot	—	1,597,523	—	—	—	—	1,597,523
Paul Clark	1,576,827	—	—	(494,560)	(1,082,267)	—	—
KMP							
Neville Joyce	—	81,318	—	—	—	—	81,318
Brad Crump	480,278	182,656	(295,756)	(48,706)	(318,472)	—	—
Michael Finn	1,420,771	762,068	—	(189,772)	(970,296)	(1,022,771)	—
Craig Durham	340,577	132,960	—	(33,360)	(172,636)	—	267,541
Total	3,818,453	2,756,525	(295,756)	(766,398)	(2,543,671)	(1,022,771)	1,946,382

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

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

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

Movements in Options held by KMP for the year ended 30 June 2018

On 21 August 2017 the Company issued 2,218,195 options to Mr Talbot. The options are exercisable at 48.14 cents and vest in 48 equal tranches over 48 months commencing from 21 February 2018, conditional on the executive being in continued employment with the Company at the vesting date. The options expire 5 years after they vest.

No other options were held or issued to Directors or KMP during FY18 (FY17: NIL).

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

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

9 SUBSEQUENT EVENTS

No matter or circumstance, have arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Signed in accordance with a resolution of the directors.



Adam Gray
Chairman
27 August 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
Revenue from operations	6	105,611	120,810
Total revenue		105,611	120,810
Cost of goods sold		50,952	59,082
Gross profit		54,659	61,728
Sales and marketing related expenses		10,350	13,816
Administrative related expenses		32,015	37,241
Profit before depreciation, amortisation, impairment, finance costs and tax		12,294	10,671
Legal settlement with the City of Chicago		–	25,509
Amortisation of intangibles		8,223	4,016
Depreciation of plant and equipment		11,762	14,961
Impairment / (recovery of) trade receivables		(1,067)	3,672
Legal costs associated with debt recovery		888	–
Restructuring costs		598	–
Loss before tax and financing costs		(8,110)	(37,487)
Net finance costs		986	84
Loss before tax		(9,096)	(37,571)
Income tax expense / (benefit)	9	3,024	(6,079)
Loss for the period		(12,120)	(31,492)

Other comprehensive loss

Foreign currency translation that may be reclassified to the profit or loss, net of tax		1,235	(1,347)
Total comprehensive loss for the period		(10,885)	(32,839)

Earnings per share ("EPS") attributable to ordinary equity holders

-basic / diluted EPS for the year ended		(9.18) cents	(28.41) cents
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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 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	18,864	8,199
Trade and other receivables	11	26,897	24,224
Inventories	12	5,741	6,104
Other current assets	13	2,643	2,832
Total Current Assets		54,145	41,359
Non-Current Assets			
Plant and equipment	14	38,551	40,296
Deferred tax assets	9	18,603	23,164
Intangible assets	15	18,633	23,343
Other financial assets		441	441
Other non-current assets		165	103
Total Non-Current Assets		76,393	87,347
TOTAL ASSETS		130,538	128,706
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	16	17,867	24,693
Interest bearing liabilities	17	796	–
Deferred revenue		2,395	344
Income tax payable		192	1,384
Provisions	18	8,015	9,240
Total Current Liabilities		29,265	35,661
Non-Current Liabilities			
Trade and other payables	16	10,403	11,255
Interest bearing liabilities	17	5,551	–
Deferred tax liabilities	9	4,410	6,081
Provisions	19	4,568	4,746
Total Non-Current Liabilities		24,932	22,082
TOTAL LIABILITIES		54,197	57,743
NET ASSETS		76,341	70,963
Equity attributable to equity holders of the parent company			
Contributed equity	22	117,387	101,765
Reserves	23	6,356	4,480
Accumulated losses	23	(47,402)	(35,282)
TOTAL EQUITY		76,341	70,963
Net tangible assets per share		38.71 cents	42.94 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 2018

	Contributed Equity \$'000	Foreign Currency Translation Reserve \$'000	Employee Equity Benefits Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
At 1 July 2016	101,765	3,646	2,341	(3,790)	103,962
Loss for the year	–	–	–	(31,492)	(31,492)
Currency translation differences	–	(1,347)	–	–	(1,347)
Total comprehensive loss	–	(1,347)	–	(31,492)	(32,839)
Net reversal of share based payments expense	–	–	(160)	–	(160)
At 30 June 2017	101,765	2,299	2,181	(35,282)	70,963
At 1 July 2017	101,765	2,299	2,181	(35,282)	70,963
Loss for the year	–	–	–	(12,120)	(12,120)
Currency translation differences	–	1,235	–	–	1,235
Total comprehensive loss	–	1,235	–	(12,120)	(10,885)
Issue of share capital, net of costs	15,622	–	–	–	15,622
Cost of share based payments and options	–	–	641	–	641
At 30 June 2018	117,387	3,534	2,822	(47,402)	76,341

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 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
Operating activities			
Receipts from customers		104,974	129,409
Payments to suppliers, employees and GST		(95,822)	(110,139)
Payment for Chicago settlement		(6,406)	(6,512)
Interest received / (paid)		(463)	23
Income tax refunded / (paid)		(690)	82
Net cash flows from operating activities	10	1,593	12,863
Investing activities			
Purchase of property, plant and equipment		(9,003)	(9,707)
Capitalised development costs paid		(3,513)	(7,114)
Net cash flows (used in) investing activities		(12,516)	(16,821)
Financing activities			
Drawdown bank borrowings		6,406	2,600
Repayment of bank borrowings		(407)	(2,600)
Proceeds received from issue of shares (net of costs)		15,288	–
Net cash flows from financing activities		21,287	–
Net increase / (decrease) in cash held		10,364	(3,958)
Effect of exchange rate changes on cash		301	(285)
Cash and cash equivalents at beginning of financial year		8,199	12,442
Cash and cash equivalents at the end of financial year	10	18,864	8,199
Reconciliation of cash			
Cash at the end of the period consists of:			
Cash at banks and on hand		18,864	8,199
Cash at banks and on hand	10	18,864	8,199

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 2018

NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of Redflex Holdings Limited (a for profit entity) for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of directors on 27 August 2018.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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2.4 Changes in accounting policies and disclosures

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.1 BASIS OF PREPARATION

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

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

The financial statements have been prepared on a going concern basis, which assumes the normal continuity of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

2.2 COMPLIANCE WITH IFRS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

2.3 ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in accounting policy and disclosures

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2018 are outlined in the table below.

STANDARD	Mandatory date for annual reporting periods beginning on or after	Reporting period standard adopted by the company
AASB 9 Financial Instruments	1 January 2018	1 July 2018
AASB 15 Revenue from Contracts with Customers	1 January 2018	1 July 2018
AASB 16 Leases	1 January 2019	1 July 2019
2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 July 2018
2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018	1 July 2018
2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019	1 July 2019
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	1 July 2018
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	1 July 2019
The revised Conceptual Framework for Financial Reporting	1 January 2020	1 July 2020

Management has completed an analysis of the impacts of AASB 15 – *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments*. Based on the results of the analysis the standards are not expected to have a material effect on the financial statements of the Group.

Management has also considered the impact of AASB 16 – *Leases*. The Group is currently in the process of performing an analysis of identifying leases signed between the Group and various third parties. However, it is expected that the operating lease commitments identified in Note 24 to the financial report will be recognised as right to use assets and a corresponding liability in respect of these leases unless they qualify for low value or short-term leases upon the application of AASB 16. A reliable estimate of the financial impact on the Group's financial statements is dependent on a number of unresolved areas, including the choice of transition method, refinement of approach to discount rates, estimates of lease terms for leases with options and conclusion of data collection.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 30 June 2018.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

(b) Business combinations

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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

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

(c) Fair Value

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

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

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

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

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

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

(d) Operating segments

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

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

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

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

(e) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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.

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.

(f) Revenue recognition

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

Sale of goods

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

Fee for service contracts and licences

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

Deferred revenue

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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.

(g) Income tax and other taxes

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

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

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

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

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

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

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

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

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

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

Tax Consolidation Legislation

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

The head entity and the controlled entities in the tax consolidation group continue to account for their own

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation group.

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

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

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

Other Taxes

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

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

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

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

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

(h) Property, plant and equipment

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

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

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

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

De-recognition

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

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

(i) Leases

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

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Group as a lessee

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

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

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

(j) 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).

(k) 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 five years.

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For the year ended 30 June 2018

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.

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

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

During FY18 the estimated useful life of intangible assets was reduced from seven years to five years. The change in the estimated useful life is to more appropriately align these assets with the duration of key customer contracts.

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

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

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

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

(l) 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.

(m) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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.

(n) Cash and cash equivalents

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

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

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

(o) Provisions and employee leave benefits

Provisions

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

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

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

Contingent liabilities and contingent assets

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

Employee Benefits

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

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

(ii) Long Service Leave

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

(p) 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.

FY16, FY17 and FY18 LTI Plans

The company uses EBITDARD as a financial KPI for the FY16, FY17 and FY18 LTI Plans. EBITDARD is calculated as Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs and excludes the impact of any impairment or reversal of impairment.

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

Performance rights granted to certain members of the Company are based on a service condition and vested over the length of the service condition stipulated in the grant notice.

(q) 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.

(r) Investment and other financial assets

Recognition and de-recognition

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

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all of the risks and rewards of the financial asset. If the entity neither retains

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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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.4 Changes in accounting policies and disclosures

As previously noted, during FY18 the estimated useful life of intangible assets was reduced from seven years to five years. The change in the estimated useful life is to more appropriately align these assets with the duration of key customer contracts.

NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk Exposures and Responses

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

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

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

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

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

(i) Interest rate risk

The Group's exposure to market interest rates is primarily related to its debt obligations and cash holdings. During the current year the Company entered a US\$10 million debt facility with Western Alliance Bank as at 30 June 2018 the total drawn amount on the loan was \$6.3 million. If interest rates increased or decreased by 1% in respect of the loan the effect would not have a material impact on the Company.

(ii) Foreign currency risk

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

The Group has two main operations, with approximately 57% of the Group business occurring within the U.S., and the other 43% arising from within Australia, but through servicing other markets. As a result of significant investment in operations in the U.S. the Group's statement of financial position can be affected significantly by movements in the US\$ / A\$ exchange rates. The U.S. business incurs all revenue and the vast majority of its expenses in US\$, apart from the cost of cameras sourced from the Australian operations in A\$. The U.S. business operation accounts for the vast majority of the Group's capital expenditure requirements and related borrowings and accordingly, the Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US\$.

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Translational effects are therefore significant to the Group results with approximately 57% (FY17: 57%) of the Group's revenues and costs incurred in currencies (predominantly US\$) other than the presentation currency of the Group, and the large capital expenditure related to that business also denominated in US\$. The Group does not hedge translational risk through available hedging products.

Aside from the Redflex Americas operation, the Group also has transactional currency exposures arising 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 2018 the Group had no foreign currency hedge arrangements in place (FY17: nil).

At 30 June 2018, the Group had not hedged foreign currency purchases that are firm commitments, as offsetting natural hedges substantially offset risk. Other than the Redflex Americas operation, most sales commitments were denominated in A\$, other than single contracts in Hong Kong, Canada, Saudi Arabia and Ireland.

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

At 30 June 2018, had the Australian dollar moved, as illustrated in the table below with all other variables held constant, post-tax profit would have been affected as follows:

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

Judgments of reasonable possible movements	Post Tax Profit/(loss) Higher/(Lower)		Equity Higher/(Lower)	
	30 June	30 June	30 June	30 June
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
AU\$/US\$ +10%	325	2,617	325	2,617
AU\$/US\$-5%	(162)	(1,515)	(162)	(1,515)

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

(iii) Price risk

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

(iv) Credit risk

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

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

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

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For the year ended 30 June 2018

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	30 June 2018 \$'000	30 June 2017 \$'000
6 months or less	18,265	18,190
6-12 months	398	6,503
1-5 years	15,954	11,255
Over 5 years	—	—
	34,617	35,948

The balance contains trade payables, interest bearing liabilities and amounts owed in respect of the City of Chicago settlement. The interest bearing liabilities relate to a US\$ 10 million credit facility agreement with Western Alliance Bank consisting of US\$ 5 million revolving line of credit and a US\$ 5 million three-year term loan.

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

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

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

Year ended 30 June 2018

Consolidated	<6 months \$'000	6-12 months \$'000	1-5 years \$'000	>5 years \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	18,864	—	—	—	18,864
Trade and other receivables	26,691	—	—	—	26,691
Other financial assets	—	—	—	441	441
	45,555	—	—	441	45,996
Financial liabilities					
Interest bearing liabilities	(398)	(398)	(5,551)	—	(6,347)
Trade and other payables	(17,867)	—	(10,403)	—	(28,270)
	(18,265)	(398)	(15,954)	—	(34,617)
Net maturity	27,290	(398)	(15,954)	441	11,379

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For the year ended 30 June 2018

Year ended 30 June 2017

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

(vi) Fair value

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

NOTE 4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Significant accounting judgments

Impairment of goodwill, plant and equipment and capitalised development costs

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

Depreciation of property, plant and equipment

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

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

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

Amortisation of capitalised development costs

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

The Group amortises these assets over a maximum of five years on a straight line basis regardless of the length of individual contracts for which the technology is used. During FY18 the estimated useful life of intangible assets was reduced from seven years to five years. The change in the estimated useful life is to more appropriately align these assets with the duration of key customer contracts. The Group expects the technology to last for a period of five years from inception, due to varying requirements of its customers. Management assesses development costs at each reporting date and if the technology is no longer in use it is considered impaired. Accordingly, it is difficult to assess the appropriate length of time over which to amortise these assets.

Taxation

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

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

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

Recoverability of receivables

The Group continues to encounter uncertainties surrounding some contracts in certain countries including in the Middle East and Mexico. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Group continues to provide against the likelihood of ultimate collectability. At the balance date provisions of \$5.8 million and \$2.1 million have been recorded in respect of the overdue receivable balances in the Mexico and the Middle East respectively.

Long service leave provision

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

Citation work in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Share based payments

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

Contingent assets and liabilities

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

Asset retirement obligations

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

NOTE 5 SEGMENT INFORMATION

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

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

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

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the years ended 30 June 2018 and 30 June 2017.

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For the year ended 30 June 2018

Year ended 30 June 2018

Operating Segments	The Americas \$'000	Traffic Operations Australia/ International \$'000	Total \$'000
Revenue			
Revenue from operations*	60,067	45,544	105,611
Inter-segment revenue	–	201	201
Total segment revenue	60,067	45,745	105,812
Inter-segment elimination			(201)
Total consolidated revenue			105,611
Result			
Profit before interest, tax, depreciation, amortisation, restructuring costs and recovery of trade receivables / associated legal expenses	10,327	3,242	13,569
Recovery of trade receivable	–	1,067	1,067
Legal costs associated with debt recovery	–	(888)	(888)
Restructuring costs	–	(598)	(598)
Depreciation	(9,445)	(2,317)	(11,762)
Amortisation	–	(8,223)	(8,223)
Inter-segment royalty	1,549	(1,549)	–
Segment result	2,431	(9,266)	(6,835)
Head office result			(1,275)
Loss before tax and finance charges			(8,110)
Finance charges			986
Loss before income tax			(9,096)
Income tax expense			3,024
Net loss after income tax			(12,120)
Assets and liabilities			
Segment assets	64,223	59,668	123,891
Head office assets			6,647
Total assets			130,538
Segment liabilities	37,704	15,256	52,960
Head office liabilities			1,237
Total liabilities			54,197
Other segment information			
Capital expenditure**	3,744	5,080	8,824
Head office capital expenditure			–
Total capital expenditure			8,824

*Sales revenue shown under the Americas segment includes sales arising in Canada of \$1.6 million during FY18.

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Year ended 30 June 2017

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

^ Includes corporate depreciation of \$18,000

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

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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.

	30 June 2018	Consolidated 30 June 2017
	\$'000	\$'000
Revenue by geographical location		
The Americas	60,067	69,468
Australia	35,622	39,830
Other*	9,922	11,512
Total Revenue	105,611	120,810

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

NOTE 6 REVENUE, OTHER REVENUE, OTHER INCOME AND EXPENSES

	30 Jun 2018	Consolidated 30 Jun 2017
	\$'000	\$'000
Revenues and expenses		
Revenue from sales of goods and services	105,611	120,810
Total Revenue	105,611	120,810
Depreciation, amortisation and impairment costs included in income statement		
Depreciation of plant and equipment	11,762	14,961
Amortisation of intangibles	8,270	4,016
Impairment of / (recovery of) receivables	(1,067)	3,672
	18,965	22,649
Employee benefits expense		
Wages and salaries	40,688	48,709
Payroll benefits	3,694	6,904
Contract labour	4,758	10,156
Superannuation	2,352	2,277
Payroll taxes	2,607	2,918
Share-based payment expense	602	160
Other payroll related expenses	1,324	1,434
	56,025	72,558
Research and development costs		
Expensed in administration expenses	598	1,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 7 DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed during FY18 and FY17.

Franking credit balance

	2018 \$'000	Parent 2017 \$'000
The amount of franking credits available for subsequent financial years are:		
Franking account balance at the end of the financial year at 30% (FY17: 30%)	–	–
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	–	–
The amount of franking credits available for future reporting periods:	–	–

NOTE 8 EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of dilutive options not yet converted to shares. As the Company has recorded a loss for both FY18 and FY17 the impact of any dilutive options not yet converted to shares would be nil.

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

	30 June 2018 \$'000	30 June 2017 \$'000
Loss for the period for basic earnings per share	(12,120)	(31,492)
	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share	132,001	110,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 9 INCOME TAX

The major components of income tax expense for the years ended 30 June 2018 and 30 June 2017 are:

Consolidated income statement

	30 June 2018 \$'000	30 June 2017 \$'000
Current income tax		
Current income tax charge (benefit)	5,915	(11,971)
Deferred tax		
Relating to origination and reversal of temporary differences	(2,891)	5,892
Income tax expense / (benefit) reported in the consolidated statement of comprehensive income	3,024	(6,079)

A reconciliation between tax expense and the product of accounting loss multiplied by Australia's domestic tax rate for the years ended 30 June 2018 and 30 June 2017 is as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Accounting loss before income tax	(9,096)	(37,571)
At the statutory income tax rate of 30% (FY17: 30%)	(2,729)	(11,271)
Tax effect of current year permanent differences	45	3,353
Impact of tax rate differential on foreign operations	232	(729)
Research and development tax incentives	–	(1,778)
Tax effect of Group tax re-structure	–	4,560
Adjustment to carrying value of deferred tax asset as a result of change in US tax rate*	4,653	–
Impairment of deferred tax asset on fixed assets	750	–
Under provision in prior years	73	(214)
Income tax (benefit) / expense reported in the consolidated statement of comprehensive income	3,024	(6,079)

*During the year to 30 June 2018 the U. S. government amended reduced the federal tax from 34% to 21%. The deferred tax asset has been reduced in respect of this change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Deferred Tax

At 30 June 2018 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.

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
(i) Deferred tax liabilities				
Accelerated depreciation for tax purposes				
Capitalised development costs	4,386	6,060	1,674	13
Other	24	21	(3)	43
Gross deferred tax liabilities	4,410	6,081		
(ii) Deferred tax assets				
Employee Entitlements	1,407	1,128	279	(64)
Provisions	1,936	5,677	(3741)	2,561
Deferred tax asset on fixed assets	992	5,190	(4,198)	(1,760)
Deferred tax asset on legal settlement	3,409	5,930	(2,521)	5,930
Deferred tax asset on net operating losses	5,706	2,299	3,407	(1,997)
Carry forward research & development tax offset	4,537	3,124	1,413	912
Other	615	(184)	799	254
Gross deferred tax assets	18,603	23,164		
Deferred tax charge			(2,891)	5,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 10 CASH AND CASH EQUIVALENTS

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

	30 June 2018 \$'000	30 June 2017 \$'000
Cash at banks and on hand	14,315	3,099
Restricted cash	4,549	5,100
	18,864	8,199
Reconciliation of net loss after tax to net cash flows from operations		
Net loss after income tax	(12,120)	(31,492)
Non cash flow items		
Depreciation expense	11,762	14,961
Amortisation of intangibles	8,223	4,016
Share based payments	641	(160)
Impairment of accounts receivable	–	3,672
Change in operating assets and liabilities		
Decrease / (increase) in prepayments	189	983
(Increase)/ decrease in receivables	(2,673)	4,923
(Increase) / decrease in inventories	363	(899)
(Decrease) / increase in taxation provisions	(1,192)	252
(Increase) / decrease in deferred tax asset	4,561	(5,836)
Decrease in deferred tax liability	(1,671)	(56)
Decrease in provisions	(1,403)	(51)
Increase / (decrease) in deferred revenue	2,051	(136)
Increase / (decrease) in payables	(7,138)	22,686
Net cash flows from operating activities	1,593	12,863

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 \$18.9 million (FY17: \$8.2 million).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 11 TRADE AND OTHER RECEIVABLES (CURRENT)

	30 June 2018 \$'000	30 June 2017 \$'000
Trade receivables	25,325	25,421
Allowance for impairment losses	(7,916)	(8,652)
	17,409	16,769
Work in progress	9,488	7,455
	26,897	24,224

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

Movements in the provision for impairment loss were as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
At 1 July	8,652	4,653
Charged for the year	1,878	6,369
Bad debts recovered	(1,067)	–
Bad debts written off	(1,547)	(2,370)
At 30 June	7,916	8,652

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

	Total	0-30 days	31-60 days	61-90 days PDNI*	+ 91 days PDNI*	+ 91 days CI*
30 June 2018	25,325	12,739	1,434	268	2,968	7,916
30 June 2017	25,421	13,061	1,058	611	2,039	8,652

*PDNI – Past due not impaired

*CI – Considered impaired

NOTE 12 INVENTORIES

	30 June 2018 \$'000	30 June 2017 \$'000
Raw materials and camera components – at cost	7,048	6,864
Inventory provision	(1,307)	(760)
Total raw materials and camera components-at net realisable value	5,741	6,104

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 13 OTHER CURRENT ASSETS

	Consolidated 30 June 2018 \$'000	30 June 2017 \$'000
Prepayments	1,788	1,994
Other current assets	855	838
	2,643	2,832

Other assets are non-interest bearing.

NOTE 14 PLANT AND EQUIPMENT

Year ended 30 June 2018

	Plant and equipment \$'000	Motor vehicles \$'000	Furniture and other \$'000	Computer equipment \$'000	Asset Retirement Obligation* \$'000	Total \$'000
At 1 July 2017 net of accumulated depreciation and impairment	34,574	927	522	1,994	2,279	40,296
Additions	7,945	20	–	859	179	9,003
Disposals	(840)	–	(2)	–	–	(842)
Depreciation for the year	(8,886)	(688)	(124)	(1,292)	(772)	(11,762)
Exchange adjustment	1,758	3	1	35	59	1,856
At 30 June 2018 net of accumulated depreciation and impairment	34,551	262	397	1,596	1,745	38,551
At 30 June 2018						
Cost	95,136	5,064	2,215	9,034	7,178	118,627
Accumulated depreciation and impairment	(60,585)	(4,802)	(1,818)	(7,438)	(5,433)	(80,076)
Net carrying amount	34,551	262	397	1,596	1,745	38,551
At 30 June 2017						
Cost	92,710	5,288	2,197	16,335	7,848	124,378
Accumulated depreciation and impairment	(58,136)	(4,361)	(1,675)	(14,341)	(5,569)	(84,082)
Net carrying amount	34,574	927	522	1,994	2,279	40,296

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Year ended 30 June 2017

	Plant and equipment	Motor vehicles	Furniture and other	Computer equipment	Asset Retirement Obligation*	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2016 net of accumulated depreciation and impairment	39,509	2,021	54	2,634	3,472	47,690
Additions	8,393	—	571	790	291	10,045
Disposals	(1,282)	(28)	—	(17)	—	(1,327)
Depreciation for the year	(11,042)	(1,058)	(101)	(1,368)	(1,392)	(14,961)
Exchange adjustment	(1,004)	(8)	(2)	(45)	(92)	(1,151)
At 30 June 2017 net of accumulated depreciation and impairment	34,574	927	522	1,994	2,279	40,296
At 30 June 2017						
Cost	92,710	5,288	2,197	16,335	7,848	124,378
Accumulated depreciation and impairment	(58,136)	(4,361)	(1,674)	(14,341)	(5,569)	(84,082)
Net carrying amount	34,574	927	523	1,994	2,279	40,296
At 30 June 2016						
Cost	103,805	5,524	1,867	20,342	7,659	139,197
Accumulated depreciation and impairment	(64,296)	(3,503)	(1,813)	(17,708)	(4,187)	(91,507)
Net carrying amount	39,509	2,021	54	2,634	3,472	47,690

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 15 INTANGIBLE ASSETS

	30 June 2018 \$'000	30 June 2017 \$'000
At 1 July, net of accumulated amortisation and impairment	23,343	20,245
Additions	3,513	7,114
Amortisation for the year	(8,223)	(4,016)
At 30 June, net of accumulated amortisation and impairment	18,633	23,343
At 30 June		
Cost	56,973	53,454
Accumulated amortisation and impairment	(38,340)	(30,111)
Net carrying amount	18,633	23,343

DEVELOPMENT COSTS

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

NOTE 16 TRADE AND OTHER PAYABLES

	30 June 2018 \$'000	30 June 2017 \$'000
Current		
Trade payables and accruals	16,516	18,190
Payable in respect of the Legal settlement with the City of Chicago	1,351	6,503
Trade and other payables	17,867	24,693
Non-Current		
Payable in respect of the Legal settlement with the City of Chicago	10,403	11,255
Trade and other payables	10,403	11,255

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 17 INTEREST-BEARING LIABILITIES

	30 June 2018 \$'000	30 June 2017 \$'000
Current		
Term Loan	796	–
Total current interest bearing liabilities	796	–
Non-current		
Term loan	5,551	–
Total Non-current interest bearing liabilities	5,551	–

Net cash (debt) reconciliation

	Cash \$'000	Borrowings due in 1 year \$'000	Borrowings due after 1 year \$'000	Total \$'000
Net cash (debt) 1 July 2017	8,199	–	–	8,199
Cash flow	10,364			10,364
Repayment of borrowings		(796)	(5,551)	(6,347)
Other non cash	301			301
Net cash (debt) 30 June 2018	18,864	(796)	(5,551)	12,517

Financing facilities available

	30 June 2018 \$'000	30 June 2017 \$'000
Total facilities committed		
Revolving line of credit	6,765	–
Term loan	6,765	–
Total available facilities	13,530	–
Facilities used at reporting date		
Revolving line of credit	–	–
Term loan	6,347	–
Security for letters of credit issued to customers	3,886	1,900
Facilities unused at reporting date	10,233	1,900

During the period the Company entered into a US\$ 10 million credit facility agreement with Western Alliance Bank consisting of US\$ 5 million revolving line of credit and a US\$ 5 million three-year term loan

(a) 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 \$3.9 million (June 2017: \$1.9 million).

(b) Interest rate, foreign exchange and liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 18 CURRENT LIABILITIES – PROVISIONS

	30 June 2018 \$'000	30 June 2017 \$'000
Employee entitlements	3,184	3,390
Provision for warranties	59	442
Asset retirement obligation – liability	4,772	5,408
	8,015	9,240

NOTE 19 NON CURRENT LIABILITIES – PROVISIONS

	30 June 2018 \$'000	30 June 2017 \$'000
Employee entitlements	276	535
Asset retirement obligation – liability	4,292	4,211
	4,568	4,746

(a) Movements in provisions

	Maintenance Warranties \$'000	Employee Entitlements \$'000	Asset Retirement Obligations \$'000	Total \$'000
At 1 July 2017	442	3,925	9,619	13,986
Arising during the year	–	1,855	511	2,366
Utilised during the year	(449)	(2,084)	(1,392)	(3,925)
Exchange adjustment	66	(237)	327	156
At 30 June 2018	59	3,459	9,065	12,583
Current 2018	59	3,184	4,772	8,015
Non-Current 2018	–	276	4,292	4,568
At 30 June 2018	59	3,460	9,064	12,583
Current 2017	442	3,390	5,408	9,240
Non-Current 2017	–	535	4,211	4,746
At 30 June 2017	442	3,925	9,619	13,986

Superannuation

During the year ended 30 June 2018 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 2018 have been discharged.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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

(ii) Asset retirement obligation

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

(iii) Employee entitlements

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

NOTE 20 ASSET IMPAIRMENT

The Company performed its annual impairment test in June 2018. The Company considers its relationship between its market capitalisation and book value of equity, among other factors, when reviewing for indicators of impairment. At 30 June 2018 the market capitalisation of the Company was below the book value.

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 CGUs

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

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

Accounting policies

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

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

Value in use

The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from managements' FY19 budget and forecasts for subsequent years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the assets performance of the CGU being tested.

The Americas traffic operations

The carrying value of assets has been tested using cash flow projections from financial forecasts covering a five year period. The post-tax discount rate applied to the projections is 12.6% (FY17: 12.6%). Cash flows beyond year five and into perpetuity are extrapolated using a growth rate of 2% (FY17: 2%). Based on the results of this test the recoverable amount of US\$22.1 million was above the carrying value of the CGU's assets and it was determined that an impairment charge was not required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Sensitivity analysis

The recoverable amount of the America's CGU would equal its carrying amount if the key assumptions were to change as follows:

- Sales growth rate decreased by 1% compared to the current modelling;
- The long-term growth rate decreased to 0.5% as compared to the current modelling of 2%;
- Post-tax discount rate increased to 14.1% as compared to the current modelling.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any other instances that could cause the carrying amount of the America's CGU to exceed its recoverable amount.

Discount rates

Australian and International traffic operations

The carrying value of assets has been tested using cash flow projections from financial forecasts covering a five year period. The post-tax discount rate applied to the projections is 12.6% (FY17: 12.6%). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2.0% (FY17:2.0%). Based on the results of this test the recoverable amount of \$44.0 million was above the carrying value of the CGU's assets and it was determined that an impairment charge was not required.

Sensitivity Analysis

The recoverable amount of the Australian and International CGU would equal its carrying amount if the key assumptions were to change as follows:

- Sales growth rate decreased by 2.5% compared to the current modelling;
- The long-term growth rate decreased to 0.5% as compared to the current modelling of 2%;
- Post-tax discount rate increased to 13.6% as compared to the current modelling.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any other instances that could cause the carrying amount of the America's CGU to exceed its recoverable amount.

NOTE 21 CONTINGENCIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 22 CONTRIBUTED EQUITY

	30 June 2018 \$'000	30 June 2017 \$'000
Ordinary shares:		
Issued, authorised and fully paid	117,387	101,765

Movements in ordinary shares on issue

	Number of shares	\$'000
At 1 July 2016	110,762,310	101,765
Issued during FY17 as a result of:		
Vesting of performance rights under LTI Plan	147,455	–
At 30 June 2017	110,909,765	101,765
Issued during FY18 as a result of:		
Vesting of performance rights under LTI Plan	494,560	–
Vesting of performance rights under LTI Plan	416,389	–
Issue of shares	37,273,571	15,622
At 30 June 2018	149,094,285	117,387

Terms and conditions of contributed equity

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

NOTE 23 ACCUMULATED LOSSES AND RESERVES

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

	30 June 2018 \$'000	30 June 2017 \$'000
Balance 1 July	(35,282)	(3,790)
Net loss	(12,120)	(31,492)
Balance 30 June	(47,402)	(35,282)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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 \$3.9 million (FY17: \$1.9 million).

(b) Operating lease commitments – Group as lessee

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

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

	30 June 2018	Consolidated 30 June 2017
	\$'000	\$'000
Within 1 year	4,423	2,923
After 1 year but not more than 5 years	8,050	7,527
More than 5 years	–	712
	12,473	11,162

(c) Capital commitments

At 30 June 2018 the Group has commitments of \$NIL (FY17: \$0.1 million). These commitments principally relate to the installation of camera systems by the Americas business. Contracts generally specify that Redflex may install a number of cameras up to a specified limit provided that Redflex and the customer agree on the location and suitability of the proposed installations. Accordingly, the company has obligations to install further camera systems but it is not possible to determine how many will ultimately be installed. The commitments shown, therefore represent only those commitments supported by firm orders that have been placed for installations.

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

	30 June 2018	30 June 2017
	\$'000	\$'000
Within one year	–	83
After one year but not more than five years	–	–
Longer than five years	–	–
	–	83

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 25 RELATED PARTY DISCLOSURES

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

	Country of Incorporation	Equity interest	
		30 June 2018 %	30 June 2017 %
Controlled entities of Redflex Holdings Limited			
Redflex Enforcement Services Pty Ltd	Australia	100	100
Redflex Irish Investments Pty Ltd	Australia	100	100
Redflex Pty Ltd	Australia	100	100
Redflex Traffic Systems, Inc.	U.S.	100	100
Redflex Traffic Systems (Canada) Limited	Canada	100	100
Redflex Traffic Systems Limited	UK	100	100
Redflex Traffic Systems Malaysia Sdn Bhd	Malaysia	100	100
Redflex Traffic Systems Pty Ltd ¹	Australia	100	100
RTS R & D Pty Ltd	Australia	100	100
Traffic Operating Systems (Saudi Arabia), LLC ²	Saudi Arabia	100	100
Transtoll Pty Ltd	Australia	100	100
Controlled entities of Redflex Traffic Systems Pty Ltd			
Redflex Traffic Pty Ltd	Australia	100	100
Controlled entities of Redflex Traffic Systems, Inc.			
Redflex Traffic Systems (California), Inc.	U.S	100	100
Redflex Guardian, Inc.	U.S	100	100

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

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

The ultimate parent

Redflex Holdings Limited is the ultimate parent of the Group.

Associate

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Compensation of the Group's key management personnel

	30 June 2018 \$'000	30 June 2017 \$'000
Short term employee benefits	1,672	1,676
Long-term employment benefits	43	43
Share based payments	481	144
	2,196	1,863

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

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

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

Equity Purchases

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

NOTE 26 SHARE BASED PAYMENT PLANS

Long Term Incentive Plan

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

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

Executive Share Plan

No shares were issued under the Executive Share Plan (ESP) in the financial year ended 30 June 2018 (FY17: Nil).

Equity-settled transactions

LTI Plans

For the Group Chief Executive Officer vesting of the FY18 LTI Plan awards is dependent on the Group Chief Executive Officer remaining employed on 21 August 2018, 21 August 2019 and 21 August 2020, as the Group Chief Executive Officer's LTI award is payable in three equal instalments on these dates. For senior executives, vesting of the FY16 to FY18 plans is dependent on the achievement of financial measures (weighted 70%), as set by the Board, and non-financial measures (weighted 30%), as approved by the Board.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Performance rights assumptions

	21 August 2017	2 October 2017
Share price at valuation date	0.54	0.53
Expected volatility	N/A	N/A
Risk-free interest rate	N/A	N/A
Expected life of performance right	N/A	N/A
Fair value of performance right	0.54	0.53
Dividend yield	0%	0%
Year ended 30 June 2017	21 December 2016	19 January 2017
Share price at valuation date	0.35	0.46
Expected volatility	N/A	N/A
Risk-free interest rate	N/A	N/A
Expected life of performance right	N/A	N/A
Fair value of performance right	0.35	0.46
Dividend yield	0%	0%
Year ended 30 June 2016	1 December 2015	
Share price at valuation date	0.37	
Expected volatility	N/A	
Risk-free interest rate	N/A	
Expected life of performance right	N/A	
Fair value of performance right	0.37	
Dividend yield	0%	

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

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

The weighted average remaining contractual life for performance rights is generally 3 years (FY17: 3 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Option Holdings of key management personnel

On 21 August 2017 the Company issued 2,218,195 options to Mr Talbot. The options are exercisable at 48.14 cents and vest in 48 equal tranches over 48 months commencing from 21 February 2018, conditional on the executive being in continued employment with the Company at the vesting date. The options expire 5 years after they vest.

No other options were held or issued to Directors or KMP during FY18 (FY17: NIL).

Options Assumptions

	21 August 2017
Share price at valuation date	0.54
Expected volatility	100%
Risk-free interest rate	3%
Expected life of option	4 years
Fair value of option	0.39
Dividend yield	0%

Movements in the year

Performance rights

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

	Total Number	Date
Issued at 1 July 2017	6,050,272	
Changes during the current year		
Issue of performance rights	1,597,523	21 Aug 2017
Vesting of performance rights	(494,560)	5 Sep 2017
Lapse of performance rights	(1,082,267)	5 Sep 2017
Vesting of performance rights	(416,389)	2 Oct 2017
Lapse of performance rights	(3,013,952)	2 Oct 2017
Issue of performance rights	2,019,194	2 Oct 2017
Lapse of performance rights	(453,448)	14 Dec 2017
Issue of performance rights	165,066	14 Dec 2017
Issue of performance rights	81,318	5 April 2018
Outstanding at 30 June 2018	4,452,757	

The total share based payment expense for FY18 was \$0.6 million (FY17: \$0.1 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 27 PARENT ENTITY INFORMATION

Information relating to the parent entity, Redflex Holdings Limited.

	30 June 2018 \$'000	30 June 2017 \$'000
Current assets	4,279	613
Non-current assets	131,931	120,863
Total assets	136,210	121,476
Current liabilities	1,228	1,291
Non-current liabilities	9	18
Total liabilities	1,237	1,309
Net assets	134,973	120,167
Contributed equity	117,387	101,765
Retained earnings	6,619	7,236
Reserves	10,967	11,166
Total shareholders' equity	134,973	120,167
Profit / (loss) of the parent entity	(617)	43,409
Total comprehensive profit / (loss) of the parent entity	(617)	43,409

Contingent liabilities

With the exception of matters disclosed in Note 21 and elsewhere in this Annual Report, Redflex Holdings Limited does not have any contingent liabilities at 30 June 2018.

Contractual Capital Commitments

With the exception of matters disclosed in Note 24, Redflex Holdings Limited does not have any contracted capital commitments at 30 June 2018 (FY17: Nil)

Guarantees

Redflex Holdings Limited is a joint party under the credit facility agreement with Western Alliance Bank consisting of US\$ 5 million revolving line of credit and a US\$ 5 million three-year term loan.

Related Party Transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 28 EVENTS AFTER BALANCE SHEET DATE

No matter or circumstance have arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

NOTE 29 AUDITOR'S REMUNERATION

	30 June 2018 \$	30 June 2017 \$
Amount received or due and receivable by for:		
An audit and review of the financial report of the consolidated entity	428,400	428,400
An audit of the consolidated entity's overseas subsidiaries	23,970	23,970
Amount received or due and receivable for other services in relation to the consolidated entity for:		
Taxation services	215,823	679,625
Other assurance services	142,718	77,766
	810,911	1,209,761

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 2018 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 2018 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 2018.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Adam Gray".

Adam Gray

Director

27 August 2018



Independent auditor's report

To the members of Redflex Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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Our audit approach

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

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$1 million, which represents approximately 1% of the Group's total revenue. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group total revenue because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable revenue related thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. Our audit procedures were primarily performed at the principal places of business in Victoria (Australia) and in Arizona (United States of America). Our team included experts in taxation and valuation. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Recoverability of receivables Impairment assessment over plant and equipment and intangible assets Calculation of deferred tax balances These are further described in the <i>Key audit matters</i> section of our report.



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of receivables (Refer to note 11 to the financial report)</p> <p>The Group continues to encounter uncertainties surrounding the recoverability of certain receivables balances.</p> <p>For a Saudi Arabian based customer, the Group concluded in the 2017 financial year to fully provide against the outstanding receivables balance. A settlement agreement was reached on 21 November 2017 requiring the customer to pay \$3 million. The settlement payment was due 29 December 2017, however only \$1 million was paid by 30 June 2018.</p> <p>The Group continues to fully provide for the amount outstanding.</p> <p>For a Mexico based customer, the Group concluded to provide US\$4.2 million of the total outstanding receivables balance of US\$5.8 million. Settlement offers by the Mexican customer have not been accepted by the Group.</p> <p>The Group continues to progress recovery from the customer.</p> <p>This is a key audit matter due to the judgement required by the Group in estimating the allowance for impairment losses on the receivables from the Saudi Arabian and Mexican customers.</p>	<p>We performed the following procedures, amongst others, over the recoverability of receivables:</p> <ul style="list-style-type: none"> • We enquired of management and the directors as to their knowledge of the events and conditions that may cast doubt on the recoverability of the receivables from the Saudi Arabian and Mexican customers. • We inspected the Saudi Arabian customer settlement agreement for accuracy of the settlement sum and the payment due date. • We inspected correspondence between the Group and the Saudi Arabian and the Mexican customers to develop an understanding of the status of recovery activities. • We obtained legal confirmations from the Group's external and in-house legal counsel in respect of the settlement recovery from the Saudi Arabian customer and settlement offers from the Mexican customer to consider the likelihood that the amounts owing to the Group would be settled within 12 months from balance sheet date.
<p>Impairment assessment over plant and equipment and intangible assets (Refer to note 20 to the financial report)</p> <p>As described in note 20 to the financial report, the Group held \$38.6 million of plant and equipment and \$18.6 million of intangible assets at 30 June 2018. The plant and equipment mostly relates to camera installations in the United States and the intangible asset mostly relate to capitalised research and development expenditure.</p> <p>The Group assessed its cash generating units (CGU), concluding its two CGUs are the Americas traffic operations and the Australia and International traffic</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • We assessed the judgements applied in determining the CGUs of the business and whether the composition of the Group's CGUs, being the Americas Traffic Operations and the Australia and International Traffic Operations, was consistent with our knowledge of the Group's operations and internal Group reporting. • We considered the appropriateness of the methodology applied by the Group in performing the impairment assessment at 30 June 2018. In addition, we assessed the design and implementation of controls in respect of the



Key audit matter	How our audit addressed the key audit matter
<p>operations.</p> <p>Due to the net assets of the Group continuing to exceed its market capitalisation and the competitive environment in which the Group operates, the Group identified indicators of impairment in each of its CGUs during the year. As a result, the Group performed an impairment assessment for each CGU at 30 June 2018.</p> <p>As a result of the Group's asset impairment assessment at year end, no impairment was recognised.</p> <p>We considered this a key audit matter due to the significant judgements required by the Group in relation to assumptions and estimates used in the value in use calculations, such as:</p> <ul style="list-style-type: none"> • Future trading cash flows, which are subject to uncertainty; • Discount rate utilised to discount future cash flows; • Revenue and cost assumptions; and • Long term growth rate (LTGR) applied to the calculation of the terminal value. 	<p>impairment assessment process and considered the adequacy of disclosures made in the financial report, including those regarding key assumptions used in the impairment model, in light of the requirements of Australian Accounting Standards.</p> <ul style="list-style-type: none"> • We assessed the impairment models and calculations by: <ul style="list-style-type: none"> - Checking the mathematical accuracy of the impairment models; - Together with PwC valuation experts comparing the discount rate and LTGR applied to the impairment assessments for each CGU to independently calculated data; - Comparing the Group's forecast annual growth rates to Board approved budgets and forecasts, externally available economic data and historical actual results; - Comparing the forecasted cash flows to actual cash flows for the period to assess the accuracy of the Group's forecasting and confirming its consistency with our knowledge of the business and the Group's strategic initiatives; and - Performing sensitivity analysis in relation to key assumptions to consider the impact of changes on future cash flows and resulting valuations.
<p>Calculation of deferred tax balances (Refer to note 9 to the financial report)</p> <p>The reduction in the United States Federal tax rate from 34% to 21% during the year required a re-measurement of the Group's United States deferred tax balances. The re-measurement resulted in a \$4.7 million deferred tax expense.</p> <p>The calculation of deferred tax balances was a key audit matter because:</p> <ul style="list-style-type: none"> • The Group operates in the United States where recent tax reforms have impacted calculation of the deferred tax assets; and • Judgement is involved in a number of aspects of the tax calculations, including the assessment of the timing of recoverability of the deferred taxes. 	<p>We performed the following procedures, amongst others over the calculation of deferred tax balances:</p> <ul style="list-style-type: none"> • Assessed the rationale on which deferred taxes were re-measured. • Together with PwC tax experts we assessed the tax analysis prepared by the Group. This included: <ul style="list-style-type: none"> - Comparing the tax forecast to the Group's 5 year business plans; and - Recalculating the current and deferred tax balances. • Evaluated the adequacy of disclosures made in the financial report in light of the requirement of Australian Accounting Standards.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Chairman's Letter, Group Chief Executive Officer's Report, Directors' Report, Corporate Directory, Financial Performance Summary and ASX Additional Information, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 24 to 39 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Redflex Holdings Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



PricewaterhouseCoopers



Jason Perry
Partner

Melbourne

27 August 2018

ASX ADDITIONAL INFORMATION

Additional information required by ASX and not shown elsewhere in this report is as follows. This information is current as at 6 August 2018.

Distribution of equity securities

There were 1,604 holders of 149,094,285 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	367	166,124	0.11
1,001 – 5,000	562	1,435,117	0.96
5,001 – 10,000	245	1,874,843	1.26
10,001 – 100,000	355	10,834,293	7.27
100,001 – over	75	134,783,908	90.40
	1,604	149,094,285	100.00
Holding less than a marketable parcel of 1,283 shares @ \$500	435	243,094	

Substantial holders

Name	Ordinary Shares	% of Issued Capital
Coliseum Capital Management, L.L.C.	35,848,321	24.04
Sidney Ho	16,319,193	10.95
Elizabeth Cooper	11,256,081	7.55
DUMAC, LLC	10,101,207	6.78
Elizabeth & Christopher Cooper	9,938,132	6.67
Cheng Man Oy	9,604,803	6.44

Twenty largest holders of quoted equity securities

Name	Shares Held	% of Issued Capital
HSBC Custody Nominees (Australia) Limited-GSCO ECA	35,848,321	24.04
HSBC Custody Nominees (Australia) Limited	17,650,622	11.84
Investaco Pty Ltd	11,423,257	7.66
Mrs Elizabeth Geraldine Cooper	10,270,041	6.89
Blue Jade Pty Ltd	9,742,528	6.53
Ms Cheng Man Oy	9,604,803	6.44
Mr Christopher Austin Cooper	5,011,735	3.36
Investaco Pty Ltd <Ho Family A/C>	4,050,622	2.72
Citicorp Nominees Pty Limited	3,150,469	2.11
J P Morgan Nominees Australia limited	2,469,112	1.66
Vertex Bianca Nominees Pty Ltd <Superannuation Fund A/C>	2,149,944	1.44
Mr Graham Davie	1,858,994	1.25
O'Connor Holdings Pty Ltd	1,571,215	1.05
Gothic Corporation	1,393,968	0.93
Character Home Sales Pty Ltd <Character Home SLS Sup A/C>	1,326,139	0.89
Vertex Bianca Nominees Pty Ltd	1,307,943	0.88
National Nominees Limited	1,053,008	0.71
Mrs Elizabeth Geraldine Cooper	986,040	0.66
Debuscey Pty Ltd	784,179	0.53
Gothic corporation <JBD LLC>	542,941	0.36
Top 20 Holders of ordinary fully paid shares	122,195,881	81.96

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FOR A WORLD ON THE MOVE





ANNUAL REPORT 2018

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