Redflex

ANNUAL REPORT 2016

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") 2016 ASX Corporate Governance Statement does not appear in this Annual Report and can be located on the Company's website (www.redflex.com.au). To navigate to the Company's 2016 ASX Corporate Governance Statement and ASX Appendix 4G, please click on the "Investor Relations" tab and then on the "Corporate Governance" tab.

The URL for the 2016 ASX Corporate Governance Statement is:

http://www.bypass.redflex.com/application/files/2414/7260/9243/2016_Corporate_Governance_Statement.pdf

The URL for the 2016 ASX Appendix 4G is:

http://www.bypass.redflex.com/application/files/4114/7260/9242/2016_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
Paul Clark, Group Chief Executive Officer
Clark Davey
Robert DeVincenzi
David McIntyre
Herman Schwarz
Terence Winters

Company Secretary

Craig Durham

Registered Office

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Victoria, Australia 3205

Principal Places of Business

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Victoria, Australia 3205
Phone: +61 3 9674 1712

USA

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United States of America

Share Register

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

Solicitors

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NSW, Australia 2000

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

Auditor

PricewaterhouseCoopers
19/2 Southbank Blvd, Southbank,
Victoria, Australia 3006

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FINANCIAL PERFORMANCE SUMMARY

RESULTS FROM OPERATIONS

	2016	2015
Revenue ($ Million)	135.8	124.3
Profit before depreciation, amortisation, impairment, finance costs and tax ($ Million) *	25.6	18.5
Loss after tax ($ Million)	(4.7)	(31.9)
Weighted average number of shares (Million)	110.8	110.8
Basic earnings per share (Cents)	(4.23)	(28.84)
Earnings per share based on earnings before interest, tax, depreciation and amortisation (Cents)*	23.1	16.7
Net tangible assets per share (Cents)*	75.58	71.7

	2016 ($M)	2015 ($M)
Current assets	53.9	66.8
Non-current assets	85.8	98.9
Current liabilities	23.4	47.2
Non-current liabilities	12.3	12.2
Shareholders' equity	104.0	106.3

Reporting period

The current reporting period is the year ended 30 June 2016 ("FY16"). The previous corresponding period is the year ended 30 June 2015 ("FY15").

*Note regarding non-IFRS financial information

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

CHAIRMAN'S LETTER

WE CONTINUE TO LOOK AHEAD

Dear Fellow Shareholders,

The theme of my message to you in 2015 was that Redflex was "continuing to meet its challenges" as it pursued its core objective of Making a Safer World through our leading edge technology, end-to-end solutions and strong partnerships with our customer base. Redflex has a history of innovation and inherent in the Company's DNA is a focus on our customers. We will continue to leverage these strengths. While FY16 was challenging, the significant change initiatives implemented in FY15 resulted in a demonstrable improvement in the Company's financial performance across virtually all metrics. Notably, EBITDAI (Earnings Before Depreciation, Amortisation, Impairment, Finance Costs and Tax) increased by 38% to $25.6 million (FY15: $18.5 million) during FY16.

We continue to compete effectively in our core markets and have successfully expanded into attractive new markets. Our growth priorities have been carefully assessed consistent with our disciplined market entry strategy. We have also developed products adjacent to photo enforcement. Geographic and product diversification also offers new and promising commercial opportunities.

While we work through and pursue resolution with the various U.S. authorities dealing with the consequences of the Company's prior bad acts (which we self-disclosed over three and a half years ago), we are grateful for the continued support of our existing and new customers, as demonstrated by new contract wins and high renewal rates.

Your Board

The membership of your Board remained constant throughout the year, committed and forward-looking to help position the Company to take advantage of the opportunities that lie ahead.

Management

We have recruited additional talented and experienced senior business leaders during the year in our products, engineering, operations, sales and business development and business transformation groups.

We are confident that, with these new appointments, we will be better positioned to advance both strategic and operating priorities within our global businesses. We will continue to concentrate on innovating leading-edge technologies to provide our customers with the most up to date solutions.

To leverage our growth potential we have specifically recruited sales and business development specialists in the United Kingdom, Asian and Middle Eastern markets, and further prioritized profitably expanding our presence in the Canadian and Mexican markets.

The Company has undertaken extensive business process redesign and restructure to ensure that we have the right people in the right roles, that our business processes are more efficient and that we optimize cost where this can sensibly be achieved. The Company has implemented these changes purposefully to drive improved performance for our customers, in the quality and reliability of our service offerings, for our team and ultimately to grow the value of the Company for our shareholders.

Challenges

As I alluded to above, some important challenges still remain in our business, including the unresolved Department of Justice investigations and the civil litigation relating to the now historical Chicago and Ohio misconduct. Your Board and management are committed to the highest standard of conduct for the New Redflex, and to helping responsibly close out these matters. We will advise you, as appropriate, as these matters progress.

The Future

We continue to look ahead and focus our energies on:

- developing a services platform that can be commercially implemented globally;
- expanding into markets in Europe, Asia, the Middle East and Latin America;
- product and service expansion strategies and cost management;
- extending our current product range in both photo enforcement and adjacent markets; and
- driving efficiencies while reducing business complexity and risk.

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

Conclusion

I would like to once again thank the Redflex management team and all of our associates for their continued support of the Company's goals and objectives and, together, to help us continue to look ahead to the future.

I would also like to thank your directors, my fellow board members, for their continued encouragement

and desire to improve our business by making the necessary, and sometimes tough decisions for the Company's future.

Finally, on behalf of your Company, I wish to thank you, our shareholders for your dedicated support.

Adam L. Gray
Chairman

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX GROUP OVERVIEW

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

Since then, the Group has established itself as a world leader in the automated traffic enforcement products and services market, a segment of the much larger Intelligent Traffic Systems ("ITS") market. The ITS market is expected to grow at a CAGR of 12% between 2016 and 2020, and reach $34 Billion by 2020.

We are well positioned to take advantage of the expected growth in the ITS market. Redflex develops and manufactures a wide range of high-performing digital photo enforcement solutions including red light, speed, automatic number plate recognition ("ANPR") and school bus stop arm systems, using advanced sensor and image capture technologies. The Group also owns and operates one of the largest networks of digital speed and red-light enforcement systems in the world.

Our continuous development of new road safety and traffic management products has been helping save lives for more than 20 years. Increasingly, we are leveraging our ability to develop market-leading, life-saving solutions in other segments of the ITS market.

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

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

REDFLEX GROUP STRATEGY

Redflex continues to expand globally. We are also developing new products and services for specific parts of the ITS market. Our strategy is to focus on those markets that have attractive growth profiles, unmet market demand and needs, acceptable risk and a high level of market fragmentation. This strategy benefits from our ongoing efforts to improve our level of service and delivery for our core customer base where we continue to pursue opportunities to introduce new technology to deliver their required outcomes.

To execute on this strategy the Group will:

- Protect our significant installed base in the USA by strongly servicing our existing customers and leveraging investment to both optimize system performance and expand our product range to include innovative new products;
- Leverage our leading photo enforcement capability to expand more aggressively into New Zealand, Asia, Canada, Latin America, Mexico, Europe and the United Kingdom ("UK");
- Increase the revenue from our existing photo enforcement installed base by upgrading and improving the performance of our older systems, providing additional value-added services and improving the operational effectiveness of the current installations;
- Repurpose our technology to diversify into adjacent ITS market segments including parking, tolling and traffic management in addition to increasing our presence in the corporate market. Reducing our cost base through product simplification, more efficient procurement practices, process redesign and increased cost management;
- Leverage and increase our competitive advantage through targeted research and development
- Focus on capital management to increase returns and generate cash in order to act on potential acquisition opportunities as they arise;
- Continue to de-risk the business through enhanced risk management systems, creating annuity income streams and re-contracting distributors and suppliers;
- Increase shareholder value by creating a high performance team capable of delivering the transformational Group strategy;
- Inform the legislative and community debate about the benefits of photo enforcement.

Redflex

REDFLEX GROUP – REVIEW OF OPERATIONS

Revenue from the Group's operations for the financial year ended 30 June 2016 ("FY16") was $135.8 million, an increase of 9.3% on last year's revenue of $124.3 million ("FY15"). The increase in revenue was due to increased sales in the International business and a favourable exchange rate movement between the Australian dollar ("AUD") and USA dollars ("USD") during 2016. The higher International revenue was offset by lower USD revenues in the Americas business.

International

Revenue in the International business increased by 11.2% to $60.6 million (FY15: $54.6 million). The increase was mainly driven by our continued growth in Australia through ongoing delivery of long-term contracts, our entry into the car parking market through ANPR and international sales, through our contracts in the UK and the Middle East.

Redflex is also continuing to expand into Europe and Asia. We currently have a small presence in these markets but they provide Redflex with a significant opportunity to compete in growing markets and increase our revenues while reducing our reliance on the maturing USA and Australian photo enforcement markets.

Americas

The USA photo enforcement market continues to be challenging. Despite saving lives, our commercial opportunities and the entire industry in the USA has been adversely impacted by negative public sentiment that often results in the introduction of state legislation to prohibit the use of photo enforcement systems. These factors have led to contract terminations, lower contract renewal rates and the delay or abandonment of new programs. Revenue from our Americas business fell by 6.5% excluding the impact of foreign exchange.

Our Americas business has expanded into Canada and Mexico and we are currently assessing opportunities in Latin America and the Caribbean. We have successfully commenced sales in adjacent products (for example handheld speed systems automatically linked to our back office issuing citations without police officers direct involvement). The Americas business, through Redflex Guardian, also continues to pursue targeted new opportunities in school districts, however this has been challenging.

Overall Financial Performance

The Group's financial performance improved meaningfully during FY16. Profit before interest, tax, depreciation, impairment, amortisation and capitalised development costs amounted to $22.6 million, an increase of 66% on FY15: $13.6 million. This was the result of increased International sales, improved gross margins and reduced selling and administrative costs across the Group. Profit before interest, tax, depreciation, impairment and amortisation was $25.6 million, an increase of 38% on FY15: $18.5 million.

Following a review of Student Guardian in North America, the Company has decided to impair the goodwill relating to the acquisition of that business. This has led to a USD$2.3 million negative adjustment to the FY16 result. The impairment recognizes the slow adoption of the technology and our inability to win another large school district contract in FY16 which would have driven scale benefits. We have restructured Student Guardian and we expect it to continue to be an important part of our product range.

Redflex incurred a net loss before tax of $3.6 million in FY16, compared to the previous year loss before tax of $38.6 million. Net operating loss after tax was $4.7 million, compared to the previous year loss after tax of $31.9 million.

Cash flow from operations during FY16 increased by 39% to $27.2 million (including the USD$9 million received from Jefferson Parish), compared to $19.6 million in FY15. The increase was driven by the improved financial performance, focused working capital management, lower capitalised development costs and other initiatives to release trapped cash and capital.

During FY16, in addition to expanding into new International and Americas markets, we introduced a number of new products and services (e.g. handheld speed cameras), cost reduction initiatives and process efficiencies which we expect will continue to improve the underlying performance of the Company.

Year on year comparison

A comparison of the Group's performance for FY16 and FY15 is as follows.

	2016 $'000	2015 $'000
Profit before depreciation, amortisation, impairment, finance costs and tax	25,637	18,527
Less: Impairment of plant and equipment, capitalised development costs, inventory, trade receivables and goodwill	3,098	27,761
Depreciation	18,650	22,945
Amortisation	6,802	5,653
Finance costs	685	771
Net loss before tax	(3,598)	(38,603)

FINANCIAL RESOURCES

As of 30 June 2016, the Group holds a Syndicated Financing Facility ("the Facility") with a value of USD$30 million (AUD$40.4 million). The Facility, which expires on 7 August 2017, is held with a syndicate of three Australian banks. The Facility also includes an accordion feature for a further USD$30 million (AUD$40.4 million), which is uncommitted as at the date of this final report.

During FY16 and at the request and with the agreement of syndicate members, Redflex repaid the entire outstanding balance of the Facility to zero. With unresolved ongoing investigations and litigation in relation to the previously disclosed misconduct in Chicago, the Company believes it is unlikely that it will be permitted to draw down any funds on the Facility or, potentially, to renew or obtain a new financing / debt capability (at least until such time as the aforementioned matters are determined).

The Company has a cash balance of AUD$12.4 million which includes restricted cash of AUD$5.2 million. Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a AUD$3 million (reduced from AUD$8 million during FY16) working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers.

The cash flows from operations are expected to be sufficient to fund the Group's capital requirements during the financial year ending 30 June 2017 ("FY17") acknowledging that this does not account for the Company's exposure to unquantified, but potentially significant, fines and damages associated with the Chicago investigation and related civil litigation.

DIVIDENDS

Dividends have not been declared in either FY16 or FY15.

AMERICAS OPERATIONS

Results for the Americas Operations

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

Our response has been to drive revenue growth by increasing renewal rates, providing additional services and new innovative products and opening new markets. Due to the market dynamics discussed above, we expect the market in the USA will continue to have limited growth. Our focus is to continue supporting and retaining our existing customer base, to expand into Mexico, Canada and Latin America, diversify into adjacent markets and products and continue to re-engineer our processes and improve our systems to improve efficiencies.

During FY16, we made a number of significant changes to the operating model. While revenue in USD$ fell by 6.5%, margins improved and expenses were reduced by 9.3%, which resulted in EBITDA increasing by 15%.

The long-running dispute with Jefferson Parish, Louisiana was settled and the Company received USD$9 million in November 2015.

Redflex Student Guardian™

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

Redflex Student Guardian operates in a number of school districts. We continue to pursue opportunities for Redflex Student Guardian with other targeted school districts throughout the USA.

As with traditional photo enforcement, this market is proving challenging to achieve strong sustained growth. We have changed the Redflex Student Guardian operating model. Rather than being a stand-alone business it has become another product line in the America's business. Given its slower growth profile the goodwill relating to the acquisition of this business has been written-off.

Redflex Student Guardian remains an integral part of the Americas product mix and there are a number of targeted opportunities that are expected to be realised.

Mexico

During FY16, Redflex was successful in winning significant contracts in two cities through its operating partnership with a local distributor. These contracts include the sale of equipment and the provision of ongoing service and maintenance and processing. The installations are exceeding performance expectations and the end-to-end process has been refined to maximize performance. This partnership will participate in future Mexican bids throughout FY17.

Canada

Redflex expanded its Canadian presence during FY16 through equipment sales and service agreements with the City of Calgary, Alberta. Canada is seen as a strong growth market going forward and Redflex is well placed to further increase its EBITDA contribution from this market.

Mobile Solutions

Through a partnership arrangement (product supply), Redflex introduced a mobile speed enforcement solution to the North American market during FY16. This unique solution enables mobile enforcement via equipment seamlessly linked to Redflex's processing and back office adjudication systems. This solution provides efficiency and safety enhancements to the current mobile enforcement process. This solution is currently provided in the City of Toledo and is being introduced in several states in the USA.

INTERNATIONAL OPERATIONS

Our International business continued to expand both within Australia and internationally during FY16.

Australia

Our focus in the Australian market is to continue working with our customers to improve the effectiveness of their current photo enforcement programs, provide solutions to an increasing number of traffic management problems and provide more expansive end-to-end solutions. During FY16 we were awarded the maintenance contract for 28 sites in Western Australia and we continue operating and/or maintaining significant programs in Victoria, New South Wales and the Northern Territory.

Additionally, we have been supplying a significant number of ANPR systems to Skidata as part of their program to transform Westfield's shopping centre car parks to a ticketless solution.

Asia

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

New Zealand

During FY16, Redflex successfully implemented its fixed speed enforcement solution and is now providing contracted services to the New Zealand police, with an opportunity to expand this program further. We have recently been awarded the contract to supply the Waterview tunnel in Auckland with 18 photo enforcement systems.

United Kingdom

Redflex is currently finalising the installation of 52 variable speed enforcement camera systems on England's M1 motorway as part of its current contract with Highways England. Following the completion of the installation program, the contract will shift to a maintenance service for the next five years.

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

The UK and wider Europe remains a key growth focus for Redflex. As a result, additional investment has been undertaken to attract key resources, based in London, to ensure the upcoming opportunities are pursued and customers' requirements are met with world-class solutions and service. We recently received approval for our dual radar speed solution, enhancing our ability to compete in this critical market.

Middle East

We continue to operate and pursue opportunities in the Middle East. This market has numerous opportunities and Redflex's solutions have demonstrated favourable operational performance under harsh regional conditions.

In Saudi Arabia we continue to provide speed ticket processing services and provide speed enforcement cameras and associated equipment to the Saudi Arabian Government, through their intermediary.

We have also established a sales and maintenance business for the Middle East to service our customers in Saudi Arabia, Qatar and Dubai.

OUTLOOK FOR THE 2017 FINANCIAL YEAR

During 2015 and 2016 the Group's operating structure and mechanics were significantly changed so as to improve our competitiveness and profitability. We have made a number of changes to the management team, introduced new systems, reduced costs and risk and targeted development on new products to create a platform for growth.

In FY17 we will continue to focus on the following strategically critical areas:

Growth in Developed Markets

Redflex remains a key provider of photo enforcement solutions in the Australian and USA markets. A significant amount of work was completed during FY16 to ensure service delivery was more focused and effective by being increasingly focused on the customer's needs. Whilst both the Australian and USA markets are mature, with limited opportunities for new growth, there are opportunities for us to offer additional services, upgrades and new products to our current customer base. These opportunities not only enable revenue growth for Redflex but more effective safety and operational photo enforcement programs for our customers.

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

The global photo enforcement market in developed markets consists of 70,000 photo enforcement systems, approximately 40% of which are located in the UK and Europe. Many of these systems operate with outdated technology and will be progressively replaced. To leverage this opportunity, we established an office in London and increased the size of our team to service the UK and European markets. We have focused on getting our product range approved so that we can compete in the numerous upcoming tenders in this market. We are also working on new product development to meet the specific needs of some of the European Governments.

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

Entering Emerging Markets

The Middle East, Asia and Mexico are all emerging markets for photo enforcement. We have established

operations and signed distribution agreements in each of these markets, and have started winning contracts.

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

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

Continuing Product Expansion

During FY16, Redflex has ensured the focus of our development team has been on products that ensure we stay at the forefront of the photo enforcement industry and give us the opportunity to move into the wider ITS market.

The majority of the development work has been on our "Halo" product. This is a multi-functional solution within one system, giving the options of speed and red light enforcement, ANPR capability and traffic management. In addition to this, the infrastructure costs of civil works has been dramatically reduced due to the non-intrusive nature of the system (i.e. Halo relies on radar rather than road installed loops).

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

One of the key additional benefits of the technology from Halo is the development of a simple mobile solution that will be available for roadside construction safety and temporarily deployable options.

In addition, Redflex is in the process of developing a simplified back-office service offering. This will enable us to offer back-office processing requirements for our customers in a simple, economical and standardised way. Having an attractive service offering of this type will enable Redflex to increase its level of recurring type income.

Reducing Cost, Complexity and Risk

The Company continues to reduce its costs, complexity and its risk profile.

A significant amount of work was undertaken in FY16, simplifying our procurement processes, centralising a number of support functions, standardising our processes globally and introducing a global risk assessment and monitoring platform.

FY17 will see the financial and operational benefits of the changes implemented last year. Our supply chain continues to become more efficient, the level and timeliness of information received continues to improve and our risk profile is now well understood and continues to be managed, as appropriate.

Additionally, our operations and development teams are now fully focused on delivering a more standardised level of product offering and servicing. This is a critical component in our strategy moving forward to ensure improved customer satisfaction and a simplified operating model for Redflex. Measures have also been implemented to ensure we deliver improvements in both gross margins and to reduce selling and administrative costs.

Creating a High Performance Culture

Redflex is building and measuring an enabling high-performance culture through a clear and empowering brand personality (Smart, Confident, Open, Proactive, Positive) to support our values (collaboration, trust, making a difference, innovation and results), with an effective functional global operating model and performance management framework.

There has been a significant management talent injection and alignment of skills and capability in both engineering and non-engineering disciplines, supported by commercially customer-centric leaders. This aligns with delivering our strategy in FY17 and going forward.

The Company will continue to explore and evaluate various inorganic investment opportunities to accelerate our rate of growth, increase margins and improve profitability.

We are hopeful that the successful execution of the initiatives, identified in our strategic focus areas above, will improve our current operating model and our financial performance in FY17.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2016.

DIRECTORS

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

ADAM GRAY

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

Non-executive chairman (Appointed 19 December 2013)

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

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

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

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

PAUL CLARK

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

Group Chief Executive Officer

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

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

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

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

Due to his appointment as Group Chief Executive Officer, Mr Clark is not a member of any Redflex Board committees.

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

DIRECTORS' REPORT

ROBERT DEVINCENZI

BSBA, MA-Org'l

Non-executive director (Appointed 30 September 2012}

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

Mr. DeVincenzi presently serves as Executive Vice Chairman of the Board of Covia Health, a private health services company and is an Adjunct Professor in the College of Business at California State University, Monterey Bay.

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

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

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

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

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

HERMAN SCHWARZ

MBA, B.Comm

Non-executive director (Appointed 1 May 2014)

Since 2009 Mr Schwarz has served as the CEO of LogistiCare Solutions, the largest non-emergency transportation management company in the Medicaid and Medicare space with over US$1 billion in revenues and distributed operations in 39 states in the USA, managing 65 million trips annually.

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

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

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

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

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

DIRECTORS' REPORT

CLARK DAVEY

B.Comm, MAICD, 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 listed company.

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

DAVID MCINTYRE

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

Non-executive director (Appointed 13 March 2015)

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

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

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

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

DIRECTORS' REPORT

TERENCE WINTERS

FAICD

Non-executive director (Appointed 7 August 2013)

Mr Winters has served as Chairman and Non-Executive Director of Australian listed and private companies and charities. He is currently Chairman of Seeing Machines Limited (LON:SEE) a UK AIM listed company, Converge International Pty Limited, Intelledox Pty Ltd and is a Director of Future Fibre Technologies Limited (ASX:FFT).

Mr Winters brings a great depth of experience in the governance and operations of high-growth, high-potential international technology companies and has a positive track record of leading strategic and cultural change programs at board level. After working for Motorola for 10 years, he founded Link Telecommunications Pty Ltd in Australia in 1982 and led the creation of Optus Communications Pty Ltd from 1989 to 1992 and served on the Optus board until 1995.

In addition, Mr Winters has spent over 17 years on various boards within the Opportunity International Network (a non-government organisation involved in the provision of Micro Enterprise Development in over 30 countries) and served as global Chairman of Opportunity International Network Inc. for a four year term which was completed in May 2010.

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

DIRECTORS' REPORT

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

CRAIG DURHAM

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

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

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

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

Directors' interests in the share capital of the Company

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

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

Redflex

DIRECTORS' REPORT

Directors' and Board Committee meetings

Directors' and Board Committee meetings held and attended during the year ended 30 June 2016 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	16	15	6	6	5	5	–	–	2	2
Paul Clark	16	13	–	–	–	–	–	–	–	–
Robert DeVincenzi	16	15	–	–	–	–	4	4	2	2
Clark Davey	16	16	6	6	5	5	–	–	2	2
David McIntyre	16	15	6	6	–	–	–	–	2	1
Herman Schwarz	16	14	–	–	5	5	4	4	2	2
Terence Winters	16	13	–	–	5	5	4	4	2	2

Board Committee membership

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

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

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Performance indicators

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

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

Redflex

DIRECTORS' REPORT

REVENUE	First half $'000	Second half $'000	2016 $'000	2015 $'000	% change
The America's Traffic business*	38,349	40,663	79,012	74,956	5.4%
Australian/International Traffic business	26,864	29,931	56,795	49,389	15.0%
Revenue	65,213	70,594	135,807	124,345	9.2%

* Includes sales of $5.3 million in Canada (FY15: $3.7 million)

PROFIT BEFORE DEPRECIATION, AMORTISATION, IMPAIRMENT, FINANCE COSTS AND TAX ("PBITDA")	First half $'000	Second half $'000	2016 $'000	2015 $'000	% change
Traffic business	14,727	16,177	30,904	23,611	30,9%
Head Office costs	(3,376)	(1,891)	(5,267)	(5,084)	3.6%
PBITDA	11,351	14,286	25,637	18,527	38.4%

LOSS BEFORE TAX	First half $'000	Second half $'000	2016 $'000	2015 $'000	% Change
Traffic business	617	1,067	1,684	(33,503)	(105.0%)
Head Office costs	(3,384)	(1,898)	(5,282)	(5,100)	3.6%
Pre-tax loss	(2,767)	(831)	(3,598)	(38,603)	(90.7%)

	First half $'000	Second half $'000	2016 $'000	2015 $'000	% Change
Net loss after tax	(1,731)	(2,956)	(4,687)	(31,944)	(85.3%)

Shareholder returns

	2016	2015	2014	2013	2012	2011	2010
Basic earnings/(loss) per share (cents)	(4.23)	(28.84)	(1.07)	6.61	13.69	9.33	0.68
Net tangible asset backing per share (cents)	75.58	71.70	78.22	87.90	78.32	78.36	91.69
Return on assets (%)	(3.4)	(19.3)	(0.7)	3.7	8.3	5.9	0.3
Return on equity (%)	(4.5)	(30.0)	(1)	5.8	13.2	9.9	0.6
Interest bearing debt/equity ratio (%)	N/A*	18.3	13.5	20.8	21.2	35.9	69.5
Available franking credits ($'000)	480	480	462	26	2,356	4,757	5,931

*Interest bearing debt repaid during the year

DIRECTORS' REPORT

Liquidity and capital resources

The net debt position of the Group at 30 June 2016 was cash of $12.4 million (including restricted cash of $5.2 million) (FY15: $2.4 million including restricted cash of $5.0 million). Restricted cash is revenue collected on behalf of customers.

The cash flows from operations are expected to be sufficient to fund the Group's capital requirements during the financial year ending 30 June 2017 ("FY17") acknowledging that this does not account for the Company's exposure to unquantified, but potentially significant, fines and damages associated with the Chicago investigation and related litigation.

Cash flows used in investing activities of $11.9 million (FY15: $19.3 million) reflect the purchase of motor vehicles and other assets to support ongoing customer servicing contracts, both in the International and the US operating segments and capitalised development costs.

Cash flows used in financing activities were $20.2 million (FY15: nil). During the period the US denominated debt was repaid in full. No dividend payments were made in the period.

Asset and capital structure

	2016 $'000	2015 $'000
Debt		
Interest bearing borrowings	–	(19,449)
Cash at bank, on hand, and restricted cash	12,442	17,035
Net cash / (debt)	12,442	(2,414)
Total equity	103,962	106,319
Total capital employed	116,404	103,905

Shares issued during the year

During FY16, nil (FY15: nil) shares were issued pursuant to the vesting of performance rights pertaining to executive remuneration.

Performance rights over shares

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

At the date of this report there are 3,825,055 performance rights on issue. At 30 June 2016 there were 3,825,055 performance rights on issue (FY15: 1,754,607).

Options over shares

At the date of this report there are no options on issue (FY15: Nil).

Capital expenditure

Capital expenditure for the year was $8.8 million (FY15: $14.7 million). Funds were directed to additional equipment required to service the US "BOOM" customer base, and motor vehicles to service an Australian customer's mobile speed detection requirements.

Treasury policy

Redflex 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

DIRECTORS' REPORT

have been identified. Translation effects are not hedged. In line with Group policy, interest rate exposures are not hedged.

Risk management

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

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

The Company's Risk & Compliance Committee assists the Audit Committee with its workload. Under its charter, the Risk & Compliance Committee has primary responsibility to oversee and make recommendations to the Board about the Company's Risk & Compliance Policy and Framework, 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 action plans prepared by management and to review these plans and the Company's global insurance program.

The Board, and through the Risk & Compliance Committee, oversees an annual assessment of the effectiveness of risk and compliance management and internal 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 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, (in conjunction with the Audit Committee) and seeking assurances from management.

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

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

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

Risks Related To Our Business

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

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

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

2. **Potential legal action challenging the validity of our enforcement programs, causing us significant costs to defend or the loss of revenue.**

   Company strategy to mitigate – In conjunction with our client agencies, the Company maintains an active outreach and communications program to communicate photo enforcement benefits and validity to the public. Further, the Company maintains an internal and external set of legal resources that represent and defend the Company's interests from adverse legal actions.

3. **Certain entities in the Group are currently, or may be, party to legal class actions or potential actions from ongoing investigations, which could jeopardise the Company's solvency.**

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

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

   Company strategy to mitigate – The Company has adopted and continues to implement its previously disclosed comprehensive remediation program to further strengthen our internal compliance and reporting systems to assure the confidence of our customers and other stakeholders. The Company has also administered an intensive communications program with our client agencies to provide periodic updates on our actions and to seek input. The Company continues to keep the market informed of any material events during these investigations that relate to the Company or the market for its securities.

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

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

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

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

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

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

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

   Company strategy to mitigate – The Company's legal 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.

9. **Competition and Technology.**

   Company strategy to mitigate – The Company seeks to effectively lead the market by relying on its unique and competitive technologies based on Company innovation. The Company has an active program of, and

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.

10. **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, while the Company is subject to investigations and litigation pertaining to the Chicago misconduct, and resultant damages and fines remain unresolved and / or unquantified.**

    Company strategy to mitigate – The Company maintains a strong dialogue with the Company's existing debt providers, and actively considers other financing alternatives from time-to-time. Further, and as noted above, the Board and the Company's legal advisers closely monitor relevant investigations and litigation with a view to expeditiously bringing those matters to closure.

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

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

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

DIVIDENDS

Dividends have not been declared in either FY16 or FY15.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No other matter or circumstance has arisen since 30 June 2016 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.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

ROUNDING

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

DIRECTORS' REPORT

INDEMNIFICATION OF AUDITORS

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

AUDITOR INDEPENDENCE

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

NON AUDIT SERVICES

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

Total non-audit, remuneration related services provided by PricewaterhouseCoopers in FY16 was $nil (FY15 $Nil). (Ernst and Young).

Redflex

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Auditor's Independence Declaration

As lead auditor for the audit of Redflex Holdings Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. 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
31 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2016 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 2016 (including link to performance)
5. Summary of executive contractual arrangements
6. Non-executive director remuneration arrangements
   a. Remuneration policy for non-executive directors
   b. Structure of non-executive director remuneration
   c. Contractual arrangements with interim chairman
7. Additional disclosures relating to options and shares
8. Other transactions and balances with key management personnel and their related parties.
9. Subsequent events

1 INTRODUCTION

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

For the purposes of this report, the term "executive" includes the Group Chief Executive Officer, the Group Chief Financial Officer, the President and Chief Executive Officer of Redflex Traffic Systems, Inc. and the Group General Counsel & Company Secretary of Redflex for the year ending 30 June 2016.

Directors and KMP

Executive director

Paul Clark	Group Chief Executive Officer

Non-executive directors

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

Other KMP

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Former KMP

Non-executive directors

John Murphy	Director (non-executive) resigned 13 March 2015.
Michael McConnell	Director (non-executive) was not re-elected at the Company's 2014 Annual General Meeting on 13 November 2014.
Paul Clark	Director (non-executive) resigned 24 September 2014.

Other KMP

Ron Johnson	Group Chief Financial Officer, ceased employment on 27 February 2015.
Ricardo Fiusco	Chief Executive Officer, Redflex Traffic Systems Pty Ltd, ceased employment on 3 June 2015.
Marilyn Stephens	Company Secretary, ceased employment on 10 February 2015.
James Saunders	President and Chief Executive Officer, Redflex Traffic Systems, Inc. ceased employment on 30 June 2015.

2 REMUNERATION GOVERNANCE

People, Culture & Remuneration Committee

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

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

Specifically, the Board approves the remuneration arrangements of the Group Chief Executive Officer and other senior executives and all awards made under the Long Term Incentive Plan ("LTI"), following recommendations from the 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), having regard to management's recommendations.

The PCR Committee meets at appropriate times during the year. On invitation, the Group Chief Executive Officer attends certain PCR Committee meetings where management input is required. Neither the Group Chief Executive Officer, nor any senior executives, are present during any discussions related to their own remuneration arrangements.

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

Remuneration report shareholder vote

The resolution to accept the remuneration report at the 2015 Annual General Meeting ("AGM") was defeated by 42% of votes cast, which is less than a 75% majority required by the Corporations Act. As the remuneration report put to the shareholders at the 2014 AGM was also not approved by at least a 75% of the votes cast Redflex received a "second strike" at the 2015 AGM. This resulted in a subsequent vote on a spill resolution at the 2015 AGM.

However, on a poll, the spill resolution was defeated as more than 50% of the votes cast were against the resolution.

If the remuneration report is not passed by more than 75% of the votes cast at the FY16 AGM the Company will receive a 'first strike'.

As with all previous years, during FY16, the PCR Committee and the Board accepted the views of shareholders and has continued to assess the appropriateness of the Company's remuneration policies and competitiveness, with particular focus on executive remuneration to ensure it aligns with the Company's performance against key business goals and objectives. No changes were made to compensation policy for the Board.

Having noted this and the views of shareholders, the Board is committed to further elevating the links between strategy, performance and compensation for key management personnel and to ensure there is continued demonstrable alignment between the Company and shareholders.

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

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 2016.

3 EXECUTIVE REMUNERATION ARRANGEMENTS

3.A Remuneration principles and strategy

The Company's executive remuneration strategy for the FY16 reporting period was designed to attract, motivate and retain high performing individuals and align the interests of executives and shareholders.

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

Redflex

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

REDFLEX BUSINESS OBJECTIVE

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

REMUNERATION STRATEGY LINKAGES TO BUSINESS OBJECTIVE:

Align the interests of executives with shareholders

- The remuneration strategy incorporates "at-risk" components of long term elements delivered in equity for the Group Chief Executive Officer (payable, if earned, in three tranches) and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States and a combination of cash and equity for executives (payable, if earned, in three tranches).
- Performance is assessed against a suite of financial and non-financial measures relevant to the success of the Company and generating returns for shareholders.

Attract, motivate and retain high performing individuals

- Remuneration is competitive with companies of a similar size and complexity.
- Deferred long-term remuneration is designed to encourage long term consistent performance and employee retention.

REMUNERATION COMPONENT	VEHICLE	PURPOSE	LINK TO PERFORMANCE
Fixed Remuneration	Represented by Total Fixed Remuneration ("TFR"). Comprises base salary, superannuation contributions (in Australia), annual leave and other benefits. Executives may receive their fixed remuneration in a way optimal for the recipient but within the cap established for the TFR.	To provide competitive fixed remuneration set with reference to role, market, experience and performance.	Company, division and individual performance are considered during the annual remuneration review.
Long Term Incentive	For executives (other than the Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc., in the United States) awards, if earned, are made in a combination of 50% cash and 25% performance rights plus 25% performance rights which vest into shares (over three tranches respectively and a further one year "holding lock" on shares). For the Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc. awards, if earned, are made in the form of equity only (over three tranches of 50%, 25% and 25% and a one year "holding lock" on shares.	To reward executives for their contribution to the creation of shareholder value over the longer term.	For the Group Chief Executive Office and President and Chief Executive Officer, Redflex Traffic Systems, Inc. vesting of the FY16 LTI awards is dependent solely on the achievement of Board determined Target EBITDARD hurdles (which is Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs), set by the Board. For the Group Chief Financial Officer and Group General Counsel and Company Secretary vesting is dependent on the above measure (50%) and their own individual performance (50%), which is internally determined by the Board.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

3.B Approach to setting remuneration

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

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

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

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

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

In FY16, the executive remuneration strategy consisted of fixed remuneration and LTI incentives. In summary, the executives have the following target remuneration mix.

	STI OPPORTUNITY	LTI OPPORTUNITY (FACE VALUE)
Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States	NIL (Excluding special arrangements for Michael Finn as noted in section 5 below).	60% of Base Pay with the price of each right being determined by the average of the 90-Day VWAP (volume weighted average market price), 180-Day VWAP and the 360-Day VWAP of the Company's shares as at 1 October 2015 (VWAP Calculation).
Executives (other than the Group Chief Executive Officer and the Chief Executive Officer of Redflex Traffic Systems, Inc. in the United States)	NIL	45% of Base Pay, with the price of each right being determined by the VWAP Calculation.
Other Employees	Between 0% and 10% of fixed remuneration (Base Pay) based on performance measured within a Balanced Scorecard.	NIL

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3.C Detail of incentive plans

Short Term Incentives ("STI")

For FY16 the Group operated an STI program for all employees (other than the Group Chief Executive Officer, the Chief Executive Officer of Redflex Traffic Systems Inc. in the United States and the Executives who participate in the LTI program). The STI plan awards a cash bonus of between 0% and 10% of fixed remuneration (Base Pay) based on performance measured against a Balanced Scorecard (including the achievement of clearly defined Group, business unit and individual performance measures).

If the Redflex regional business (International and the Americas, respectively) achieves 105% or more of its financial goals, together with 100% of the non-financial business and behaviour drivers, eligible employees will receive 100% of their Redflex Individual performance weighted amount. Employee STI payments outside of the above may be approved at the discretion of the Board or the Group Chief Executive Officer.

Long Term Incentives

For FY16 LTI awards were issued to executives in order to align remuneration with the creation of shareholder value over the long term. Accordingly, LTI awards are made to executives who can impact the Group's performance against the relevant long-term performance measure.

Structure

LTI awards are made under the Company's LTI Plan, the rules of which are published in the Investor Relations / Remuneration section of the Redflex website. LTI awards are generally made annually in the form of performance rights that vest in three tranches subject to meeting the performance measures (for FY16 these performance measures were constituted by a Board determined Target EBITDARD hurdle, with no opportunity to retest.) Target EBITDARD is a Target Earnings Before Interest, Tax, Depreciation, Amortisation and Capitalised Research & Development Costs set by the Board.

Performance Measure to determine vesting

For FY16, the Company applied a Board set Target EBITDARD amount as the performance measure for the LTI Plan.

A Target EBITDARD amount was selected as the LTI performance measure for FY16 the following reasons:

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

Target EBITDARD will:

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

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

Furthermore, for the Group Chief Financial Officer and Group General Counsel and Company Secretary 50% of their LTI is measured on personal performance. The Company sets Key Performance Indicators ("KPI's") on an individual basis for senior members of the Company's management. These are subsequently assessed at the end of each reporting period.

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 Rules.

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4 EXECUTIVE REMUNERATION OUTCOMES FOR FY16 (INCLUDING LINK TO PERFORMANCE)

Short-term incentives

There were no short term incentive payments made to executives for FY16.

Company performance and its link to LTI

For FY16, the performance measure that drives LTI vesting for awards is Redflex's achievement, or otherwise, of financial performance relative to Target EBITDARD set by the Board.

LTI vesting outcomes

During the 10 year period to 30 June 2016, the ASX200 Accumulation Index increased by 6%. The market performance of a Redflex share over the same period was below the performance of the market.

Based on Redflex' share performance, as shown above:

- performance rights (granted on 4 May 2015) in relation to a performance period which will complete on 1 October 2017 are not expected to vest.
- Based on Redflex' EBITDARD performance and on the individual performance of the Company's senior management for FY16, a proportion of performance rights (granted on 1 December 2015) in relation to the performance period which will complete on 1 October 2016 are expected to vest.

The table below outlines both vesting and expected outcomes for outstanding awards in FY16. Projected outcomes for awards still to be tested are based on assuming a median ranking.

	GRANT 4 MAY 2015*	GRANT 1 DECEMBER 2015
Relative TSR performance	Median ranking	–
Target EBITDARD Performance	–	Expect < 100% achievement
Implication for vesting	At testing date 1 Oct 2017, 50% of awards will vest if median ranking achieved.	At testing date 1 Oct 2016, a proportion of performance rights are expected to vest

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

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Remuneration of Executive KMP

Table 1: Remuneration for the years ended 30 June 2016 and 30 June 2015

		Short term benefits				Post employment		Long term benefits	Share based payments		
		Salary and fees	Bonus	Other benefits	Leave paid on termination	Super–annulation	Eligible termination payment	Cash bonus	Performance rights	Total	Performance related
		$	$	$	$	$		$	$	$	%
Executive director											
Paul Clark [1]	2016	430,000	–	–	–	23,980	–	–	113,228	567,208	20%
	2015	308,115	120,000	–	–	24,457	–	–	–	452,572	27%
KMP											
Brad Crump [2]	2016	365,000	–	–	–	23,150	–	42,705	36,042	466,897	17%
	2015	152,084	–	–	–	14,448	–	–	12,879	179,411	7%
Michael Finn [3]	2016	416,235	100,497	111,578	–	–	–	–	105,006	733,316	14%
	2015	–	–	–	–	–	–	–	–	–	–
Craig Durham [4]	2016	257,847	–	–	–	20,418	–	29,250	24,686	332,201	16%
	2015	97,757	–	–	–	9,287	–	–	8,407	115,451	7%
Other former KMP											
Ron Johnson [5]	2016	–	–	–	–	–	–	–	–	–	–
	2015	192,473	–	–	71,250	15,787	322,599	–	–	602,109	0%
Ricardo Fiusco [6]	2016	–	–	–	–	–	–	–	–	–	–
	2015	231,374	81,885	–	98,633	21,980	186,956	–	–	620,828	13%
Marilyn Stephens [7]	2016	–	–	–	–	–	–	–	–	–	–
	2015	103,314	–	–	17,700	9,784	164,990	–	–	295,788	0%
James Saunders [8]	2016	–	–	–	–	–	–	–	–	–	–
	2015	342,549	102,335	1,436	29,082	–	23,937	–	–	499,339	20%
	2016	1,469,082	100,497	111,578	–	67,548	–	71,955	278,962	2,099,622	17%
	2015	1,427,666	304,220	1,436	216,665	95,743	698,482	–	21,286	2,765,498	12%

Notes to Table 1: Remuneration for the years ended 30 June 2016 and 30 June 2015

* Superannuation for the period per Australian Taxation Office guidelines is capped at $19,308 per year (FY15 $18,873). Amounts, which have been paid, greater than this are additional super contributions made by the respective Directors and KMP, and would otherwise be included in "salary and fees".

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

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

3 Mr Finn commenced his role as President and Chief Executive Officer of Redflex Traffic Systems, Inc. with full decision making power from 1 July 2015. Mr Finn's salary is denominated in USD (with the amounts stated representing AUD equivalents).

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

5 Mr Johnson ceased employment as Group Chief Financial Officer on 27 February 2015.

6 Mr Fiusco ceased employment as Chief Executive Officer of Redflex Traffic Systems Pty Ltd on 3 June 2015.

7 Ms. Stephens ceased employment as Company Secretary on 10 February 2015.

8 Mr Saunders ceased employment as President and Chief Executive Officer of Redflex Traffic Systems, Inc. on 30 June 2015.

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5 SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in written employment agreements.

Group Chief Executive Officer – Mr Paul Clark

Mr Clark is Group Chief Executive Officer of Redflex Holdings Limited and was appointed on 25 September 2014 for an initial 12 month period. Mr Clark's contract was subsequently extended on 24 September 2015 and is ongoing with no fixed term.

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

- Mr Clark is entitled to be total fixed remuneration ("TFR") of $400,000 per annum plus superannuation for the period 1 July 2015 to 31 December 2015. From 1 January 2016 this was increased to $460,000 plus superannuation per annum.
- At the conclusion of his first year of service (30 September 2015) Mr Clark was entitled to an incentive payment of between 30% and 100% of his salary, depending on his achievement of agreed objectives, which would be paid within 30 days of 30 September 2015. Mr Clark received an incentive payment of 30% of his base salary, which was paid in cash ($120,000). The incentive was not paid in performance rights as the resolution to issue these rights at the 2014 AGM was not passed. This payment was recorded in Mr Clark's remuneration for 2015 as the incentive was earned during FY15.
- Following approval at the 2015 Annual General Meeting Mr Clark was issued performance rights equal to the value of his maximum LTI entitlement based on the average of the 90-Day VWAP (volume weighted average market price), 180-Day VWAP and the 360-Day VWAP of the Company's shares as at 1 October 2015 (VWAP Calculation), subject to a maximum of 1,200,000 performance rights. Based on the results of the calculation 958,029 performance rights were issued to Mr Clark on 1 December 2015. Each performance right entitles Mr Clark to be issued one fully paid ordinary share in the Company for no monetary consideration and any shares issued to Mr Clark would be subject to a 12 month holding lock imposed by the Company.
- If Mr Clark satisfies the relevant Company performance hurdles and becomes eligible for a LTI, that number of performance rights equal in value to the cash value of the LTI, (based on the VWAP Calculation) would be retained by Mr Clark and any remaining performance rights would immediately lapse. The performance rights retained by Mr Clark would then vest as to 25% on 1 October 2016, as to a further 25% on 1 October 2017 and as to the last 50% on 1 October 2018, subject to Mr Clark being employed by the Company at the relevant date.
- A proportion of the performance rights issued to Mr Clark on 1 December 2015 are expected to vest.

Termination criteria (other than Cause):

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

Group Chief Financial Officer – Mr Brad Crump

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

Under the terms of Mr Crump's employment contract:

- Mr Crump is entitled to be paid TFR of $365,000 per annum plus superannuation.
- Mr Crump is entitled to receive performance rights calculated as a percentage of 45% (FY15: 40%) of his TFR. On 4 May 2015 Mr Crump received 64,394 performance rights. The number of rights has been pro-rated as Mr Crump commenced employment with the Company during the prior financial year. Additionally, on 1 December 2015 Mr Crump was granted 187,328 performance rights and a cash component of $82,125 in

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respect of his LTI. The performance rights and cash component retained by Mr Crump would vest dependent on Mr Crump meeting the Company's performance hurdles (50%) and Mr Crump's own personal performance (50%) Subject to the criteria being met the performance rights and cash component would vest as follows:

- 1 October 2016 – The full cash component would vest;
- 1 October 2017 – 50% of performance rights (93,664) would vest; and
- 1 October 2018 – The final 50% of the performance rights (93,664) would vest.

- The vesting terms above are subject to Mr Crump being employed by the Company at the relevant date.
- A proportion of the performance rights and cash component issued to Mr Crump on 1 December 2015 are expected to vest.

Termination criteria (other than Cause):

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

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

Mr Finn commenced employment with Redflex Traffic Systems, Inc. on 27 May 2015 for an initial term of 3 years. Whilst Mr Finn commenced employment prior to 30 June 2015 he did not hold full decision making power until 1 July 2015 when Mr Saunders (former CEO) left the Company. On this basis Mr Finn become a KMP from 1 July 2015. Key terms of Mr Finn's contract are as follows:

- Mr Finn total base salary is US$300,000 ($416,235).
- Mr Finn will receive a bonus of US$150,000 ($200,994) in respect of unvested performance rights which the employee held in his previous position. 50% of this bonus, US$75,000, ($100,497) was paid on 27 May 2016 being the first anniversary of employment with the remaining 50% payable on the second anniversary of employment with the Company.
- Mr Finn received a one-off relocation allowance of US$79,993 ($111,578).
- Mr Finn was granted 1,018,458 Performance Rights on 1 December 2015. The performance rights will vest subject to the relevant Company performance hurdles being met. Subject to these hurdles being met the performance rights retained by Mr Finn would then vest as to 25% on 1 October 2016, as to a further 25% on 1 October 2017 and as to the last 50% on 1 October 2018, subject to Mr Finn being employed by the Company at the relevant date.
- A proportion of the performance rights issued to Mr Finn on 1 December 2015 are expected to vest.

Termination criteria (other than Cause):

- The agreement may be terminated by Mr Finn with 90 days prior notice, or by the Company making a payment equivalent to the less of 12 months of Mr Finn's average salary or the aggregate base pay Mr Finn would receive for the remainder of the term if he was not terminated. 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.

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Group General Counsel and Company Secretary – Mr Craig Durham

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

Under the terms of Mr Durham's employment contract:

- Mr Durham was entitled to be paid TFR of $250,000 per annum plus superannuation up until 31 December 2015. From 1 January 2016 Mr Durham's TFR increased to $260,273 per annum plus superannuation.
- Mr Durham is entitled to receive performance rights calculated as a percentage of 45% (FY15: 40%) of his TFR. On 4 May 2015 Mr Durham received 42,033 performance rights. The number of rights has been pro-rated as Mr Durham commenced employment with the Company during the prior financial year. Additionally, on 1 December 2015 Mr Durham was granted 128,308 performance rights and a cash component of $56,250 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 performance hurdles (50%) and Mr Durham's own personal performance (50%) Subject to the criteria being met the performance rights and cash component would vest as follows:
  - 1 October 2016 – The full cash component would vest;
  - 1 October 2017 – 50% of performance rights (64,154) would vest; and
  - 1 October 2018 – The final 50% of the performance rights (64,154) would vest.
- The vesting terms above are subject to Mr Durham being employed by the Company at the relevant date.
- A proportion of the performance rights and cash component issued to Mr Durham on 1 December 2015 are expected to vest.

Termination criteria (other than Cause):

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

Former Group KMP

During the prior comparative period (FY15) a number of KMP ceased employment with Redflex. These were as follows:

Ron Johnson	Former Group Chief Financial Officer, ceased employment on 27 February 2015.
Ricardo Fiusco	Former Chief Executive Officer, Redflex Traffic Systems Pty Ltd, ceased employment on 3 June 2015.
Marilyn Stephens	Former Company Secretary, ceased employment on 10 February 2015.
James Saunders	Former President and Chief Executive Officer, Redflex Traffic Systems, Inc. ceased employment on 30 June 2015.

Specific details of prior period salary and termination arrangements received by the former Group KMP has been disclosed in the prior period Remuneration Report and have not been discussed further.

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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 directors of the highest calibre whilst incurring a cost which is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board 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 a general meeting. The latest determination was at the Annual General Meeting held in 2010 when shareholders approved an aggregate remuneration of $700,000 per year in relation to directors fees.

6.B Structure of non-executive director remuneration

With the exception of Mr DeVincenzi each NED receives a fixed fee for being a director and a fee for the additional time commitment made by directors who serve as Chair of one or more Board committees. NEDs do not receive retirement benefits, except for superannuation where this is applicable, nor do they participate in any incentive programs. The remuneration of NEDs for the years ended 30 June 2016 and 30 June 2015 is detailed in Table 2.

6.C Transition arrangements for Mr Robert DeVincenzi

Previously Mr DeVincenzi held the position of Group CEO up until 16 January 2014 when through virtue of a Transitional Arrangement he became a Non-executive Director. The key terms of the Transition Agreement are as follows:

- For a twelve month period ending on 15 January 2015, Mr DeVincenzi provided consulting services as reasonably requested of up to 20 hours per week. Over this period he could perform services for or be employed by other companies other than a competitor. Over this period he received a consulting fee of US$25,000 per month and was reimbursed for family health insurance premiums; and
- Following the completion of the transitional period on 15 January 2015 Mr DeVincenzi transitioned to a standard non-executive director role, which concluded the obligations of the original transitional arrangements.
- Following the completion of the original transition arrangements on 11 November 2015 it was communicated to Mr DeVincenzi that in light of extra services he has performed which have benefitted the Company an additional 'special exertion' payment would be made to him in accordance with the Company's Constitution totalling US$40,000 ($55,433) for 'special exertion' services performed between 1 July 2015 and 31 December 2015. This arrangement was subsequently extended on 29 February 2016 to cover the period 1 January 2016 to 30 June 2016 and remuneration paid to Mr DeVincenzi for this period was US$48,000 ($63,309).

Details of Mr DeVincenzi's remuneration are shown in Table 2. Remuneration received in relation to Mr DeVincenzi's role as a Non-executive director are noted in "Directors fees". Additional remuneration received as part of transitional arrangements are shown as "other fees".

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Table 2: NED remuneration for the year ended 30 June 2016 and 30 June 2015

		Short-term benefits	Post-employment	Other short-term benefits			
		Salary and Fees	Super-annuation	Total Directors' Fees	Other fees	Non-monetary	Total
Adam Gray	2016	155,000	–	155,000	–	–	155,000
	2015	147,500	–	147,500	–	–	147,500
Paul Clark [1]	2016	–	–	–	–	–	–
	2015	18,411	6,563	24,974	–	–	24,974
Robert DeVincenzi [2]	2016	107,500	–	107,500	118,742	–	226,242
	2015	47,188	–	47,188	209,456	14,139	270,783
Michael McConnell [3]	2016	–	–	–	–	–	–
	2015	–	–	–	–	–	–
John Murphy [4]	2016	–	–	–	–	–	–
	2015	40,513	3,524	44,037	–	–	44,037
Herman Schwarz	2016	102,500	–	102,500	–	–	102,500
	2015	92,639	–	92,639	–	–	92,639
Terence Winters	2016	93,607	8,893	102,500	–	–	102,500
	2015	86,758	8,242	95,000	–	–	95,000
Clark Davey [5]	2016	104,566	9,934	114,500	–	–	114,500
	2015	36,759	3,492	40,251	–	–	40,251
David McIntyre [6]	2016	92,500	–	92,500	–	–	92,500
	2015	27,117	–	27,117	–	–	27,117
	2016	655,673	18,827	674,500*	118,742	–	793,242
	2015	496,885	21,821	518,706*	209,456	14,139	742,301

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

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

3 Mr McConnell was not re-elected at the 2014 Annual General Meeting convened on 13 November 2014.

4 Mr Murphy resigned on 13 March 2015.

5 Mr Davey was appointed on 6 January 2015.

6 Mr McIntyre was appointed on 13 March 2015.

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

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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.

Table 3 discloses the LTIs (performance rights) granted to executives as remuneration during FY16. LTIs do not carry any voting or dividend rights and depending on Redflex's Total Shareholder Return ("TSR"), may or may not vest at the end of the performance period.

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

	Financial Year	Performance Rights awarded during the year Number	Award Date	Fair Value per LTI at Award Date	Performance period	Number vested during the year	Number lapsed forfeited or cancelled during FY16
Executive Director							
Paul Clark	2016	958,029	1 Dec 15	$0.37	*Performance to 30 Jun 16, assessed on 1 Oct 16	–	–
	2015	–	–	–	–	–	–
KMP							
Brad Crump	2016	187,328	1 Dec 15	$0.37	*Performance to 30 Jun 16. assessed on 1 Oct 16	–	–
	2015	64,394	4 May 15	$0.20	**<3 years to 1 Oct 17	–	–
Michael Finn	2016	1,018,458	1 Dec 15	$0.37	*Performance to 30 Jun 16, assessed on 1 Oct 16	–	–
Craig Durham	2016	128,308	1 Dec 15	$0.37	*Performance to 30 Jun 16, assessed on 1 Oct 16	–	–
	2015	42,033	4 May 15	$0.20	**<3 years to 1 Oct 17	–	–

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

**Performance rights awarded in May FY15 were made later than the normal date of 1 October 2014. Accordingly, the performance rights, issued on 4 May 2015, have a performance period shorter than 3 years and will be tested on 1 October 2017.

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REMUNERATION REPORT (AUDITED)

7 ADDITIONAL STATUTORY DISCLOSURES RELATING TO OPTIONS AND SHARES- CONTINUED

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

	Value ^ of Performance Rights awarded during the year $	Value^ of Performance Rights vested during the year $	Value^ of Performance Rights lapsed or forfeited during the year $
Executive director			
Paul Clark	354,470	–	–
KMP			
Brad Crump	69,311	–	–
Michael Finn	376,829	–	–
Craig Durham	47,474	–	–
	848,084		

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

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

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

Table 5b: Movements in Shareholdings of KMP during the year ended 30 June 2015

	Shares held at 1 July 2014	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2015
Directors – non executive				
Adam Gray	**22,840,048**	–	2,089,781	**24,929,829**
Clark Davey*	**300,358**	–	–	**300,358**
Robert DeVincenzi	–	–	–	–
Herman Schwarz	–	–	–	–
Terence Winters	–	–	–	–
David McIntyre	–	–	–	–
	23,140,406	–	**2,089,781**	**25,230,187**
KMP				
Paul Clark	–	–	–	–
Brad Crump	–	–	–	–
James Saunders	–	–	–	–
Craig Durham	–	–	–	–
	–	–	–	–

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

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.

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

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

Table 6b: Movement in performance rights held by KMP and former KMP during the year ended 30 June 2015

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

Movements in Options held by KMP for the year ended 30 June 2016

No options were held or issued to Directors or KMP during FY16 (FY15: NIL).

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

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 other matter or circumstance has arisen since 30 June 2016 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
31 August 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Revenue from operations	6	135,807	124,345
Total revenue		135,807	124,345
Cost of goods sold		62,426	59,918
Cost of goods sold		62,426	59,918
Gross profit		73,381	64,427
Sales and marketing related expenses		8,427	11,135
Administrative related expenses		37,387	32,495
Costs associated with the Chicago legal matter		1,930	2,270
Profit before depreciation, amortisation, impairment, finance costs and tax		25,637	18,527
Amortisation of intangibles		6,802	5,653
Depreciation of plant and equipment		18,650	22,945
Impairment of plant and equipment		–	18,048
Impairment of inventory		–	2,800
Impairment of trade receivables		–	1,682
Impairment of Goodwill	20	3,098	–
Impairment of capitalised development costs		–	5,231
Loss before tax and financing costs		(2,913)	(37,832)
Net finance costs		685	771
Loss before tax		(3,598)	(38,603)
Income tax expense / (benefit)	9	1,089	(6,659)
Loss for the period		(4,687)	(31,944)
Other comprehensive loss			
Foreign currency translation that may be reclassified to the profit or loss, net of tax		1,222	19,914
Total comprehensive loss for the period		(3,465)	(12,030)
Earnings per share ("EPS") attributable to ordinary equity holders			
– basic / diluted EPS for the year ended		(4.23)cents	(28.84)cents

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

Redflex

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	12,442	17,035
Trade and other receivables	11	27,506	30,590
Inventories	12	5,205	7,379
Other current assets	13	8,766	11,827
Total Current Assets		53,919	66,831
Non-Current Assets			
Plant and equipment	14	47,690	54,077
Deferred tax assets	9	17,328	17,464
Intangible assets and goodwill	15	20,245	26,906
Other financial assets		441	429
Other non-current assets		122	26
Total Non-Current Assets		85,826	98,902
TOTAL ASSETS		**139,745**	**165,733**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	16	13,691	19,904
Interest bearing borrowings	17	–	19,449
Income tax payable		1,132	617
Provisions	18	8,588	7,245
Total Current Liabilities		23,411	47,215
Non-Current Liabilities			
Deferred tax liabilities	9	6,137	7,312
Provisions	19	5,776	4,887
Other non-current liabilities		459	–
Total Non-Current Liabilities		12,372	12,199
TOTAL LIABILITIES		**35,783**	**59,414**
NET ASSETS		**103,962**	**106,319**
Equity attributable to equity holders of the parent company			
Contributed equity	22	101,765	101,765
Reserves	23	5,987	3,657
Retained earnings / (Accumulated losses)	23	(3,790)	897
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**103,962**	**106,319**
Net tangible assets per share		75.58 cents	71.70 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 2016

	Contributed Equity $'000	Foreign Currency Translation Reserve $'000	Employee Equity Benefits Reserve $'000	Retained earnings/ (Accumulated Losses) $'000	Total Equity $'000
At 1 July 2014	101,765	(17,490)	2,582	30,909	117,766
Loss for the period	–	–	–	(31,944)	(31,944)
Currency translation differences	–	19,914	–	–	19,914
Total comprehensive loss	–	19,914	–	(31,944)	(12,030)
Transfer of expired equity instruments	–	–	(1,932)	1,932	–
Cost of share based payments	–	–	583	–	583
At 30 June 2015	101,765	2,424	1,233	897	106,319
At 1 July 2015	101,765	2,424	1,233	897	106,319
Loss for the period	–	–	–	(4,687)	(4,687)
Currency translation differences	–	1,222	–	–	1,222
Total comprehensive loss	–	1,222	–	(4,687)	(3,465)
Transfer of expired equity instruments	–	–	–	–	–
Cost of share based payments	–	–	1,108	–	1,108
At 30 June 2016	101,765	3,646	2,341	(3,790)	103,962

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

Redflex

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Operating activities			
Receipts from customers		142,994	125,215
Payments to suppliers, employees and GST		(114,010)	(105,292)
Interest received		21	2
Interest paid		(369)	(611)
Income tax refunded / (paid)		(1,436)	247
Net cash flows from operating activities	10	27,200	19,561
Investing activities			
Purchase of property, plant and equipment		(8,773)	(14,772)
Return of investment		–	686
Capitalised development costs paid		(3,098)	(5,177)
Net cash flows (used in) investing activities		(11,871)	(19,263)
Financing activities			
Repaid bank borrowings		(19,449)	–
Net cash flows (used in) financing activities		(19,449)	–
Net increase / (decrease) in cash held		(4,120)	298
Effect of exchange rate changes on cash		(473)	2,988
Cash and cash equivalents at beginning of financial year		17,035	13,749
Cash and cash equivalents at the end of financial year	10	12,442	17,035
Reconciliation of cash			
Cash at the end of the period consists of:			
Cash at banks and on hand		12,442	17,035
Cash at banks and on hand	10	12,442	17,035

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 2016

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Redflex Holdings Limited (a for profit entity) for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of directors on 23 August 2016.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

2.1 BASIS OF PREPARATION

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

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

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

2.2 COMPLIANCE WITH IFRS

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

2.3 ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in accounting policy and disclosures

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 2016 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 and related standards	1 January 2018	1 July 2018
AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 July 2016
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian. Accounting Standards arising from AASB 15	1 January 2018	1 July 2018
AASB 2014-9 Equity method in separate financial statements	1 January 2016	1 July 2016
AASB 2015-1 Annual improvements 2012 – 2014 cycle	1 January 2016	1 July 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 July 2016
AASB 2015-9 Amendments to Australian Accounting Standards	1 January 2016	1 July 2016
AASB 16 - Leases	1 January 2019	1 July 2019

Management are currently assessing the impact of these new standards on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 30 June 2016.

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

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

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

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

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

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

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

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

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

(b) Business combinations

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

identifiable net assets. Acquisition costs incurred are expensed and included in administration expenses.

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

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

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

(c) Goodwill

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

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

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

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

- The Americas Traffic Operations*;
- Redflex Guardian; and
- Australia and International Traffic Operations.

*As at 31 December 2015 the Group renamed the North American Traffic Operations CGU to the Americas Traffic Operation CGU to reflect new business in South America and an increased presence in Canada.

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

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

Impairment losses recognised for goodwill are not subsequently reversed.

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

(d) Fair Value

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

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

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

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

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

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

(e) Operating segments

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

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

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

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

(f) Foreign currency translation

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

Redflex Traffic Systems Inc, and Redflex Guardian functional currencies are United States Dollars ("USD"); 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.

(g) Revenue recognition

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

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

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

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

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

the financial asset to the net carrying amount of the financial asset.

(h) Income tax and other taxes

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

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

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

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

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

controlled entities in the tax consolidated group.

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

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

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

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

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

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

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

(i) Property, plant and equipment

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

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

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

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

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

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

(j) Leases

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

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

and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit and loss.

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

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

(k) Borrowing costs

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

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

(l) Intangible assets

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

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

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

Research and development costs

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

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

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

	Contracts Acquired	Non-Compete Compensation	Trade names	Goodwill	Development Costs
Useful lives	Finite	Finite	Finite	Indefinite	Finite
Amortisation method used	Amortised over the contract lives	Amortised over the non-compete period	Amortised over expected use period	No amortisation.	Amortised over the period of expected future benefit from the related project on a straight-line basis. The amortisation period is generally 10 years.
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired	Internally generated.
Impairment testing	Annually on the reporting date for assets not yet available for use and more frequently when an indication of impairments exists. The amortisation method is reviewed at each financial year end.				

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

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

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

(m) Inventories

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

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

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

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

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

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

The Group conducts an annual internal review as to whether an indicator of impairment exists at each reporting

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

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

(o) Cash and cash equivalents

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

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

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

(p) Provisions and employee leave benefits

Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. 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 disclosed when the Company has assessed that the probability of future payments or receipts are not considered probable, however, the Directors consider should be disclosed as they are not disclosed elsewhere 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.

(q) Share Based payment transactions

Equity settled transactions

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

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

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

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

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

Long Term Incentive Plan for Executives

Performance rights pricing model

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

FY16 LTI Plan

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

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

LTI plan prior to FY16

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

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

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

(r) Trade and other receivables

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

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

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

(s) Investment and other financial assets

Recognition and de-recognition

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

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

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

(t) Trade and other payables

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

(u) Interest-bearing loans and borrowings

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

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

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

(v) Contributed equity

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

(w) Earnings per share

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

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

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Maintenance warranty

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

(y) Asset retirement obligation

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

2.4 Changes in accounting policies and disclosures

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

NOTE 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk Exposures and Responses

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

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

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

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

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

(i) Interest rate risk

The Group's exposure to market interest rates is primarily related to its debt obligations and cash holdings. During the period the Group repaid all interest bearing liabilities. This has significantly reduced the Groups exposure to interest rate risk.

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

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Financial assets		
Cash at banks and in hand	7,219	12,028
Cash – restricted lockboxes	5,223	5,007
	12,442	17,035
Financial liabilities		
Interest bearing liabilities	–	19,449
	–	19,449
Net surplus / (exposure)	12,442	(2,414)

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

At 30 June 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

Judgments of reasonable possible movements

	Post Tax Profit/(Loss) Higher/(Lower)		Equity Higher/(Lower)	
Consolidated	30 June 2016 $'000	30 June 2015 $'000	30 June 2016 $'000	30 June 2015 $'000
+1% (100 basis points)	72	(194)	72	(194)
-5% (50 basis points)	(36)	97	(36)	97

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

(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 58% of the Group business occurring within the USA, and the other 42% arising from within Australia, but through servicing other markets. As a result of significant investment in operations in the USA and large purchases of inventory from the USA, the Group's statement of financial position can be affected significantly by movements in the USD / AUD exchange rates. The USA business incurs all revenue and the vast majority of its expenses in USD, apart from the cost of cameras sourced from the Australian operations in AUD. The USA business operation accounts for the vast majority of the Group's capital expenditure requirements and related borrowings and accordingly, the Group seeks to mitigate the effect of its foreign currency exposure by borrowing in USD.

Translational effects are therefore significant to the Group results with approximately 58% (FY15: 60%) of the Group's revenues and costs incurred in currencies (predominantly USD) other than the presentation currency of

the Group, and the large capital expenditure related to that business also denominated in USD. The Group does not hedge translational risk through available hedging products.

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

At 30 June 2016 the Group had no foreign currency hedge arrangements in place. (FY15: nil).

The Group has fully repaid its US$ denominated borrowing in the current period. (FY15 $19.4 million: (US$15.0 million)).

At 30 June 2016, the Group had not hedged foreign currency purchases that are firm commitments, as offsetting natural hedges substantially offset risk. Other than the USA operation, most sales commitments were denominated in AUD, 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 2016, had the Australian dollar moved, as illustrated in the table below with all other variables held constant, post-tax profit would have been affected as follows:

The net assets of the USA operation are reflected in the segment results shown in Note 5.

	Post Tax Profit/(Loss) Higher/(Lower)		Equity Higher/(Lower)	
Judgments of reasonable possible movements	**30 June 2016 $'000**	**30 June 2015 $'000**	**30 June 2016 $'000**	**30 June 2015 $'000**
AU$/US$ +10%	603	2,841	603	2,841
AU$/US$ – 5%	(350)	(1,645)	(350)	(1,645)

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

(iii) Price risk

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

(iv) Credit risk

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

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

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

within the Group.

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

(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 2016 $'000	30 June 2015 $'000
6 months or less	13,691	39,353
6-12 months	–	–
1-5 years	–	–
Over 5 years	–	–
	13,691	39,353

Further details in relation to the Group's financial liabilities have been provided in note 17.

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 2016

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

Year ended 30 June 2015

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

(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 USA, 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.

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

Amortisation of capitalised development costs

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

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

Taxation

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

At 30 June 2016, foreign tax credits have not been recognised in totality as a deferred tax asset following de-recognition in the comparative period for $3.1 million. The de-recognition reflects the decrease in anticipated future taxable profits from the operations of the North American business. This adjustment was charged to deferred income tax expense, reducing the income tax benefit for the period in the Consolidated Statement of Comprehensive Income, with a corresponding decrease in deferred tax assets in the Consolidated Statement of Financial Position.

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

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

Uncertainty arising as a result of group tax restructure

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

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Uncertainty of litigation outcomes

Certain entities in the Group are party to various legal actions and claims which have arisen in the ordinary course of business. The Board and the Group's legal advisors closely monitor these actions. Provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement. In certain circumstances, an adverse outcome in some or all of these legal proceedings could lead to material damages and liability for entities within the Group, and this could potentially jeopardise the Group's ability to continue to operate as a going concern. Where appropriate management has disclosed significant legal proceedings as contingent liabilities please refer to note 21 for further information.

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. The Annual Report does not include any adjustments relating to the recoverability and classification of recorded asset amounts that might be necessary should the Group's judgments differ from future circumstances.

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

Share based payments

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

Contingent assets and liabilities

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

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 Traffic business in the USA is predominantly a Build Own Operate and Maintain ("BOOM") business providing fully outsourced traffic enforcement programs. The Australia/International Traffic business involves the sale of traffic enforcement products. The 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 2016 and 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

Year ended 30 June 2016

Operating Segments	Traffic Operations North America $'000	Traffic Operations Aust/ International $'000	Total $'000
Revenue			
Revenue from operations*	79,012	56,795	135,807
Inter-segment revenue	–	3,845	3,845
Total segment revenue	79,012	60,640	139,652
Inter-segment elimination			(3,845)
Total consolidated revenue			135,807
Result			
Profit before interest, tax, depreciation, amortisation and impairment	15,194	15,710	30,904
Impairment of goodwill	(3,098)	–	(3,098)
Depreciation	(16,728)	(1,907)	(18,635)
Amortisation	(763)	(6,039)	(6,802)
Inter-segment royalty	2,054	(2,054)	–
Segment result	(3,341)	5,710	2,369
Head office result ^			(5,282)
Loss before tax and finance charges			(2,913)
Finance charges			(685)
Loss before income tax			(3,598)
Income tax benefit			1,089
Net loss after income tax			(4,687)
Assets and liabilities			
Segment assets	50,611	60,793	111,404
Head office assets			28,341
Total assets			139,745
Segment liabilities	21,084	14,019	35,103
Head office liabilities			680
Total liabilities			35,783
Other segment information			
Capital expenditure**	7,626	1,145	8,771
Head office capital expenditure			2
Total capital expenditure			8,773

^ Includes corporate depreciation of $15,000

*Sales revenue shown under the Americas segment includes sales arising in Canada of $5.3 million during FY16

**Excludes asset retirement obligation ("ARO")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Year ended 30 June 2015

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

^ Includes corporate depreciation of $16,000

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

**Excludes asset retirement obligation ("ARO")

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

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Revenue by geographical location		
The Americas	79,012	74,956
Australia	39,492	31,337
Other*	17,303	18,052
Total Revenue	135,807	124,345

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

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

	Consolidated	
	30 Jun 2016 $'000	30 Jun 2015 $'000
Revenues and expenses		
Revenue from sales of goods and services	135,807	124,345
Total Revenue	135,807	124,345
Depreciation, amortisation and impairment costs included in income statement		
Depreciation of plant and equipment	18,650	22,945
Amortisation of intangibles	6,802	5,653
Impairment of goodwill	3,098	–
Impairment of inventories	–	2,800
Impairment of receivables	–	1,682
Impairment on property plant and equipment	–	18,048
Impairment of capitalised development costs	–	5,231
	28,550	56,359
Employee benefits expense		
Wages and salaries	41,694	45,867
Payroll benefits	7,002	5,825
Contract labour	9,455	4,130
Superannuation	1,829	1,921
Payroll taxes	2,733	2,877
Share-based payment expense	1,108	583
Other payroll related expenses	1,650	1,344
	65,471	62,547
Research and development costs		
Expensed in administration expenses	612	1,042

NOTE 7. DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed during FY16 and FY15.

Franking credit balance

	Parent	
	2016 $'000	2015 $'000
The amount of franking credits available for subsequent financial years are:		
Franking account balance at the end of the financial year at 30% (FY15: 30%)	480	462
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	–	18
The amount of franking credits available for future reporting periods:	480	480

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 FY16 and FY15 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 2016 $'000	30 June 2015 $'000
Loss for the period for basic earnings per share	(4,687)	(31,944)
	Thousands	Thousands
Number of ordinary shares for basic earnings per share	110,762	110,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 9. INCOME TAX

The major components of income tax expense for the years ended 30 June 2016 and 30 June 2015 are:

Consolidated income statement

	30 June 2016 $'000	30 June 2015 $'000
Current income tax		
Current income tax charge (benefit)	2,128	(203)
Deferred tax		
Relating to origination and reversal of temporary differences	(1,039)	(6,456)
Income tax expense / (benefit) reported in the consolidated statement of comprehensive income	1,089	(6,659)

A reconciliation between tax expense and the product of accounting loss multiplied by Australia's domestic tax rate for the years ended 30 June 2016 and 30 June 2015 is as follows:

	30 June 2016 $'000	30 June 2015 $'000
Accounting loss before income tax	(3,598)	(38,603)
At the statutory income tax rate of 30% (FY15: 30%)	(1,079)	(11,581)
De-recognition of foreign tax credits	–	3,382
Adjustments of current income tax in previous years	397	159
Impact of tax rate differential on foreign operations	(166)	(731)
Research and development tax incentives	(107)	(496)
Tax effect of goodwill impairment	1,050	–
Under provision in prior years	994	2,608
At effective income tax rate of (30%), (FY15: 17.3%)	1,089	(6,659)
Income tax expense / (benefit) reported in the consolidated statement of comprehensive income	1,089	(6,659)

Deferred Tax

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	30 June 2016 $'000	30 June 2015 $'000	30 June 2016 $'000	30 June 2015 $'000
(i) Deferred tax liabilities				
Accelerated depreciation for tax purposes	–	–	–	(2,494)
Capitalised development costs	6,073	7,175	(1,102)	295
Other	64	137	(73)	131
Gross deferred tax liabilities	6,137	7,312		
(ii) Deferred tax assets				
Employee Entitlements	1,192	2,663	1,471	(1,173)
Provisions	3,116	3,868	752	1,165
Deferred tax asset on fixed assets	6,950	5,207	(1,743)	(5,207)
Deferred tax asset on foreign tax credits	–	–	–	3,132
Deferred tax asset on net operating losses	4,296	3,958	(338)	(3,958)
Carry forward research & development tax offset	2,212	2,356	144	1,065
Other	(438)	(588)	(150)	588
Gross deferred tax assets	17,328	17,464		
Deferred tax charge			(1,039)	(6,456)

The company has unutilised foreign tax credits with a tax value of $3.1 million (FY15: $3.1 million) available to offset against future US tax liabilities where non US income is included in the USA tax returns. Neither item has been recognised as an asset in the statement of financial position as at 30 June 2016.

At 30 June 2016 there is no recognised nor unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of the consolidated entity's subsidiaries, as the consolidated entity has no liability for additional taxation should such amounts be remitted.

Tax Consolidation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 10. CASH AND CASH EQUIVALENTS

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

	30 June 2016 $'000	30 June 2015 $'000
Cash at banks and on hand	7,219	12,028
Restricted cash	5,223	5,007
	12,442	17,035
Reconciliation of net loss after tax to net cash flows from operations		
Net loss after income tax	(4,687)	(31,944)
Non cash flow items		
Depreciation expense	18,650	22,945
Amortisation of intangibles	6,802	5,653
Impairment of Goodwill	3,098	–
Impairment of property, plant and equipment	–	18,048
Impairment of capitalised development costs	–	5,231
Deferred financing costs amortisation	233	162
Share based payments	1,108	583
Impairment of inventories	–	2,800
Impairment of accounts receivable	–	1,682
Change in operating assets and liabilities		
(Increase) in prepayments	(660)	(47)
(Increase)/Decrease in receivables	6,897	(8,583)
Decrease in non-current trade receivables	–	10,657
Increase in tax refund	–	(232)
Decrease in inventories	2,282	2,981
Increase / (Decrease) in taxation provisions	560	(2,220)
Decrease / (Increase) in deferred tax asset	302	(1,338)
Decrease in deferred tax liability	(1,226)	(4,493)
Decrease in employee entitlements	(235)	(31)
Decrease in deferred revenue	(451)	(433)
Decrease in payables	(5,473)	(1,700)
Decrease/(Increase) in deferred costs asset	–	(160)
Net cash flows from operating activities	27,200	19,561

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 $12.4 million (FY15: $17.0 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.

NOTE 11. TRADE AND OTHER RECEIVABLES (CURRENT)

	30 June 2016 $'000	30 June 2015 $'000
Trade receivables	31,191	34,372
Allowance for impairment losses	(3,685)	(3,782)
	27,506	30,590

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 2016 $'000	30 June 2015 $'000
At 1 July 2015	3,782	1,600
Charged (utilised) for the year	(97)	2,182
At 30 June 2016	3,685	3,782

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 2016	31,191	16,506	4,040	3,222	3,738	3,685
30 June 2015	34,372	16,057	2,660	432	11,441	3,782

*PDNI – Past due not impaired

*CI – Considered impaired

NOTE 12. INVENTORIES

	30 June 2016 $'000	30 June 2015 $'000
Raw materials and camera components – at cost	5,965	10,179
Inventory provision	(760)	(2,800)
Total raw materials and camera components – at net realisable value	5,205	7,379

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 13. OTHER CURRENT ASSETS

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Prepayments	2,977	2,271
Citation work in progress	5,110	9,522
Other current assets	679	34
	8,766	11,827

Other assets are non-interest bearing.

NOTE 14. PLANT AND EQUIPMENT

Year ended 30 June 2016

	Plant and equipment $'000	Motor vehicles $'000	Furniture and other $'000	Computer equipment $'000	Asset Retirement Obligation* $'000	Total $'000
At 1 July 2015 net of accumulated depreciation and impairment	45,800	2,629	103	2,965	2,580	54,077
Additions	7,247	405	45	1,076	2,089	10,862
Disposals	(1,077)	(2)	(30)	(29)	–	(1,138)
Depreciation for the year	(14,521)	(1,007)	(61)	(1,421)	(1,640)	(18,650)
Exchange adjustment	2,060	(4)	(2)	43	442	2,539
At 30 June 2016 net of accumulated depreciation and impairment	39,509	2,021	55	2,634	3,471	47,690
At 30 June 2016						
Cost	103,805	5,524	1,867	20,342	7,659	139,196
Accumulated depreciation and impairment	(64,296)	(3,503)	(1,812)	(17,708)	(4,187)	(91,506)
Net carrying amount	39,509	2,021	55	2,634	3,472	47,690
At 30 June 2015						
Cost	188,519	5,388	1,878	19,148	5,840	220,773
Accumulated depreciation and impairment	(142,719)	(2,759)	(1,775)	(16,183)	(3,260)	(166,696)
Net carrying amount	45,800	2,629	103	2,965	2,580	54,077

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

Year ended 30 June 2015

	Plant and equipment $'000	Motor vehicles $'000	Furniture and other $'000	Computer equipment $'000	Asset Retirement Obligation* $'000	Total $'000
At 1 July 2014 net of accumulated depreciation and impairment	52,977	3,354	130	2,399	2,421	61,281
Additions	12,978	147	9	1,638	1,671	16,443
Reclassification	(43)	39	4	–	–	–
Impairment**	(18,048)	–	–	–	–	(18,048)
Disposals	–	–	–	–	(489)	(489)
Depreciation for the year	(18,961)	(951)	(59)	(1,393)	(1,581)	(22,945)
Exchange adjustment	16,897	40	19	321	558	17,835
At 30 June 2015 net of accumulated depreciation and impairment	45,800	2,629	103	2,965	2,580	54,077
At 30 June 2015						
Cost	188,519	5,388	1,878	19,148	5,840	220,773
Accumulated depreciation and impairment	(142,719)	(2,759)	(1,775)	(16,183)	(3,260)	(166,696)
Net carrying amount	45,800	2,629	103	2,965	2,580	54,077
At 30 June 2014						
Cost	171,211	5,401	1,957	16,890	5,077	200,536
Accumulated depreciation and impairment	(118,234)	(2,048)	(1,827)	(14,491)	(2,656)	(139,256)
Net carrying amount	52,977	3,354	130	2,399	2,421	61,281

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

**The impairment loss is represented by the following:-

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

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

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For the year ended 30 June 2016

NOTE 15. INTANGIBLES AND GOODWILL

Year ended 30 June 2016

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

*An impairment of $3.1 million was recognized in the Redflex Guardian Cash generating unit as a result of managements annual impairment test, refer to Note 20 for details.

Year ended 30 June 2015

	Development Costs	Goodwill	Contracts	Non-compete & Trademarks	Total
	$'000	$'000	$'000	$000	$'000
At 1 July 2014, net of accumulated amortisation and impairment	27,584	2,396	743	403	31,126
Additions	4,752	–	–	–	4,752
Impairment*	(5,231)	–	–	–	(5,231)
Amortisation for the year	(4,998)	–	(450)	(205)	(5,653)
Exchange adjustment	1,152	552	134	74	1,912
At 30 June 2015, net of accumulated amortisation and impairment	23,259	2,948	427	272	26,906
At 30 June 2015					
Cost	53,550	5,581	1,951	959	62,041
Accumulated amortisation and impairment	(30,291)	(2,633)	(1,524)	(687)	(35,135)
Net carrying amount	23,259	2,948	427	272	26,906
At 30 June 2014					
Cost	46,976	4,536	1,585	779	53,876
Accumulated amortisation and impairment	(19,392)	(2,140)	(842)	(376)	(22,750)
Net carrying amount	27,584	2,396	743	403	31,126

*The impairment loss is represented by the following:-

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

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

DEVELOPMENT COSTS

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

GOODWILL

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 16. TRADE AND OTHER PAYABLES (CURRENT)

	30 June 2016 $'000	30 June 2015 $'000
Current		
Trade payables and accruals	13,555	19,323
Deferred revenue	136	581
Trade and other payables	13,691	19,904

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

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

NOTE 17. INTEREST-BEARING LOANS AND BORROWINGS

	30 June 2016 $'000	30 June 2015 $'000
Current		
Bank borrowings	–	19,595
Deferred financing costs	–	(146)
	–	19,449

Bank indemnity guarantees

The Group's bankers have issued indemnity guarantees to certain customers in respect of letters of credit, bid bonds and performance bonds for $1.9 million (FY15: $1.9 million).

FINANCING FACILITIES AVAILABLE

	30 June 2016 $'000	30 June 2015 $'000
Total facilities committed		
Bank borrowings	40,399	39,190
AU$ working capital facility	3,000	8,000
	43,399	47,190
Facilities used at reporting date		
Bank borrowings	–	19,595
Security for letters of credit issued to customers	1,886	1,919
	1,886	21,514
Facilities unused at reporting date	41,513	25,676

As of 30 June 2016, the Group holds a Syndicated Financing Facility ("the Facility") with a value of USD 30 million (AUD 40.4 million). The syndicate expires on 7 August 2017 and is held with a syndicate of three Australian banks. The facility also includes an accordion feature for a further USD 30 million (AUD 40.4 million), which is uncommitted as at the date of this final report.

During FY2016, and at the request and with the agreement of syndicate members, Redflex repaid the entire outstanding balance of the Facility to zero. With unresolved ongoing investigations and litigation in relation to the previously disclosed misconduct in Chicago, the Company believes it is unlikely that it will be permitted to draw down any funds on the Facility or, potentially, to renew or obtain a new financing / debt capability (at least until such time as the aforementioned matters are finalized).

Redflex holds a cash balance of $12.4million (including restricted cash of $5.2 million). Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a $3 million (reduced from $8 million during FY2016) working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers.

The cash flows from operations are expected to be sufficient to fund the Group's capital requirements during the financial year ending 30 June 2017 ("FY17") acknowledging that this does not account for the Company's exposure to unquantified, but potentially significant, fines and damages associated with the Chicago investigation and related litigation.

(a) Fair value

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

(b) Interest rate, foreign exchange and liquidity risk

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

NOTE 18. CURRENT LIABILITIES – PROVISIONS

	30 June 2016 $'000	30 June 2015 $'000
Employee entitlements	3,153	3,450
Provision for warranties	338	130
Asset retirement obligation – liability	5,097	3,665
	8,588	7,245

NOTE 19. NON CURRENT LIABILITIES – PROVISIONS

	30 June 2016 $'000	30 June 2015 $'000
Employee entitlements	823	719
Asset retirement obligation – liability	4,953	4,168
	5,776	4,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(a) Movements in provisions

	Maintenance Warranties $'000	Employee Entitlements $'000	Asset Retirement Obligations $'000	Total $'000
At 1 July 2015	130	4,169	7,833	12,132
Arising during the year	229	1,667	2,629	4,525
Utilised during the year	–	(1673)	(1,273)	(2,946)
Exchange adjustment	(21)	(187)	861	653
At 30 June 2016	338	3,976	10,050	14,364
Current 2016	338	3,153	5,097	8,588
Non-Current 2016	–	823	4,953	5,776
At 30 June 2016	338	3,976	10,051	14,364
Current 2015	130	3,450	3,665	7,245
Non-Current 2015	–	719	4,168	4,887
At 30 June 2015	130	4,169	7,833	12,132

Superannuation

During the year ended 30 June 2016 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 2016 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.

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 2016. 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 2016 the market capitalisation of the Company was significantly below the book value of equity.

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

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

- The Americas traffic operations*;
- Redflex Guardian; and
- Australian and International traffic operations.

*As at 31 December 2015 the Group renamed the North American Traffic Operations CGU to the Americas Traffic Operation CGU to reflect new business in Central America and an increased presence in Canada.

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

	Redflex Guardian**		North American traffic operations*		Aust / International traffic operations		Total	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Goodwill	–	2,948	–	–	–	–	–	2,948
Plant and equipment	5,843	7,720	36,862	40,314	4,985	6,043	47,690	54,077
Intangible assets	–	772	–	–	20,245	23,186	20,245	23,958
	5,843	11,440	36,862	40,314	25,230	29,229	67,935	80,983

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

Accounting polices

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

CGU	VALUATION METHODOLOGY
The Americas traffic operations	Value in use
Redflex Guardian	Value in use
Australian and International traffic operations	Value in use

Value in use

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

The Americas traffic operations

The carrying value of assets has been tested using cash flow projections from financial budgets covering a five year period. The post-tax discount rate applied to the projections is 15.19% (FY15: A fair value less costs of disposal model was applied "FVLCOD"). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2% (FY15:N/A as FVLCOD model applied).

Sensitivity analysis

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

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

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

Gross revenue and number of systems installed

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

Gross margin on service contracts

Gross margins are based on actual data from the 2016 period and the expectation on margin at completion on significant projects in the short term. Margins are expected to increase over the budgeted period due to increased efficiencies within the business.

Variation in operating expenses

Operating expenses are based on actual figures from 2016 data adjusted for the expected impact of costs reduction policies which have been committed to by management.

Discount rates

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

Redflex Guardian

The carrying value of assets has been tested using cash flow projections from financial budgets covering a five year period. The post-tax discount rate applied to the projections is 15.2% (FY15: 15.2%). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2% (FY15:2%).

As a result of the analysis management identified an impairment of Goodwill amounting to $3.1 million due to the recoverable amount of the CGU being below the value of the asset base. The recoverable amount of the CGU was $5.8 million. The principles drivers of the impairment were in relation to a slower than expected uptake of the Redflex Guardian product in school districts in the America's.

Sensitivity Analysis

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

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

Any variation in the key assumptions used to determine the recoverable amounts would result in a change in the assessed recoverable amount as detailed in the sensitivities below. These sensitivities assume that the specific assumption moves in isolation while all other assumptions remain constant.

Gross revenue and number of systems installed

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

Citation rates per day

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

Discount rates

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

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For the year ended 30 June 2016

Australian and International traffic operations

The carrying value of assets has been tested using cash flow projections from financial budgets covering a five year period. The post-tax discount rate applied to the projections is 14.2% (FY15: 14.2%). Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2% (FY15:2.0%).

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

Sensitivity Analysis

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

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

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

Gross revenue and number of systems installed

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

Gross margin on service contracts

Gross margins are based on actual data from the 2015 period and the expectation on margin at completion on significant projects in the short term. Margins are expected to increase over the budgeted period due to increased efficiencies within the business.

Variation in operating expenses

Operating expenses are based on actual figures from 2015 data adjusted for the expecting impact of costs reduction policies which have been committed to by management.

Discount rates

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

NOTE 21. CONTINGENCIES

There has been no change in contingent assets or liabilities since 30 June 2015 except as set out below. The Company's U.S. subsidiary, Redflex Traffic Systems, Inc. ("RTSI"), is currently a party to various legal actions and investigations that have arisen during the course of its business. The Company is also a party to one of these legal actions (see below). Any liabilities arising from such actions, while potentially significant, are uncertain and indeterminate as at the date of this report. However, it should be acknowledged that these liabilities may, in certain circumstances, be expected to have a material adverse effect on the Group including, without limitation, in relation to solvency and contract renewal rates. The Company and its legal advisors closely monitor these actions and the Company and RTSI continue to assert their rights and defend claims as appropriate. Provisions are not required in respect of these matters as at the date of this report, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Chicago and Ohio

On 31 August 2015, the City of Chicago ("City") notified the Company that it intends to intervene in a qui tam civil legal action in Chicago commenced by a former Redflex executive (the "qui tam" action). On 15 December 2015, the City filed an amended civil complaint adding Redflex as a defendant, along with RTSI. The City also alleges claims for civil damages against the Company and RTSI for alleged violations of the City's false claims and false statement ordinances and consumer fraud laws, breach of contract, civil conspiracy, violation of kickback laws and unjust enrichment. The City claims civil damages against the Company being treble the amount the City alleges it paid to RTSI under the now terminated contract with the City (i.e. three times approximately USD 125.9 million). However, the actual amount of recovered damages in qui tam actions tends to be typically lower than the amount of damages claimed by the plaintiff in the complaint. Civil penalties are sought in addition to the alleged damages as well as restitution, disgorgement of alleged "ill-gotten" profits, recovery of alleged unjust enrichment and consequential damages.

The Company is also subject to a continuing investigation by the U.S. Department of Justice (the "DOJ") in regard to the Company's historical dealings with the City and in the State of Ohio. The DOJ has not yet confirmed any conclusion to its investigation and it is possible that the Company may be subject to a significant monetary fine. Separate from any potential consequences of the DOJ investigation and the qui tam action the City also has the remedy of debarment. Further, the outcome of these proceedings can, in certain circumstances, permit the termination of contracts which deliver a meaningful portion of the Group's current annual revenue.

At this point in time it is not possible to reliably estimate the timing for completion of the DOJ investigations nor the Chicago legal actions and any quantum or recoveries in relation to these matters, while potentially significant, is not capable of being measured. No amounts have been expensed or provided for in relation to these matters at 30 June 2016. At this time the Company does not expect penalty outcomes from any Ohio jurisdiction in which the Company operated.

The matters above may individually or in aggregate be material in nature and the Company continues to exercise its rights as appropriate in relation to the above matters. The Company will avail itself of all legal defences available to it in the qui tam action in order to defend itself and to minimise its exposure to potential financial harm. If the matters noted above resulted in negative judgements and damages, or loss of revenue, in amounts (individually or in aggregate) that could not be funded by the Company based on the level of financial resources available to it at such time, there is significant uncertainty as to whether the Group could continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 22. CONTRIBUTED EQUITY

	30 June 2016 $'000	30 June 2015 $'000
Ordinary shares:		
Issued, authorised and fully paid	101,765	101,765

Movements in ordinary shares on issue

	Number of shares Thousands	$'000
At 30 June 2014	110,762	101,765
Issued during FY15 as a result of:		
Vesting of performance rights under LTI Plan	–	–
At 30 June 2015	110,762	101,765
Issued during FY16 as a result of:		
Vesting of performance rights under LTI Plan	–	–
At 30 June 2016	110,762	101,765

Terms and conditions of contributed equity

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

NOTE 23. RETAINED EARNINGS AND RESERVES

Movements in retained earnings were as follows:

	30 June 2016 $'000	30 June 2015 $'000
Balance 1 July	897	30,909
Net loss	(4,687)	(31,944)
Transfer of expired equity instruments	–	1,932
Balance 30 June	(3,790)	897

Nature and purpose of reserves

Foreign currency translation reserve

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

Employee equity benefits reserve

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

Movements in reserves were as follows:

	Foreign currency translation $'000	Employee equity benefits reserve $'000	Total $'000
At 30 June 2014	(17,490)	2,582	(14,908)
Cost of share based payments	–	583	583
Transfer of expired equity instruments	–	(1,932)	(1,932)
Effect of exchange rate movement	19,914	–	19,914
At 30 June 2015	2,424	1,233	3,657
Cost of share based payments	–	1,108	1,108
Transfer of expired equity instruments	–	–	–
Effect of exchange rate movement	1,222	–	1,222
At 30 June 2016	3,646	2,341	5,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 24. COMMITMENTS

(a) Bank indemnity guarantees

The Group's bankers have issued to certain customers indemnity guarantees in respect of letters of credit, bid bonds, and performance bonds for $1.9 million (FY15: $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 USA. These leases have expiry dates varying from one year to less than seven years. Renewal options exist on all major leased premises at the company's discretion for periods of up to 5 years.

	Consolidated	
	30 June 2016 $'000	30 June 2015 $'000
Within 1 year	2,688	2,247
After 1 year but not more than 5 years	6,017	2,139
More than 5 years	466	–
	9,171	4,386

(c) Capital commitments

At 30 June 2016 the Group has commitments of $0.1 million (FY15: $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 2016 $'000	30 June 2015 $'000
Within one year	76	104
After one year but not more than five years	–	–
Longer than five years	–	–
	76	104

NOTE 25. RELATED PARTY DISCLOSURES

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

		Equity interest	
	Country of Incorporation	30 June 2016 %	30 June 2015 %
Controlled entities of Redflex Holdings Limited			
Redflex Enforcement Services Pty Ltd	Australia	100	100
Redflex Pty Ltd	Australia	100	100
Aerospace Systems Ltd	Australia	100	100
RTS R & D Pty Ltd	Australia	100	100
Redflex Traffic Systems (Canada) Inc	Canada	100	100
Redflex Traffic Systems Limited	UK	100	100
Redflex Traffic Systems Inc	USA	100	100
Traffic Operating Systems (Saudi Arabia) LLC *	Saudi Arabia	100	100
Transtoll Pty Ltd	Australia	100	100
Redflex Irish Investments Pty Ltd	Australia	100	100
Redflex Traffic Systems Malaysia Sdn Bhd	Malaysia	100	100
Controlled entities of Redflex Traffic Systems Inc			
Redflex Traffic Systems Pty Ltd	Australia	100	100
Redflex Traffic Systems (California) Inc	USA	100	100
Redflex Guardian, Inc	USA	100	100
Controlled entities of Redflex Traffic Systems Pty Ltd			
Redflex Traffic Pty Ltd	Australia	100	100
Controlled entities of Redflex Guardian Inc			
SBL Investments LLC	USA	100	100
Americore Enterprises LLC	USA	100	100

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

The ultimate parent

Redflex Holdings Limited is the ultimate parent of the Group.

Associate

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2016

Terms and conditions of transactions with related parties

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

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

	30 June 2016 $'000	30 June 2015 $'000
Short term employee benefits	1,749	2,454
Long-term employment benefits	72	334
Termination payments	–	698
Share based payments	279	22
	2,100	3,508

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

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

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

Equity Purchases

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

NOTE 26. SHARE BASED PAYMENT PLANS

Long Term Incentive Plan

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

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

Executive Share Plan

No shares were issued under the Executive Share Plan (ESP) in the financial year ended 30 June 2016 (FY15: Nil).

Option Holdings of Key Management Personnel

Under the Employee Option Plan, Redflex may grant non-transferable options over ordinary shares to executives and certain members of staff. Nil unlisted options were issued under this plan in the financial year ended 30 June 2016 (FY15: Nil).

Equity-settled transactions

The Company's has two performance right models in operation as for the year ended 30 June 2016. These are detailed below:

FY15 and Pre FY15 LTI Plan

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

FY16 LTI Plan

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

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

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

Performance rights assumptions

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

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

Year ended 30 June 2014	19 June 2014
Share price at valuation date	$1.00
Expected volatility	42%
Risk-free interest rate	2.68%
Expected life of performance right	3 years
Fair value of performance right	0.56
Dividend yield	4.1%

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

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 (FY15: 3 years).

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 2015	1,754,607	
Changes during the current half-year period		
Cancelled – Employee exiting organization	(285,674)	18 August 2015
Lapsed – performance to 1 October 2015	(341,489)	2 October 2015
Cancelled – Employee exiting organization	(123,393)	12 November 2015
Issued – performance to 1 October 2016	3,354,547	18 December 2015
Cancelled – Employee exiting organization	(533,543)	11 April 2016
Outstanding at 30 June 2016	3,825,055	

The total share based payment expense for FY16 was $0.6 million (FY15: $0.6 million)

NOTE 27. PARENT ENTITY INFORMATION

Information relating to the parent entity, Redflex Holdings Limited.

	30 June 2016 $'000	30 June 2015 $'000
Current assets	1,837	6,080
Non-current assets	75,520	72,224
Total assets	77,357	78,304
Current liabilities	616	1,164
Non-current liabilities	3	674
Total liabilities	619	1,838
Net assets	76,738	76,466
Contributed equity	101,765	101,765
Accumulated losses	(36,174)	(36,096)
Reserves	11,147	10,797
Total shareholders' equity	76,738	76,466
Loss of the parent entity	764	2,855
Total comprehensive loss of the parent entity	764	2,855

Contingent liabilities

With the exception of matters disclosed in Note 21 and elsewhere in this Annual Report, Redflex Holdings Ltd does not have any contingent liabilities at 30 June 2016. Details of contingent liabilities identified in FY15 are detailed in the 2015 Annual Report.

Contractual Capital Commitments

With the exception of matters disclosed in Note 24, Redflex Holdings Ltd does not have any contracted capital commitments at 30 June 2016. (FY15: Nil)

Guarantees

For FY16 and FY15 Redflex Holdings Ltd is a joint party under the Syndicated Financing Facility which is described in Note 17.

Related Party Transactions

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

NOTE 28. EVENTS AFTER BALANCE SHEET DATE

No other matter or circumstance has arisen since 30 June 2016 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 2016 $	30 June 2015 $
Amount received or due and receivable by for:		
An audit or review of the financial report of the consolidated entity*	420,000	638,000
Amount received or due and receivable for other services in relation to the consolidated entity for:		
Assurance related matters	–	9,000
	420,000	647,000

*During FY16 Redflex elected to change auditor from Ernst and Young to PricewaterhouseCoopers. Consent for the change in auditor was granted by the Australian Securities and Investments Commission on 14 January 2016, which took effect on the date of the Company's ASX announcement on 28 January 2016.

Redflex

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 2016 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 2016 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 2016.

On behalf of the Board

Adam Gray
Director
31 August 2016

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

Report on the financial report

We have audited the accompanying financial report of Redflex Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Redflex Holdings Limited (the consolidated entity or the company). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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Auditor's opinion

In our opinion:

(a) the financial report of Redflex Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Emphasis of matter

We draw attention to Note 21 to the financial statements which describes the uncertainty related to the outcome of various legal actions and investigations the company and its wholly owned US subsidiary Redflex Traffic Systems, Inc. are party to. Our opinion is not modified in respect of this matter.

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 45 of the directors' report for the year ended 30 June 2016. 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.

Auditor's opinion

In our opinion, the remuneration report of Redflex Holdings Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
31 August 2016

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ASX ADDITIONAL INFORMATION

Additional information required by ASX and not shown elsewhere in this report is as follows. This information is current as at 1 August 2016.

Distribution of equity securities

There were 1,572 holders of 110,762,310 fully paid ordinary shares quoted on the ASX. These shares carry one vote per share and carry the rights to dividends.

	Number of Holders	Ordinary shares	% of Issued Capital
1 – 1,000	413	191,775	0.17
1,001 – 5,000	591	1,513,918	1.37
5,001 – 10,000	220	1,627,766	1.47
10,001 – 100,000	297	8,478,941	7.66
100,001 – over	51	98,949,910	89.33
	1,572	110,762,310	100
Holding less than a marketable parcel of 1,786 shares @ $500	606	454,420	

Substantial holders

Name	Ordinary Shares	% of Issued Capital
Coliseum Capital Management	24,929,829	22.51
Sidney Ho	11,304,359	10.21
Thorney Investment Group	8,538,867	7.71
Mrs Elizabeth Cooper	8,040,058	7.26
Dumac	7,575,905	6.84
Christopher Austin Cooper	6,733,665	6.08
Ms Cheng Man Oy	6,355,305	5.74

Twenty largest holders of quoted equity securities

Name	Shares Held	% of Issued Capital
HSBC Custody Nominees (Australia) Limited-GSCO ECA	26,875,932	24.26
HSBC Custody Nominees (Australia) Limited	10,374,643	9.37
Mrs Elizabeth Geraldine Cooper	8,040,058	7.26
National Nominees Limited	8,018,349	7.24
Investaco Pty Ltd	6,706,490	6.05
Blue Jade Pty Ltd	6,593,948	5.95
Ms Cheng Man Oy	6,355,305	5.74
Investaco Pty Ltd <Ho Family A/C>	4,050,622	3.66
Mr Christopher Austin Cooper	3,759,811	3.39
JP Morgan Nominees Australia Limited	2,182,659	1.97
Vertex Bianca Nominees Pty Ltd <Superannuation Fund A/C>	2,149,944	1.94
Mr Graham William Davie	1,788,701	1.61
O'Connor Holdings Pty Ltd	1,571,215	1.42
Citicorp Nominees Pty Limited	1,495,797	1.35
Vertex Bianca Nominees Pty Ltd	980,957	0.89
Character Home Sales Pty Ltd	947,242	0.86
Debuscey Pty Ltd	588,134	0.53
Mr Michael John Allen	500,000	0.45
Ruminator Pty Ltd	382,777	0.35
Exton International Pty Ltd	360,343	0.33
Top 20 Holders of ordinary fully paid shares	3,722,927	84.62

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Redflex

ANNUAL REPORT 2016

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