# REDFLEX HOLDINGS LIMITED
ANNUAL REPORT 2010

REDFLEX
HOLDINGS

REDFLEX - A YEAR OF **INTERNATIONAL** ACHIEVEMENTS

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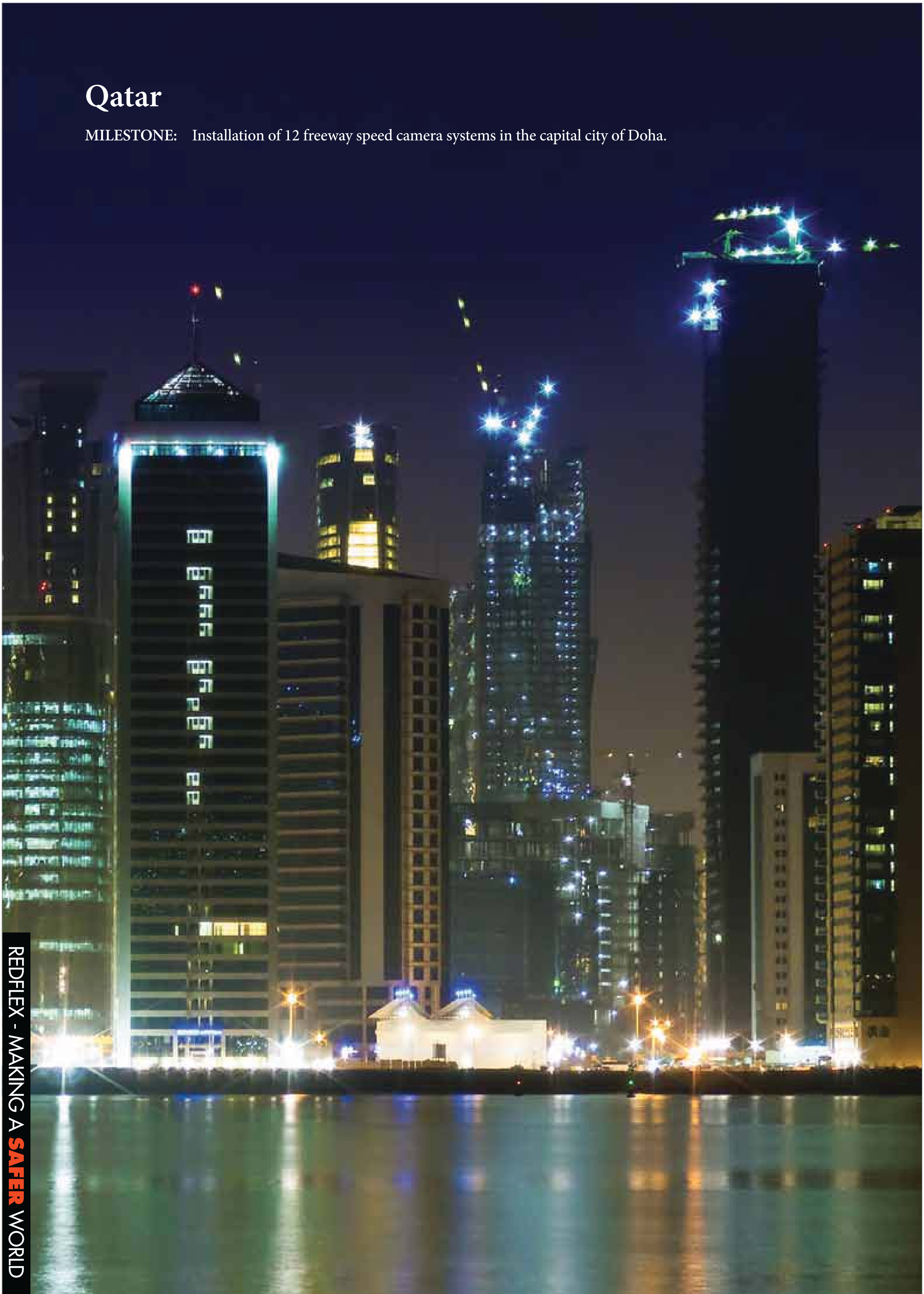
# Qatar

MILESTONE: Installation of 12 freeway speed camera systems in the capital city of Doha.



REDFLEX - MAKING A SAFER WORLD

## PERFORMANCE FROM OPERATIONS

| | 2010 | 2009 |
|---|---|---|
| Revenue ($M) | 136.6 | 130.9 |
| Earnings before interest, taxation, depreciation and amortisation ($M) | 33.0 | 45.5 |
| Operating profit after tax ($M) | 0.7 | 9.6 |
| Weighted average number of shares (million) | 105.0 | 91.4 |
| Basic earnings per share (cents) | 0.68 | 10.54 |
| Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents) | 31.4 | 49.7 |

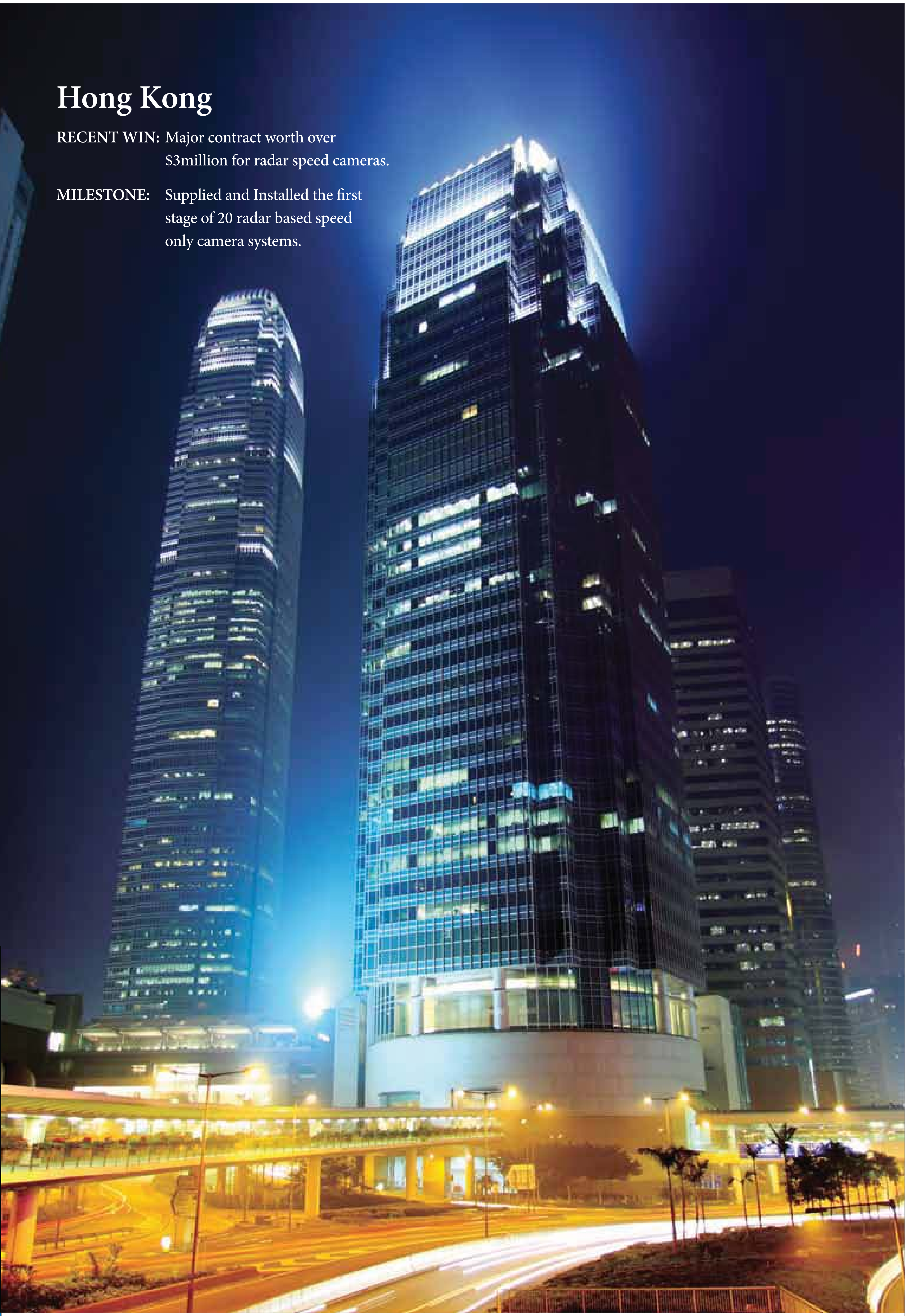
## FINANCIAL POSITION

| | 2010 | 2009 |
|---|---|---|
| Current assets ($M) | 101.9 | 63.8 |
| Non-current assets ($M) | 128.9 | 142.6 |
| Current liabilities ($M) | 26.3 | 29.1 |
| Non-current liabilities ($M) | 88.4 | 87.8 |
| Shareholders equity ($M) | 116.1 | 89.4 |

# Hong Kong

**RECENT WIN:** Major contract worth over $3million for radar speed cameras.

**MILESTONE:** Supplied and Installed the first stage of 20 radar based speed only camera systems.



THE INTERNATIONAL BUSINESS HAS HAD SOME SIGNIFICANT SUCCESSES WITH OUR PARTICIPATION IN A CONSORTIUM AND AS A KEY SUPPLIER TO THAT CONSORTIUM IN IRELAND, WITH A MAJOR PROJECT IN CANADA AND NEW CONTRACTS IN MOST STATES IN AUSTRALIA.

## REDFLEX SHAREHOLDERS

On behalf of the Board, I am pleased to advise that your company has maintained its premier position in its industry and remains sound with a strong future ahead of it.

It is now nearly a year since I became chairman of Redflex and it has been an interesting period of time. The renewed board appointed at the AGM in November 2009 has moved to develop a deep understanding of the business and to identify key elements of the strategic direction for the company.

The 2009/2010 financial year has been a challenging one for the company, with the result dominated by the non-recurring effects of the Arizona state-wide speed program and the competitor litigation, both of which are now largely behind us, allowing the board and management to focus on building the profitability and growth of the business. We have taken the decision to write off the fixed investment in the Arizona contract.

The underlying business of Redflex, after eliminating these non-recurring influences remains strong with growing revenues, strong operating cash flows and good profitability.

A key development in recent months has been the announced approach by Macquarie with an indicative non-binding proposal to acquire all of the shares of Redflex for $2.50 by way of a scheme of arrangement. The board appointed Greenhill Caliburn to assist with a review of strategic options, and subsequently advised the market that the proposed price significantly undervalued the company. Having received further interest and enquires, the board has established a process to determine whether a firm proposal that the board can recommend to shareholders will be received. The board has not made any decision as to the ultimate outcome of that process at this stage.

Redflex has a strong future in its current form, and the board is continuing to ensure that shareholder value is created in the business regardless of the outcome of the process. To that end key strategic guidelines have been developed in conjunction with management.

These include: maximising revenue from existing, new and renewed contracts; reducing risk in the business; reducing both operating and capital costs through innovative technology developments; and identifying new sources of revenue from existing customers. It is pleasing to see that initiatives in these areas are already starting to bear fruit.

The economic conditions in the USA have led to a slowdown in our business with a reduction in new contracts over the 2010 financial year. We expect that as conditions improve in the future, that will flow through to our business. Despite the slowdown, we are expecting growth in the year ahead.

The international business has had some significant successes with our participation in a consortium and as a key supplier to that consortium in Ireland, with a major project in Canada and new contracts in most states in Australia.

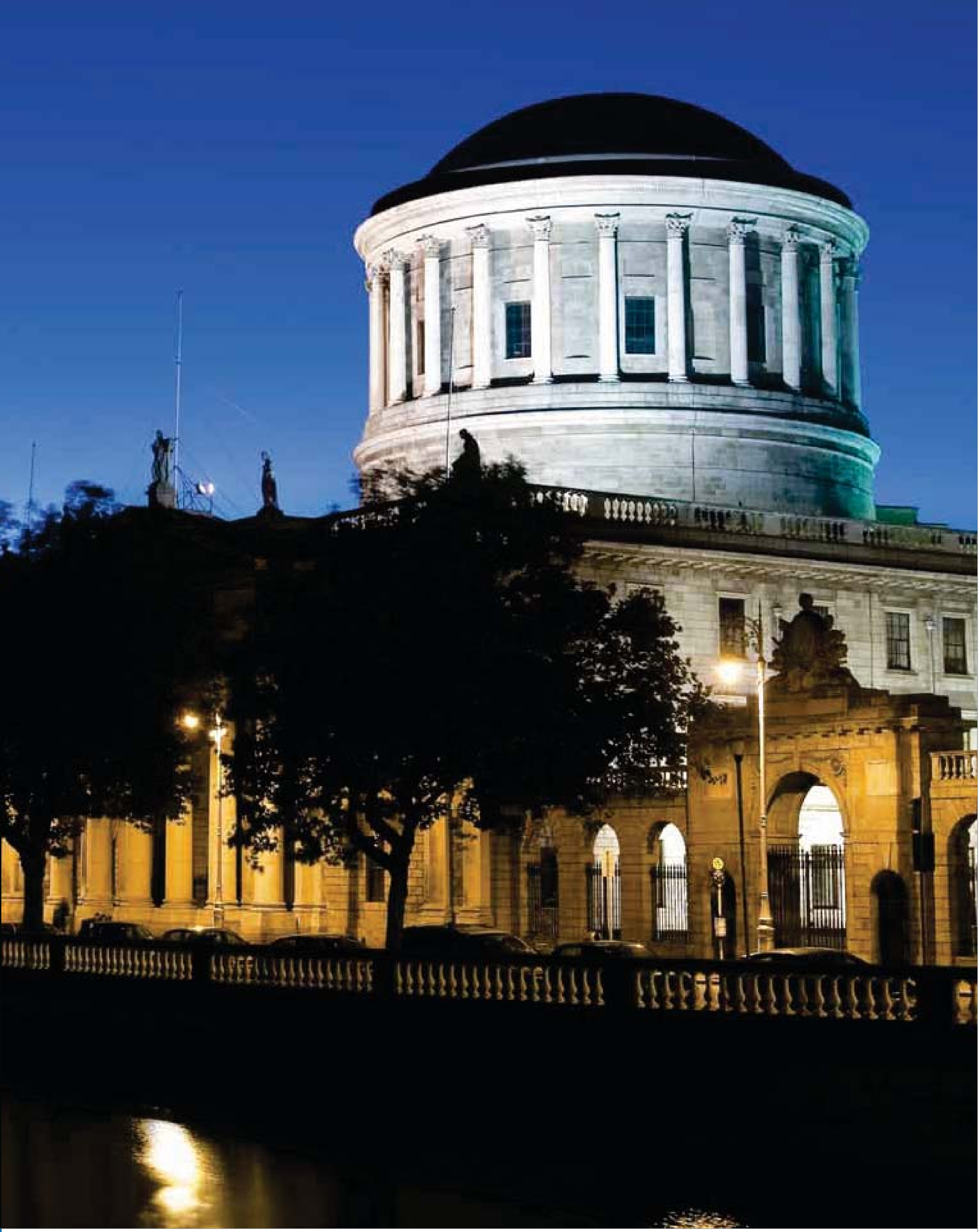
I am pleased to advise that a dividend of 5 cents per share, fully franked, has been declared, subject to related minor updates to the constitution being approved by shareholders at the AGM.

There are challenges ahead, but there is also great potential, and Redflex is well positioned to take advantage of that potential. On behalf of all shareholders I take this opportunity to express appreciation to the dedicated and hardworking staff who have together contributed to the performance of the company, and will continue to do so in the future. I also wish to recognise the contribution of my fellow directors, and thank shareholders for the opportunity to serve in this role.

Max Findlay
Chairman

# Ireland

MILESTONE: Installation of the IIPS ticket processing system has commenced, as has the roll out of the mobile radar camera equipment.



REDFLEX - MAKING A **SAFER** WORLD

## REVIEW OF OPERATIONS

Redflex achieved revenue of $136.6 million in 2009/10. In doing so, Redflex maintained and enhanced its number one position in the industry, with a record installation base in the USA and significant sales in key regions of the world. While the 2009/2010 financial year has been a challenging one for the company, with a number of factors adversely affecting the profit result for the year, the underlying business remains strong with full and realisable expectations of significant improvements in profitability in the year ahead.

There were a number of one-off effects that adversely affected the year's results. These included administrative issues involving the Department of Public Safety in Arizona and litigation costs. The underlying profit before tax before these one-off effects was approximately $19 million, however these one-off factors have resulted in a financial year net profit before tax of $0.4 million.

| | NPBT | EBITDA |
|---|---|---|
| | $'000 | $'000 |
| Reported result | 442 | 32,984 |
| Cost of successful litigation against American Traffic Systems | 4,330 | 4,330 |
| DPS Operational loss (excluding allocation of operating expenses) | 5,010 | 2,619 |
| DPS Write-down on Arizona State-wide speed program | 5,688 | 5,688 |
| Write-down on contract terminations | 2,750 | 2,750 |
| Pre-contract costs and restructure | 850 | 850 |
| Underlying result | 19,070 | 49,221 |

The underlying EBITDA result of $49.2 million has been updated from the $54.0 million reported in the Appendix 4E released on 25 August 2010.

The installed base of traffic cameras has increased over the year with increased revenue flow. Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) have continued to indicate the strong cash flow generation capability of the USA operations.

# Saudi Arabia

RECENT WIN: Further contract for the supply of fixed speed only cameras worth $25million which complements the existing $34million contract.

MILESTONE: Commenced roll out of the existing contract for cameras, software, outsourcing management and back office processing.

## OUTSIDE OF THE USA, THERE HAVE BEEN A NUMBER OF POSITIVE DEVELOPMENTS WITH SIGNIFICANT CONTRACTS WON IN SEVERAL PARTS OF THE WORLD.

Outside of the USA, there have been a number of positive developments with significant contracts gained in several parts of the world. These exciting achievements signify an increase in recurring revenue from contracts for outsourced services, with further opportunities for this business stream identified. The move to build our recurring revenue base outside of the USA has been, and remains, a key focus for Redflex.

The USA business has been adversely affected due to the following factors:

- Poor performance of the Arizona state-wide speed program and its subsequent cancellation resulting in an operating loss of $5.0 million and an asset write-down of $5.7 million.
- Litigation brought by a competitor, leading to a rise in defence costs of $4.3 million. The case was decided convincingly in Redflex's favour and we are seeking to recover costs in the case. The competitor has filed an appeal against the Court's decision and we await further development.
- Write-downs of $2.7 million relating to early terminations of programs and non-renewal of programs prior to the assets being fully depreciated.
- Litigation costs where actions have been brought against Redflex and its customer cities in various jurisdictions in the USA.
- Costs associated with lobbying for essential legislative change within various jurisdictions in which we operate.
- Impact of the Global Financial Crisis, which we believe to have contributed to a reduction in the number of new contracts signed, which is likely to impact on the number of new cameras installed.
- Adverse movement in the average AU$/US$ exchange rate of approximately 18% means that the 10.4% increase in US revenue is reported as a 6.4% decrease when converted to Australian dollars.

Contrary to these factors, there are many positive signs and opportunities for the Redflex business:

- The recurring revenue model continues to generate strong cash flows from operations which has been used to fund much of the CAPX requirement, and will ensure net positive cash flow for the year ahead based on the anticipated growth rate;
- Redflex has maintained market share and its number one position in the industry;
- Operations outside the US have grown profitably over the year;
- Our experience in Arizona has advanced the organisation's maturity and will ensure an improved business approach to other state-wide opportunities in the future. Outside of the 2009/10 one-off factors Redflex's underlying profit continues to be strong;
- A number of technology initiatives are under way which will increase operational efficiency and lead to greater profit;
- Redflex continues to play a vital role in enhancing road safety and reducing the numbers of road crashes, injuries and deaths in all of the jurisdictions in which we operate.

# New Zealand

MILESTONE: Delivered 45 mobile radar speed cameras to NZ Police.

## STRATEGIC DIRECTION

The board has set the following parameters for the strategic direction of the Group:

- Reduction of risk in the business, particularly in the USA where Redflex currently assumes almost all of the risk of shared programs;
- Maximising revenue from existing, new and renewed contracts;
- Investigation of new sources of revenue from existing customers;
- Diversification of the business into related areas; and
- A specific focus on reducing the capital costs of camera systems and improving operational efficiencies through technology development.

## FINANCIAL RESOURCES

Over the year the funding of the business was derived from three sources: cash flow from operations; a capital raising comprising a placement and rights issue at $2.04 per share which raised $32.0 million; and ongoing support from our banking partners.

Our US$100million bank facility is with three Australian banks and is currently drawn to US$67.9 million. With our relatively strong cash position, net debt is approximately AU$50 million. We anticipate that we may be in a position to repay some of the bank debt in the year ahead.

The continuing support of the three participating Australian banks is appreciated, and in particular the Commonwealth Bank which had the role of lead arranger of the facility.

Over the course of the year a dividend of 5 cents per share was paid in relation to the 2009 financial year. Through the Dividend Reinvestment Plan approximately 69% of the dividend was reinvested in the company.

## ACQUISITION EXPRESSION OF INTEREST

On 9 June 2010 the company announced it had received an indicative, non-binding and confidential proposal to acquire all of the issued capital of Redflex by scheme of arrangement from a wholly owned subsidiary of Macquarie Group Limited at a price of $2.50 per share.

As a result of that proposal, the Board of Redflex, in conjunction with its financial adviser Greenhill Caliburn, has assessed a range of potential strategic options for the business.

Based on an assessment of relevant factors, including the standalone prospects of the business, the Board has determined that Macquarie Group Limited's indicative, non-binding and confidential proposal significantly undervalues Redflex. Furthermore, Redflex has been contacted by a number of other third parties.

Accordingly, the Board has decided that the interests of shareholders will be best served by commencing discussions with a number of parties to determine their interest in making an acquisition proposal for Redflex on acceptable terms. A formal process, including the entry into appropriate confidentiality arrangements with interested parties, will be undertaken to determine whether a change of control offer can be secured at a price and on terms that the Board would recommend. Macquarie will be invited to participate in that process.

There is no assurance that this process will result in any formal proposal being submitted to Redflex shareholders for their consideration. However, the Board believes that Redflex has an attractive independent future and is well positioned to deliver strong growth.

REDFLEX - MAKING A SAFER WORLD

# New South Wales, Australia

RECENT WIN: Awarded an RTA contract for a Mobile Enforcement Program.

MILESTONE: Delivered on the contract and had vans operational in a 6 week turnaround.

REDFLEX CONTINUES TO LEAD THE MARKET IN NORTH AMERICA AS THE LARGEST SUPPLIER AND OPERATOR OF OUTSOURCED ROAD SAFETY CAMERA SYSTEMS AND PROGRAMS IN THE USA.

## USA OPERATIONS

### HIGHLIGHTS

- Redflex Traffic Systems Inc continues to hold the number one position in the USA market in terms of installed cameras and new business being won in markets where it competes;
- An increase of 13.6% in USA traffic revenue compared to the previous financial year;
- An increase of 13.1% in the number of camera systems installed in the USA Build Own Operate and Maintain market from 1,661 to 1,879;
- 22 new contracts signed in the USA plus significantly, a first new contract signed in Canada, from 1 July 2009 to 30 June 2010;
- The first program in Canada with the Insurance Corporation of British Columbia to supply, install and maintain 140 intersection safety camera systems;
- The first contract in the state of New York, in the City of Rochester. Redflex now has contracts in 23 states;
- Operating the largest red-light camera program in the USA with 380 operational systems in the City of Chicago.

### NEW CONTRACTS

Redflex continues to lead the market in North America as the largest supplier and operator of outsourced road safety camera systems and programs in the USA. The rate of winning new contracts has declined somewhat, which may be indicative of the current economic circumstances in the USA market. Despite this trend, in markets where photo enforcement was expressly authorized, Redflex executed 65% more contracts than its nearest competitor. This included new contracts in key and relatively new markets including New Jersey, Virginia and New York State. Additionally, new contracts were executed in some of the largest existing markets such as California and Illinois.

In the USA, Redflex now has contracts with over 255 cities across 23 states. New contracts were signed with the following cities from 1 July 2009 to 30 June 2010:

- Carpentersville, IL
- Center Point, AL
- Chesapeake, VA
- Albemarle County, VA
- Clay, AL
- Collingswood, NJ
- Denham Springs, IL
- East St. Louis, IL
- Garfield Heights, OH
- Globe, AZ
- Hamilton, OH
- Hillsboro, OR
- Johnson City, TN
- New Brunswick, NJ
- Parma Heights, OH
- Paterson, NJ
- Rochester, NY
- San Bruno, CA
- Stratford, NJ
- Surprise, AZ
- Union City, TN
- Woodburn, OR

Plus Insurance Corporation of British Columbia, Canada

Since 1 July 2009, Redflex has renewed 36 contracts, maintaining an 85% retention rate, most of which are with long-term partner cities. A number were won through competitive tenders in incumbent cities, and in some cases the renewal includes expansion of the existing program.

Redflex also maintained an industry-leading average whereby approximately 40% of the new contracts executed included a speed enforcement component as part of the solution. This includes key contracts in the states of Arizona, Ohio, New Jersey and Tennessee.

## INSTALLATIONS

FY2010 witnessed a strong installation effort with 328 new systems activated, including a further 56 in Chicago.

During the year a total of 110 cameras were decommissioned. Installations previously dark in North Carolina and Minneapolis were written off as the likelihood of reinstatement was considered low. Programs were terminated early in Ohio due to unfavourable city level ballots and a number of installations were not renewed at contract termination dates.

This brings the total number of installed systems to 1,879 after deducting a number of installed systems that include cameras that may not be generating revenues for reasons including warning periods, road works or maintenance actions.

## MARKETING COMMUNICATION STRATEGIES

In Illinois we partnered with our customers and supporters to: manage the media interface; develop a group of advocates to write letters to the editor; blog on a micro-site about street safety; and be ready to testify in committee hearings before the state legislature. This led to positive news coverage, citizen support and new positive legislation supported by the City of Chicago, as well as other Illinois customers.

In Arizona an opposition group attempted to get an all-out road safety camera ban on the ballot for November 2010. We undertook an extensive grassroots and media effort including the support of the creation of the Safer Arizona Roads Alliance. The ban initiative failed to gain sufficient support to be placed on the November ballot.

We continue to work in each of the states in which we do business at a grassroots level to add supporters of our programs in both the public and private sectors, primarily with police and firefighters associations, health care professionals and with government affairs officials.

We have added a Director of Public Information who is tasked with supporting all of our customers' public information efforts relating to the benefits of road safety cameras.

## GROWTH INITIATIVES

This financial year Redflex Traffic Systems Inc has focused its efforts on strengthening its business model through tighter contract language, more aggressive collection efforts in key markets, strengthening its back office processes to become more efficient, and focusing on new products and services for growth outside of road safety programs.

An exciting new product added to the Redflex suite of photo enforcement systems was the introduction of the REDFLEXspeed™ Mobile TAG (Tow and Go) violation monitoring system. This field-proven speed enforcement technology is controlled and operated by Redflex's new state-of-the-art Network Operations Center (NOC). The NOC is the first of its kind in the USA and offers cities and states the next generation in mobile speed enforcement monitoring to build upon the current fleet of Redflex mobile speed units. The NOC can remotely monitor speed enforcement vehicles from a centralized location allowing for unattended duration deployments in demanding environments.

A collaborative effort of both the USA and Australian engineering teams, and also including manufacturing and field operations staff, is focusing on the next generation of product that will reduce equipment and construction costs and allow greater flexibility in re-deployment.

Planning and analysis has been completed for a three-phase rollout of automation efficiency enhancements for verification processing that will result in an uplift of 20% in detections processed per employee. This will directly reduce operational expense for processing violations and will increase overall profitability. All three phases are planned for release to achieve the 20% uplift in productivity by the end of financial year 2011.

## OPERATIONAL ACCOMPLISHMENTS

There were many cost saving initiatives implemented over the financial year that will continue into FY2011. A few of those initiatives include:

- Postal pre-sorting was implemented during the year, resulting in $241k of annualised savings during FY2010.
- A new customer service system implemented in late 2009, resulting in a 20% boost in calls attended per employee in our call centre over FY2010.
- A new electronic application was developed and tested for deployment to automate part of the screening and rejection process, resulting in a 6.8% reduction in labor per detection in operations processing.
- Work is under way to improve and standardize program reporting for customer cities. This will improve the quality of reporting and streamline the internal processes.

## ARIZONA DEPARTMENT OF PUBLIC SAFETY CONTRACT

As previously reported, the Arizona statewide enforcement program expired on 15 July 2010. As a result of this non-renewal there was a write-down of the assets in the amount of $5.7 million.

While it was a disappointing loss for Redflex, the program was hugely successful in its impact to public safety and accident reduction. In the first year of the program, the State of Arizona experienced:

- 17.6% (2,940) fewer property damage collisions;
- 18.5% (1,189) fewer injury collisions; and
- 19.2% (43) fewer fatal collisions (24 fewer lives lost).

In addition to the write-down, the contract resulted in significant operating losses of $5.0 million over the year (prior to any allocation of operating costs) as a result of low collection rates, inadequate legislative support for collections, resource constraints in the court system that resulted in a large number of citations being dismissed, opposition from special interest groups and adverse media coverage. The court issues appeared to be largely resolved and there were signs of improvement in the collection rates. We had expected that the performance of the contract would have improved over time had it been continued.

## FIELD OPERATIONS

The USA field operations team has focused on process improvement, efficiencies, and expense reduction in FY10. The team has constructed and enabled 328 new camera systems and performed maintenance on the total installed base without any additions to headcount over the past 12 months. They have also achieved an overall reduction in capital costs per camera installed and associated ongoing maintenance expense.

Initiatives driving this success have been:

- Robust rollout of digital camera monitoring software/systems;
- Centralisation of administrative and monitoring duties formerly done by remote field technicians;
- Cross-utilisation of installation and maintenance manpower based on cyclical project loads; and
- Improved violation throughput and reduced failure rates through hardware and software enhancements.

The department will continue to improve efficiencies through continued implementation and improvements of the Network Operations Center to further facilitate the centralisation of systems intelligence and monitoring. Also, joint USA/Australian development will enhance system health monitoring and self healing system software features. This portfolio of solutions is called Smartcheck/Smartview Plus, and will drive additional expense savings both in field operations and the processing centers.

## LEGISLATIVE ENVIRONMENT

Redflex continues to lead the industry in proactively seeking to enable and improve the statutory basis for road safety systems as well as defend against adverse developments.

An attempt to garner enough votes to cause a state-wide ban of photo enforcement in Arizona failed in part due to our ongoing legislative and grassroots efforts. Currently, there are expected to be at least four voter initiatives in local cities seeking to repeal photo enforcement enabling ordinances. One of these cities is a Redflex customer. These types of efforts are expected to arise from time to time at both a municipal and state level and we are actively implementing measures to defend against them.

Citizen ballots were lost in Chillicothe and Heath in Ohio, resulting in mid-term terminations of these contracts. The company has recorded write-downs of $660k during the year. We are taking action to recover losses incurred as a result of these cancellations. The outcome of these actions is uncertain.

While the overall acceptance of road safety enforcement programs continues to rise, a vocal minority persists in trying to appeal to various political leaders and attract media headlines with their efforts opposed to photo enforcement.

Representatives from multiple state legislatures continue to introduce bills that either seek to limit or remove road safety enforcement technologies. Redflex is using its network of advisors and municipal customers to defeat these efforts and concurrently promote new laws or amendments to existing law that enhance the efficiency and stability of road safety enforcement programs.

Redflex is also working proactively to seek legislative approvals in new states.

The following is a review of current legislative developments in the USA:

- In Arizona, despite various bills pending with a range of provisions, the 2010 legislative session ended without passage of material changes in the laws enabling photo enforcement.
- California: The 2010 session remains in session and is expected to continue well into FY2011 pending resolution of state budget issues. There are currently two bills that seek to curtail photo enforcement programs state-wide, as well as budget provisions that would have a negative impact if approved. We have worked very hard to protect and improve our interests in this critical market. At this time it is difficult to gauge the likelihood of speed-enabling legislation passing during the 2010 session.
- Florida: Enabling legislation for red-light road safety programs was passed during the 2010 legislative session.
- New Jersey: The 2010 legislative session concluded without substantial changes to the laws governing our industry.
- In Missouri, efforts to ban photo enforcement were defeated during the 2010 legislative session. We will actively pursue efforts to clarify state law to allow for enhanced red-light programs as well as speed during the 2011 session.
- In Ohio, Tennessee, Georgia, Louisiana and Washington, attempted banning legislation failed. Prospectively, we believe there are opportunities to enhance current enabling laws in some if not all of these states.
- In Pennsylvania, a bill enabling red light enforcement has passed one of the two legislative bodies and is expected to be voted on by the remaining legislative body in September.

## LEGAL ENVIRONMENT

The level of litigation industry-wide has continued to be widespread with the majority of suits testing the constitutionality or administrative legitimacy of road safety enforcement programs. Redflex continues to systematically and successfully cause dismissals to occur through motions to dismiss or summary judgment on virtually all matters brought on a constitutional or administrative basis including claims involving due process, right to privacy, private investigators licenses, and city enabling ordinance issues.

A suit brought by a competitor in 2008 involving claims of false advertising ended with Redflex comprehensively winning the case in the Federal Court in Arizona. The competitor is appealing this decision to the 9th Circuit in San Francisco. In December 2009, Redflex filed suit against this same competitor in which Redflex claims the competitor engaged in false advertising. This case is expected to proceed to trial (failing settlement or dismissal) during the 2012 financial year.

A number of class action lawsuits involving others in our industry and Redflex have been filed challenging the pricing models used in several states alleging violation of cost neutrality laws as well as the admissibility of business records in court. We continue to aggressively defend against these claims.

Overall, Redflex experienced success in suits brought against the company and its partner cities with cases dismissed in Arizona, California, Illinois, Kentucky, New Mexico, Ohio, Texas, Tennessee, Washington and Louisiana during calendar year 2010.

## AUSTRALIA/INTERNATIONAL BUSINESS

The Australian/International business has continued to perform well despite the challenging economic environment.

### NEW SOUTH WALES

A significant highlight of the year was the award of the Roads and Traffic Authority of New South Wales Interim Mobile Enforcement Program. This is an interim solution to provide and operate six in-car mobile cameras throughout the state of New South Wales. The win was of strategic importance to Redflex as there is significant growth potential in the New South Wales market.

In New South Wales our other opportunities continue to grow. Our point-to-point camera system was approved for enforcement purposes in the state. A fully optioned system has been installed at Bathurst and commenced enforcement of trucks in July. The cameras use optical character recognition to record the number plate of a vehicle as it passes a first camera, which is then compared with an image of the vehicle as it passes a second camera. The average speed is calculated and any vehicle with average speed exceeding the speed limit is prosecutable.

Redflex was also selected to supply 44 red right camera systems, out of 66 tendered, to the RTA NSW.

We also won a tender to provide Bus Lane Enforcement camera systems for installation in Sydney. The world leading Redflex Bus Lane Enforcement System also received recognition with the award for Excellence in Technology/Innovation from the Chartered Institute of Logistics & Transport Australia in NSW. The system uses a very sophisticated combination of Redflex camera, automated number plate recognition and video technology to enforce the proper use of bus lanes throughout the city.

### NORTHERN TERRITORY

Redflex continues to provide outsourced notice processing services to the Government of the Northern Territory. In combination with the RTA program, Redflex now provides full end-to-end enforcement services in Australia.

### VICTORIA

In Victoria, our close working association with the Department of Justice has resulted in a series of wins. In this financial year, we have delivered or are delivering a total of 40 red-light and speed cameras throughout the State.

### SOUTH AUSTRALIA

In South Australia we won the tender for the supply of enforcement cameras for the next three years. The tender contains a very extensive scope covering red light/speed cameras, fixed speed cameras, point-to-point cameras and railway crossing enforcement cameras. The Department for Transport, Energy and Infrastructure will issue purchase orders under the contract for supply as required. We have delivered red-light and speed cameras and rail crossing cameras and we are installing a trial point-to-point system in FY2011. Our back-office software system has been upgraded to issue infringements for unregistered or uninsured vehicles.

### WESTERN AUSTRALIA

Working to tight deadlines in Western Australia, we have installed 12 red-light and speed cameras and have upgraded our Image and Infringement Processing Software (IIPS) to issue infringements. We have also installed an Automatic Number Plate Recognition system for the Western Australia Main Roads Department to monitor truck travel times to the Port of Fremantle.

## QUEENSLAND

We continue to enhance our IIPS ticket processing system delivered to the Queensland Police Service. We have also commenced a trial of two point-to-point systems on the Bruce Highway near Brisbane, a pilot red-light/speed system in the Brisbane CBD, and a mobile radar unit.

## INTERNATIONAL BUSINESS

### New Zealand

Our business in New Zealand continues as our mobile radar system has been approved and we have delivered systems to the New Zealand Police. The systems have been commissioned and are now live. We continue to support the success of the Mobile Speed Camera program.

### Ireland

Continuing with our progress in Ireland (as a member of the Go Safe Consortium), the Prime Contract was signed by the Minister for Justice, the Minister for Transport and the Garda Commissioner for Ireland. The outsourced enforcement camera project is a five year service program with a possible extension for another year. The Go Safe Consortium comprises Redflex, Spectra (in Ireland) and Egis Projects SA (in France). Installation of the IIPS ticket processing system has commenced, as has the roll-out of the mobile radar camera equipment.

### Qatar

Our traffic safety program in Qatar is still one of the largest programs in the region and continues to grow, with the installation of 12 freeway speed camera systems in the capital city of Doha.

### Saudi Arabia

Another major project came to fruition after many years of negotiations. In October 2009, we signed a number of contracts for the Saudi Arabia ATVAM Project. The project encompasses the supply of mobile radar cameras, fixed cameras, ticket processing software and the outsourced management and operation of the back-office processing centre. Redflex has commenced roll-out of the program which has the potential to become a large ongoing revenue stream for the company.

### Hong Kong

In Hong Kong Redflex has supplied and installed the first stage of our 20 radar-based speed only camera systems. The systems are to be rotated among 100+ fixed locations on Hong Kong roads and freeways which are to be installed over the coming year.

### Canada

The team has also been delivering IIPS to the Insurance Corporation of British Columbia, for use along with Redflex red-light and speed cameras being installed throughout the Province.

## RESEARCH AND DEVELOPMENT

Our research and development activities continue with the development of a lane specific speed enforcement radar system and integration of secondary speed verification systems into our radar products. Secondary speed verification systems use two independent speed measurement devices to provide a "double-check" on any prosecution. This provides jurisdictions with peace-of-mind that the enforcement system is continually monitored for accuracy and performance.

Our back-office team is working on productivity improvements for our USA operation. A printing solution has been developed to extract efficiencies in our back-office in Phoenix. We are also providing efficiency and automation systems for use in the maintenance of our camera network. Our Digital Camera Management System monitors the camera network and will automatically detect issues and raise alarms.

## APPROVALS

We are continuing with our drive into new markets by seeking technical approvals in various European countries. Type approval was granted for the new Radarcam systems by the Nederlands Meetinstituut (NMi) in The Netherlands. This NMi approval can be used to support type approval in other European countries. NMi has approved the Redflex radar system to operate as a fixed enforcement camera and a mobile enforcement camera installed either in a car or on a tripod. In Turkey, our Red-Speed product has been approved by the National Metrology Institut. The REDFLEXpoint-to-point system has been approved for enforcement in NSW.

## AMERICAN DEPOSITARY RECEIPTS

The ADR program has continued this year. It has been in operation since April 2005, and it allows USA-based investors to acquire a security that is traded in the USA. ADRs trade as RFLXY on the Over the Counter (OTC) market. Each ADR corresponds to 8 Redflex Ordinary shares.

## OUTLOOK FOR THE 2011 FINANCIAL YEAR

With the termination of the Arizona state wide program and the win for Redflex in the litigation brought by a competitor, two of the largest negative effects of the 2009/2010 financial year are now behind us and we can focus on building the business and delivering value to shareholders.

Notwithstanding the adverse economic climate in the USA, we still expect to see robust annual growth in the number of new installations which will in turn drive revenue growth.

We continue to renew approximately 85% of the contracts that run full term and are up for renewal. Most of the cities that do not renew at end of contract have made a decision not to continue photo enforcement activity, and do not move their business to a competitor. We have also seen a small number of contracts terminated for various reasons before end of contract.

The industry in the USA has seen some consolidation over the year with three of our smaller competitors no longer in business in their own right. Either the businesses or the contracts were acquired by a competitor. We looked at those opportunities but could not see the value for shareholders in acquiring at the price at which those businesses changed hands.

Collection rates, particularly for our contracts where we receive payments based on the number of paid citations, continue to be under pressure with the financial stress still being felt by citizens of the USA.

We will continue to invest in research and development at the rate of around 3% of revenue. This is considered essential to maintain our competitive position in the market in the USA.

The economic environment globally remains largely unpredictable with sustained issues in the USA and continuing problems in Europe. We are exposed to those effects to some extent, but are unable to predict the impact they may have on our business around the world.

In summary, our underlying business remains strong, robust growth is anticipated, and with the removal of the major negative effects of FY2010 on our business we expect a substantially improved profit performance for the year ahead.

Longer term growth in the business will be driven by a more focused sales strategy looking at each state in the USA separately, lower cost technology enforcement solutions (resulting in capex reductions) and a move to a fully integrated information technology platform (which should reduce the costs to process, operate and support the business, while creating the ability to grow the business with little to no increased costs).

## THANKS

Once again, I take this opportunity to express my thanks to all who have contributed to Redflex over the past year. Thank you to all staff who through their commitment and hard work have built Redflex to what it is today. Thanks also to Redflex's customers, suppliers, financiers, advisers, shareholders and to my fellow board members for their support over the past year. We are expecting a great year in FY11 and a bright future for Redflex.

Graham Davie

Chief Executive Officer

30 September 2010

## DIRECTORS'

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.

### MAXWELL FINDLAY – B.EC(POL)

**NON-EXECUTIVE CHAIRMAN**

Mr Findlay has over 20 years experience in marketing and general management roles in the industrial and manufacturing industries in Australia and internationally. From 1990 to 2008 Mr Findlay was managing director of Programmed Maintenance Services Ltd where he successfully grew PMS from $50m to $850m in sales. Prior to joining Programmed Maintenance Services, Mr Findlay's experience included 11 years with Australian Consolidated Industries, 3 years with Smith & Nephew and 5 years with James Sephton Plastics.

He currently serves on the Board of EVZ Limited as Chairman, and as a director of SMEC Holdings Limited, Skilled Group Limited and The Royal Children's Hospital. Mr Findlay was previously a director of TSV Limited and Service Stream Limited.

Mr Findlay was appointed on 19 November 2009.

### GRAHAM DAVIE – B.SC, GRAD DIP MIL AV

**CHIEF EXECUTIVE OFFICER**

Mr Davie has been the Chief Executive Officer of the Redflex Group since 2002 and previously held the position of Managing Director of the Redflex Communications business since 1993. He has had ten years experience with the RAAF in engineering design and development, maintenance engineering, software development and support, specification of major systems, and project management.

His expertise also includes airborne avionics, flight simulation, avionics automatic test equipment, air traffic control communications and control systems, airport information display systems, and development of graphics software and system support. During the last three years Mr Davie has not been a director of any other listed public companies.

### IAN DAVIS – LLB (HONS)

**NON-EXECUTIVE DIRECTOR**

Mr Davis is a senior partner and previously National Chairman of International law firm Minter Ellison. He has acted for a number of major listed public companies in analysing and reporting on key matters of corporate governance relevant to boards and has acted in the ASX listing of numerous companies, either for the company or the underwriter. He has had extensive involvement in commercial enterprises in Asia, particularly China and Japan and has advised Australian corporates and investors in formulating business strategies for Asia, including acting for them in their joint ventures, supply arrangements and transactions.

Mr Davis is Chairman of MaxiTrans Industries Limited since it became publicly listed in 1995 and Chairman of the Produce and Gocery Industry Code Administration Committee since its inception in 2000. Mr Davis was non executive Chairman of UCMS Group Ltd from November 2006 to August 2009, and is a former non executive Chairman and a former non executive director of a number of publicly listed and private companies.

Mr Davis was appointed on 19 November 2009.

## ROBIN DEBERNARDI

**NON-EXECUTIVE DIRECTOR**

Mr Debernardi is a prominent businessman who has had significant success in a diverse range of businesses. His achievements include the creation of a product range within the horticultural industry, which continues to boast household name recognition decades later.

Mr Debernardi has enjoyed further successes in the arena of commercial and rural property development in Victoria and Queensland. He brings substantial experience in assisting companies involved in high growth phases of their development.

Mr Debernardi was appointed on 19 November 2009. He previously served on the board of Redflex from 2002 to June 2009.

## KAREN FINLEY

**CHIEF EXECUTIVE OFFICER, REDFLEX TRAFFIC SYSTEMS INC**

Ms Finley is President and CEO of Redflex Traffic Systems Inc in Phoenix, Arizona. She was appointed to that position in 2005 having started with Redflex as director of operations in 1998 when the company had only three USA contracts. She has extensive knowledge of the business, its competitors and the markets in which it operates, and has successfully ushered the business through enormous expansion.

Ms Finley was born in Columbus, Ohio, and spent most of her youth in Colorado. Before joining Redflex, Ms Finley was director of corporate services for Scottsdale Insurance Company. Ms Finley has a Masters in Business Administration-Finance and a bachelor's degree in business management from the University of Phoenix. She also attended the Center for Creative Leadership in San Diego. Ms Finley lives in Arizona. During the last three years Ms Finley has not been a director of any other listed public companies.

## RONALD LANGLEY – B.COMM

**NON-EXECUTIVE DIRECTOR**

Mr Langley is a very experienced director having sat on the boards of more than 20 listed companies around the world including companies listed on the New York Stock Exchange, NASDAQ, Zurich Stock Exchange, Hong Kong Stock Exchange, the Toronto Stock Exchange and ASX. He is well-versed on corporate governance issues and has been on all of the various vital committees such as audit, nominating, compensation and special M & A teams. He also brings to Redflex a USA perspective and a Sydney base.

Mr Langley was born in Australia and graduated in Commerce from NSW University. Up to 2008 he spent 25 years in the USA, initially running an international subsidiary of Brierley Investments Limited in North America and subsequently was Executive Chairman of PICO Holdings Inc, a very successful insurance, water rights and property company with significant strategic investments in the USA, Switzerland, Australia and New Zealand. He retired from active executive and Chair duties in 2007. He was appointed non executive Chairman in 2010. He continues to travel regularly to the USA.

During the last 3 years, Mr Langley has been a director of PICO Holdings Inc, listed in the USA, Jungfraubahn Holding AG, listed in Switzerland, and Guinness Peat Group plc, listed in the United Kingdom, Australia and New Zealand.

### CHRISTOPHER COOPER - LLB, B.COM. - (NON-EXECUTIVE CHAIRMAN)

Mr Cooper retired from the board on 19 November 2009

Mr Cooper practiced as a barrister and solicitor between 1977 and 2008. He has been involved in commercial real estate development, and investment management as well as being an owner and operator of aged care health facilities from 1985 to 2001. Mr Cooper is a principal and agent manager for significant share investment portfolios and a director and manager of numerous private investment companies and trusts.

### PETER LEWINSKY - B EC, MBA, FCA, SF FIN — (NON-EXECUTIVE DIRECTOR)

Mr Lewinsky retired from the board on 19 November 2009.

Mr Lewinsky conducted a private investment banking and corporate advisory practice since 1991 following 12 years investment banking and stockbroking experience in Australia and internationally. He has undertaken a range of corporate finance transactions and managed a number of major projects for the boards and shareholders of public, private and government organizations. Mr Lewinsky held a number of board and audit committee appointments for public listed, private and government organizations including the Chair of the Audit Committee of the Victorian Government's Department of Primary Industries and was a member of the Audit Committee of the Department of Innovation, Industry and Regional Development.

### ROGER SAWLEY – B ENG (MECH), M ENG (MECH), (NON-EXECUTIVE DIRECTOR)

Mr Sawley retired from the board on 19 November 2009.

Born and educated in Australia, Mr Sawley moved to the USA in 1966 to join the internationally recognised consulting, research and development firm of Bolt Beranek and Newman Inc where he obtained and managed government and corporate contracts. After leaving BBN he moved into the arena of capital markets. Mr Sawley had broad-ranging experience in business management, capital markets and engineering and held senior positions for relationships with major institutional clients for such firms as A G Edwards & Sons Inc, CIBC Oppenheimer & Co Inc and Jefferies and Company Inc.

### DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

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

| | Number of Relevant Interests over Ordinary Shares | Number of Performance Rights over Ordinary Shares |
|---|---:|---:|
| Max Findlay | 0 | 0 |
| Graham Davie | 1,794,081 | 208,371 |
| Ian Davis | 45,000 | 0 |
| Rob Debernardi | 3,171,783 | 0 |
| Karen Finley | 296,048 | 243,628 |
| Ron Langley | 280,644 | 0 |

### COMPANY SECRETARY - MARILYN STEPHENS

Marilyn Stephens has been the Company Secretary of Redflex Holdings Limited since it listed on ASX in 1997. Prior to that she was the Company Secretary and Administration Manager of various companies within the Redflex Group for 9 years.

## DIVIDENDS

Directors have decided that it is appropriate to declare a fully franked dividend of 5.0 cents per share (2009: 5.0 cents).

| | Cents | $'000 |
|---|---|---|
| Final dividend recommended on ordinary shares | 5.0 | 5,501 |
| Declared post balance sheet date and not provided for within FY2010 | | |
| Final dividend for FY2009 shown as recommended in the 2009 financial report. | 5.0 | 5,424 |
| These amounts were not recognised as a liability in FY2009 but brought to account in financial year 2010 | | |

## PRINCIPAL ACTIVITIES

The principal activities during the financial year of entities within the consolidated entity were:

- Provision of road safety camera programs including red light and speed photo enforcement systems and back office processing services for jurisdictions within the USA by Redflex Traffic Systems Inc, and
- Manufacture and supply of traffic cameras and back office processing systems to world-wide markets by Redflex Traffic Systems Pty Ltd.

## OPERATING AND FINANCIAL REVIEW

### GROUP OVERVIEW

Redflex Holdings Limited commenced operation in 1995 and has been listed on the Australian Securities Exchange since 1997.

The company's vision is to enhance public safety through innovative technologies. A particular focus of the company is to provide red-light and speed photo enforcement solutions.

The Group comprises two main subsidiaries – Redflex Traffic Systems Inc based in the USA with a primary focus on the large North American market, and Redflex Traffic Systems Pty Ltd that focuses on the international market outside of the North American region.

A Build Own Operate Maintain (BOOM) business model prevails in the USA where Redflex provides a comprehensive range of services to customers on a fully outsourced basis, with revenue flowing over contract terms of typically three to five years with optional extension periods. The international business comprises a mix of product sales, support contracts and BOOM contracts.

### PERFORMANCE INDICATORS

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

Key performance indicators (KPIs) are used to monitor performance. Key management personnel regularly monitor KPIs and directors receive the KPIs for review prior to each monthly board meeting enabling all directors to actively monitor the Group's performance.

## OPERATING RESULTS FOR THE YEAR

The Group's net profit from operations for the year after income tax is $715,000 (2009: $9,633,000), representing a decrease of 92.6% from the previous year (see table over page).

Revenue from operations was $136.6 million (2009: $130.9 million), representing an increase of 4.3% from the previous year. The increase in revenue was predominantly due to an increase in the number of revenue generating camera installations within the USA Build Own Operate and Maintain business.

The business, excluding head office charges, achieved a pre-tax operating profit from operations of $3.0 million, down 82.2% from $16.9 million in the previous financial year.

The cash generation from the traffic business is strong despite a 26.4% decrease in EBITDA, down from $48.8 million in the previous financial year to $35.9 million (excluding head office charges).

Pro forma results of continuing operations, excluding the effect of non-recurring impairment charge and write-offs attributable to decommissioned camera systems within the USA are reconciled as follows:

## REVENUE

| | First half | Second half | 2010 | 2009 | Change |
|---|---|---|---|---|---|
| Revenue | $'000 | $'000 | $'000 | $'000 | % |
| USA Traffic business | 53,272 | 53,959 | 107,231 | 114,543 | (6.4) |
| Australian Traffic business | 11,709 | 17,061 | 28,770 | 16,373 | 75.7 |
| Head Office interest income | 103 | 487 | 590 | 9 | |
| Revenue | 65,084 | 71,507 | 136,591 | 130,925 | 4.3 |

## EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

| | First half | Second half | 2010 | 2009 | Change |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | % |
| Traffic business | 21,942 | 13,963 | 35,905 | 48,813 | (26.4) |
| Head Office costs | (2,013) | (908) | (2,921) | (3,347) | 12.7 |
| EBITDA | 19,929 | 13,055 | 32,984 | 45,466 | (27.4) |

## NET PROFIT BEFORE TAX

| | First half | Second half | 2010 | 2009 | Change |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | % |
| Traffic business | 6,950 | 4,909 | 11,859 | 18,564 | (36.1) |
| Impairment of plant and equipment | (622) | (7,816) | (8,438) | (1,600) | (427.4) |
| Head Office costs | (2,037) | (942) | (2,979) | (3,593) | 17.1 |
| Net profit before tax | 4,291 | (3,849) | 442 | 13,371 | (96.7) |

## NET PROFIT AFTER TAX

| | First half | Second half | 2010 | 2009 | Change |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | % |
| Net profit from operations | 2,855 | (2,140) | 715 | 9,633 | (92.6) |
| Net profit after tax | 2,855 | (2,140) | 715 | 9,633 | (92.6) |

## SHAREHOLDER RETURNS

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Basic earnings per share (cents) | 0.68 | 10.54 | 11.79 | 8.25 | 4.71 |
| Net Tangible Asset backing per share (cents) | 91.69 | 83.64 | 62.88 | 66.2 | 75.6 |
| Return on assets (%) | 0.31 | 4.7 | 8.4 | 6.8 | 3.6 |
| Return on equity (%) | 0.61 | 10.8 | 15.6 | 11.1 | 12.0 |
| Interest bearing debt/equity ratio (%) | 69.5 | 91.6 | 50.0 | 32.9 | 31.1 |
| Available franking credits ($'000) | 5,931 | 7,839 | 7,808 | 4,749 | 2,358 |

## REVIEW OF FINANCIAL CONDITIONS

### LIQUIDITY AND CAPITAL RESOURCES

The statement of cash flows illustrates there was an increase in cash and cash equivalents in the year ended 30 June 2010 of $22.2 million (2009: increase of $3.13 million). The increase in cash flow compared to the prior year is caused by a number of factors.

Operating activities generated $23.2 million of net cash in-flows.

Cash flows used in investing activities reflect the installation of 328 red light and speed enforcement cameras in the USA.

Cash flows from financing activities show a net increase of $32.6 million of which $32.1 million was from new equity raising.

### ASSET AND CAPITAL STRUCTURE

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Interest bearing borrowings | (80,622) | (81,874) |
| Cash at bank and at hand and restricted cash | 37,474 | 15,222 |
| Net debt | (43,148) | (66,652) |
| Total equity | 116,087 | 89,380 |
| Total capital employed | 72,939 | 22,728 |
| Gearing (%) | 37.2% | 74.6% |

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

## SHARES ISSUED DURING THE YEAR

17,937,543 ordinary shares were issued during the year.

Shares issued during the year arose from: a placement of 7,500,000 shares and a rights issue of 8,297,768 shares at a price of $2.04; the issue of 1,538,627 shares at a price of $2.29 in respect of shareholders who participated in the Dividend Reinvestment Plan; and 601,148 shares in respect of the vesting of performance rights pertaining to executive remuneration, details of which are shown within the Remuneration Report.

### ISSUE OF PERFORMANCE RIGHTS

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

## PROFILE OF DEBTS

The Group's only major funding facility is a revolving credit facility for US$91.5 million (year end equivalent AU$106.8 million), which was established to permit the installation in the USA of capital intensive camera systems, together with an AU$11.5 million facility to address international and local business. The facility is required to fund that part of capital expenditure that cannot yet be covered by the cash generated from operating activities within the USA Traffic business. The facility does not have to be paid back until June 2012. It is expected that the term of this facility will be extended prior to that time.

## CAPITAL EXPENDITURE

Under the terms of most contracts undertaken by the USA Traffic business, the company is required to fund all the equipment and costs for camera system installations. With 328 new camera systems installed during the year, capital expenditure of US$29.85 million was incurred. This was also affected by an adverse movement of approximately 6.4% in the AU$/US$ exchange rate between the opening and closing exchange rates.

The USA Traffic division owns the capital assets located at intersections, and derives recurring revenue streams by way of a fixed or variable monthly rental based on red light and speed ticket infringements issued, or paid or a monthly fixed fee.

## TREASURY POLICY

The Group has established a treasury function, coordinated by Redflex Holdings Limited, which is responsible for managing currency risks and finance facilities. It operates within policies set by the board which is responsible for ensuring management's actions are in line with Group policy.

Transaction hedging is undertaken through the use of foreign exchange contracts and hedges are used where significant exposures exist. Translation effects are not hedged.

The interest rate exposures remain unhedged in line with Group policy.

## RISK MANAGEMENT

The Group takes a proactive approach to risk management. Through the Audit and Risk Management Committee the board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with objectives.

The board regularly monitors the operational and financial performance of the company and the consolidated entity against budget and other key performance measures. The board also reviews and receives advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all the significant identified risks of the business.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board including 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 (KPIs) of both a financial and non-financial nature.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased from $89.4 million to $116.1 million, an increase of $26.7 million. This was offset by amounts taken to the Foreign Currency Translation Reserve arising from conversion of the USA entity in US$ against a slightly weakened Australian dollar.

On 10 September 2009 the company announced a capital raising of up to approximately $32 million for the purposes of strengthening the company's statement of financial position and supplementing existing banking arrangements, as well as allowing the company to respond to new opportunities as and when they arise.

The capital raising comprised a private placement of 7.5 million ordinary shares at a price of $2.04 per share on 23 September 2009, and a Rights Issue consisting of a non-renounceable offer of 1 fully paid ordinary share for every 12 ordinary shares held at 23 September 2009, with an ability for applications for additional shortfall shares also at $2.04 per share. The offer was made without a prospectus pursuant to Part 6D.2 of the Corporations Act as notionally modified by CO 08/35. The Rights Issue closed on 14 October 2009 and it was not underwritten.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no other significant events subsequent to year end and prior to the date of this report that have not been dealt with elsewhere in this report.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Significant growth in the next financial year is expected within the Traffic division. The company has set internal installation rates for cameras in the USA which can be met largely from existing contracts and selections. This growth will be funded from cash generated from operations.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

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

## SHARE OPTIONS

### Unissued shares

At the date of this report there are 1,932,639 performance rights on issue. At 30 June 2010 there were 1,932,639 (2009: 1,962,012).

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has agreed to indemnify the current directors of the company: Max Findlay, Ian Davis, Rob Debernardi, Ron Langley, Graham Davie and Karen Finley and the Company Secretary and all executive officers 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.

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify any auditor of the company or any related entity against a liability that may arise in their capacity as an auditor.

## DIRECTORS' MEETINGS

Directors' meetings held and attended during the year ended 30 June 2010, and up to the date of this report were:

| | Board | Audit and Risk Management Committee | Remuneration Committee |
|---|---|---|---|
| Number of meetings held | 32 | 5 | 2 |
| Number of meetings attended | | | |
| Max Findlay | 19 | 2 | 1 |
| Graham Davie | 31 | - | 2 |
| Ian Davis | 18 | 3 | 2 |
| Rob Debernardi | 20 | 2 | 2 |
| Karen Finley | 29 | - | - |
| Ron Langley | 29 | 4 | 2 |
| Christopher Cooper | 12 | 2 | 1 |
| Peter Lewinsky | 12 | 2 | 1 |
| Roger Sawley | 12 | - | - |

Mr Findlay, Mr Davis and Mr Debernardi were appointed to the board on 19 November 2009.

Mr Cooper, Mr Lewinsky and Mr Sawley retired from the board on 19 November 2009.

## COMMITTEE MEMBERSHIP

At the date of this report the company has an Audit and Risk Management Committee, a Remuneration Committee, and a Nomination Committee which comprises the full board.

Committee members during the year were:

| Audit and Risk Management | Remuneration | Nomination |
|---|---|---|
| Ian Davis (appointed Chair 19 November 09) | Ron Langley (appointed Chair 19 November 09) | Full board |
| Max Findlay | Ian Davis | |
| Ron Langley | Rob Debernardi | |
| Peter Lewinsky | Peter Lewinsky | |
| Christopher Cooper | Christopher Cooper | |
| Rob Debernardi | | |

Mr Findlay, Mr Davis and Mr Debernardi were appointed to the board on 19 November 2009.

Mr Cooper, Mr Lewinsky and Mr Sawley retired from the board on 19 November 2009.

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100.

## AUDITOR INDEPENDENCE

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

## NON AUDIT SERVICES

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

Total non-audit, assurance related services provided by Ernst and Young in FY2010 amounted to $135,000.

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

In relation to our audit of the financial report of Redflex Holdings Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ashley C. Butler
Partner
30 September 2010
Melbourne, Australia

## REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements for directors and executives of Redflex Holdings Limited and its subsidiary companies in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive Officers, senior executives and company secretary of the parent and the Group:

| | |
|---|---|
| Graham Davie | Chief Executive Officer |
| Karen Finley | Chief Executive Officer, Redflex Traffic Systems Inc |
| Ron Johnson | Group Chief Financial Officer |
| Aaron Rosenberg | Vice President Business Development, Redflex Traffic Systems Inc |
| Andrejs Bunkse | General Counsel, Redflex Traffic Systems Inc – appointed 1 August 2009 |
| Sean Nolen | Chief Financial Officer, Redflex Traffic Systems Inc – appointed 11 January 2010 |
| Ricardo Fiusco | General Manager, Redflex Traffic Systems Pty Ltd |
| Marilyn Stephens | Company Secretary |
| Michael Browne | Chief Financial Officer, Redflex Traffic Systems Inc – resigned 1 September 2009 |

### REMUNERATION COMMITTEE

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for directors and executives. On a periodic basis the Committee assesses the appropriateness of the nature and amount of remuneration of executives by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing board and executive team.

The Remuneration Committee engages external consultants for advice on strategy and processes to ensure best practice, and to benchmark remuneration arrangements against the industry and the markets in which Redflex operates.

The Chief Executive Officer's remuneration is determined by the board.

### REMUNERATION PHILOSOPHY

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Have a significant portion of executive remuneration 'at risk' dependent upon meeting pre-determined performance benchmarks; and
- Establish appropriately demanding performance hurdles in relation to variable remuneration.

### REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

REMUNERATION REPORT (AUDITED) - CONTINUED

## NON-EXECUTIVE DIRECTOR REMUNERATION

### Objective

The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Non-executive directors are encouraged to hold shares in the company as it is considered good practice for directors to have a stake in the company on which board they sit.

### Structure

The 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 on 25 November 2005 when shareholders approved an aggregate remuneration of $400,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fixed fee for being a director inclusive of any fee payable for the additional time commitment made by directors who serve on one or more sub committees.

Non-executive directors do not participate in any incentive programs.

## EXECUTIVE REMUNERATION

### Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities so as to:

- Reward individual and business unit performance against appropriate benchmarks;
- Align the interests of executives with those of the shareholders; and
- Ensure total remuneration is competitive by market standards.

### Structure

In determining the level and make up of executive remuneration, the Remuneration Committee engages an external consultant as needed to provide independent advice.

The elements of executive remuneration are:

- Fixed Remuneration (base salary and superannuation benefits),
- Variable remuneration - Short Term Incentive (STI), and
- Variable remuneration - Long Term Incentive (LTI).

The proportion of fixed remuneration and variable remuneration is established for each senior executive by the Remuneration Committee as set out in the following tables.

In the year ended 30 June 2010, the basis for executive remuneration was a combination of Fixed Remuneration, STIs in the form of cash bonuses, and LTIs in the form of the vesting of performance rights.

## FIXED REMUNERATION

### Objective

Fixed Remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

## REMUNERATION REPORT (AUDITED) - CONTINUED

### Structure

Executives are given the opportunity to receive their fixed remuneration by way of a limited range of benefits such as superannuation and pension plans and motor vehicles, to suit employee preferences, consistent with legal and market practices in each country in which we operate. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the company.

Fixed Remuneration for the Chief Executive Officer of Redflex Holdings Limited, the Chief Executive Officer of Redflex Traffic Systems Inc, and the executives of Redflex Holdings Limited including the Company Secretary, is reviewed by the board each year. Fixed Remuneration for direct reports to the two Chief Executive Officers is reviewed each year by them who report to the board with recommendations for the following year.

### VARIABLE REMUNERATION - SHORT TERM INCENTIVE (STI)

### Objective

The objective of the STI program is to link the achievement of the company's operational targets with the remuneration received by the executive charged with meeting those targets. The potential STI is set at a level such as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

### VARIABLE REMUNERATION - SHORT TERM INCENTIVE (STI) - CONTINUED

### Structure

Actual STI payments granted to each executive will depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance. The non financial measures are evaluated against individually set performance objectives. Measures such as contribution to net profit before tax, customer service, risk management, product management, and leadership/team contribution are typically included. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

The Group has predetermined benchmarks that must be met in order to trigger payments under the STI Plan. On an annual basis, after consideration of performance against KPIs, an overall performance rating for the company and each individual business unit is approved by the Remuneration Committee. Targets are set by a cascade process from the board through the executive group. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the STI pool that is allocated to each executive. The process usually occurs within three months after the reporting date.

The aggregate of annual STI payments available for executives is subject to the approval of the Remuneration Committee. Payments made are delivered as a cash bonus in the following reporting period.

### STI bonus for 2009 and 2010 financial years

For the 2009 financial year, 30% of the STI cash bonus of $979,000 as previously accrued in the period vested to executives was paid in the 2009 year. There were no forfeitures.

The Remuneration Committee has considered the STI payments applicable to the 2010 financial year. The maximum STI cash bonus for the 2010 financial year is $1,386,504. Of this amount $478,124 or 34.5% of the maximum STI payable has been accrued on the basis that it is probable that the executives will partially meet their respective KPIs for the period. Any adjustments between the actual amounts to be paid as determined by the Remuneration Committee and the amounts accrued will be adjusted in the 2011 financial year. The minimum amount of the STI cash bonus assuming that no executives meet their respective KPIs for the 2010 financial year is nil. There have been no alterations to the STI Plan.

### VARIABLE REMUNERATION - LONG TERM INCENTIVE (LTI)

In July 2006 Redflex established Long Term Incentive Plans (LTIP) for executives. 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. Settlement of the Performance Rights can be made by issuance of ordinary shares.

# REMUNERATION REPORT (AUDITED) - CONTINUED

### Objective

The objective of the LTI Plan is to reward executives and senior managers in a manner that aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants are made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the company's performance against the long term performance hurdle.

## VARIABLE REMUNERATION - LONG TERM INCENTIVE (LTI) - CONTINUED

### Structure

LTI grants are delivered in the form of Performance Rights that, subject to meeting performance hurdles vest at the end of, generally, 3 years with no opportunity to re-test.

### Performance hurdle

The performance measure is the company's relative total shareholder return (TSR) performance compared with the TSR performance of a comparative group consisting of companies in the S&P/ASX 300 at grant date over the same period. TSR is calculated as the change in capital value of the company over a five-year period, plus dividends expressed as a percentage of the opening capital value.

The performance period is generally expected to be three years, however, initial offers were transitional arrangements with shorter performance periods designed to provide a degree of continuity of LTIs to executives who previously participated in the company's Employee Option Plan.

The performance hurdle has a threshold minimum below which the Performance Rights will lapse. No Performance Rights will vest if the company's TSR performance is less than the TSR performance achieved by 50% of the companies in the comparator group, and 50% will vest if this hurdle is reached. The maximum number of Performance Rights in a grant will vest if the company's TSR performance is equal to or greater than the TSR performance achieved by 75% of the companies in the comparator group. If the company's TSR performance is between the two thresholds the number of Performance Rights that vest is determined on a directly proportional basis.

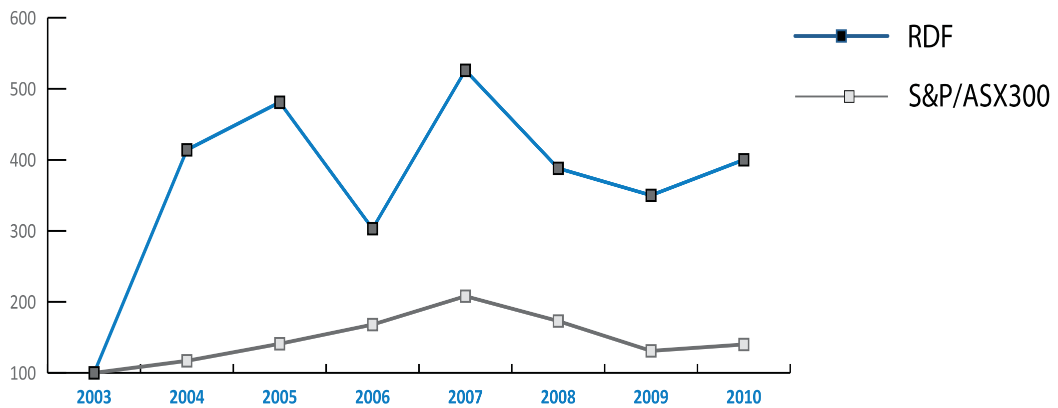
Where a participant ceases employment prior to the vesting of the Performance Rights, the Performance Rights are forfeited unless cessation of employment is due to termination initiated by the Company or death. The Company prohibits executives from entering into arrangements to protect the value of unvested LTIs. This includes entering into contracts to hedge their exposure to shares granted as part of their remuneration package.

The table entitled Compensation Long Term Incentives Granted provides details of the number and value of Performance Rights granted, vested and lapsed during the year.

## COMPANY PERFORMANCE

The graph below shows the performance of the company over an eight year period, as measured by the total shareholder return compared with the S&P ASX 300 Index, both normalised to a value of 100 at 30 June 2003 so that percentage comparisons can be made.

### Relative performance over 8 years to 30 June 2010



## REMUNERATION REPORT (AUDITED) - CONTINUED

### EMPLOYMENT CONTRACTS

#### Chief Executive Officer

The Redflex Holdings Limited Chief Executive Officer, Graham Davie, is employed under a current employment contract dated 8 January 2009 and is for an indefinite term. The company may choose to negotiate a new contract at any time. Mr Davie's fixed remuneration for the 2010 financial year was $303,375.

Under the terms of the contract:

- Either Mr Davie or the company may terminate the employment relationship at any time for any lawful reason, or no reason, with or without cause. If the company terminates Mr Davie's employment for any reason other than cause the company will pay any total fixed remuneration due to Mr Davie through the last day of employment, plus any accrued bonus, and the company will continue to pay Mr Davie's total fixed remuneration for a period of one week for every four months of completed service up to a maximum of 39 weeks after the effective date of termination.
- If the company terminates Mr Davie's employment for cause the company will pay any total fixed remuneration due to Mr Davie through the last day of employment, plus any accrued bonus, and Mr Davie's benefits and rights under any benefit plan shall be paid, retained or forfeited in accordance with the terms of such plan; provided, however, that the company shall have no obligation to make any payments toward these benefits from and after termination.
- If Mr Davie terminates his employment for good reason, the company will pay any total fixed remuneration due to him through the last day of employment, plus any accrued bonus, and the company will continue to pay Mr Davie's total fixed remuneration for a period of six weeks after the effective date of termination.
- Short term incentives of up to 30% of fixed remuneration are available based upon achievement of performance targets with a further 30% available for over-achievement of those targets.
- Long term incentives for Mr Davie are shown in a following table.

#### Chief Executive Officer, Redflex traffic systems inc

The Redflex Traffic Systems Inc President and Chief Executive Officer, Karen Finley, is employed under a current employment contract dated 3 March 2009 and is for an indefinite term. The company may choose to negotiate a new contract at any time. Ms Finley's fixed remuneration for the 2010 financial year was the United States dollar equivalent of AU$340,059.

Under the terms of the contract:

- Either Ms Finley or the company may terminate the employment relationship at any time for any lawful reason, or no reason, with or without cause. If the company terminates Ms Finley's employment for any reason other than cause the company will pay any total fixed remuneration due to Ms Finley through the last day of employment, plus any accrued bonus, and the company will continue to pay Ms Finley's total fixed remuneration for a period of one week for every four months of completed service up to a maximum of 39 weeks after the effective date of termination.
- If the company terminates Ms Finley's employment for cause the company will pay any total fixed remuneration due to Ms Finley through the last day of employment, plus any accrued bonus, and Ms Finley's benefits and rights under any benefit plan shall be paid, retained or forfeited in accordance with the terms of such plan; provided, however, that the company shall have no obligation to make any payments toward these benefits from and after termination.
- If Ms Finley terminates her employment for good reason, the company will pay any total fixed remuneration due through the last day of employment, plus any accrued bonus, and the company will continue to pay Ms Finley's total fixed remuneration for a period of six weeks after the effective date of termination.
- Short term incentives of up to 30% of fixed remuneration are available based upon achievement of performance targets with a further 30% available for over-achievement of those targets.
- Long term incentives for Ms Finley are shown in a following table.

#### Other Executives

All executives have rolling employment contracts with varying terms and conditions. On termination of employment any long term incentives that are unvested will be forfeited. The company may terminate the contracts at any time if serious misconduct has occurred. Where termination with cause occurs, the executive is entitled only fixed remuneration up to the date of termination. In the event of a change of control of the Group, the performance period end date of long term incentives will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period.

REMUNERATION REPORT (AUDITED) - CONTINUED

## REMUNERATION OF KEY MANAGEMENT PERSONNEL (INCLUDING THE 5 HIGHEST PAID EXECUTIVES)

### Remuneration for the year ended 30 June 2010

| | Short Term | | | Post Employment | Long Term | Share based Payments | Total | Performance related |
|---|---|---|---|---|---|---|---|---|
| | Salary and Fees | Other | Bonus | Superannuation | Long Service Leave | Performance Rights | | |
| | $ | $ | $ | $ | $ | $ | $ | % |
| Non-executive directors | | | | | | | | |
| Max Findlay | 58,139 | 0 | 0 | 5,233 | 0 | 0 | 63,372 | 0 |
| Ian Davis | 35,530 | 0 | 0 | 3,198 | 0 | 0 | 38,728 | 0 |
| Rob Debernardi | 35,530 | 0 | 0 | 3,198 | 0 | 0 | 38,728 | 0 |
| Ron Langley | 57,856 | 0 | 0 | 5,207 | 0 | 0 | 63,063 | 0 |
| Christopher Cooper | 39,447 | 0 | 0 | 3,551 | 0 | 0 | 42,998 | 0 |
| Peter Lewinsky | 24,107 | 0 | 0 | 2,169 | 0 | 0 | 26,276 | 0 |
| Roger Sawley | 26,276 | 0 | 0 | 0 | 0 | 0 | 26,276 | 0 |
| | 276,885 | 0 | 0 | 22,556 | 0 | 0 | 299,441 | 0 |
| Executive directors | | | | | | | | |
| Graham Davie | 278,326 | 0 | 25,142 | 27,312 | 4,656 | 109,026 | 444,462 | 30 |
| Karen Finley | 340,059 | 9,026 | 30,605 | 0 | 0 | 128,630 | 508,320 | 31 |
| | 618,385 | 9,026 | 55,747 | 27,312 | 4,656 | 237,656 | 952,782 | 31 |
| Executives | | | | | | | | |
| Aaron Rosenberg | 266,380 | 9,832 | 156,323 | 0 | 0 | 103,897 | 536,432 | 49 |
| Andrejs Bunkse | 244,182 | 7,524 | 21,977 | 0 | 0 | 31,262 | 304,945 | 17 |
| Sean Nolen | 119,084 | 4,328 | 7,145 | 0 | 0 | 0 | 130,557 | 5 |
| Michael Browne | 203,761 | 341 | 15,983 | 0 | 0 | 0 | 220,085 | 7 |
| Ricardo Fiusco | 205,033 | 0 | 28,811 | 21,046 | 3,430 | 53,644 | 311,964 | 26 |
| Ron Johnson | 199,467 | 0 | 12,013 | 19,033 | 3,337 | 52,176 | 286,026 | 22 |
| Marilyn Stephens | 115,969 | 0 | 6,984 | 11,066 | 1,940 | 30,727 | 166,686 | 23 |
| | 1,353,876 | 22,025 | 249,236 | 51,145 | 8,707 | 271,706 | 1,956,695 | 27 |
| | 2,249,146 | 31,051 | 304,983 | 101,013 | 13,363 | 509,362 | 3,208,918 | 25 |

Mr Findlay, Mr Davis and Mr Debernardi were appointed 19 November 2009.

Mr Cooper, Mr Lewinsky and Mr Sawley resigned on 19 November 2009.

Mr Bunkse was appointed on 1 August 09 and Mr Nolen on 11 January 2010.

Ms Weekes was no longer considered a key management person for the 2010 year. Ms Weekes resigned on 11 June 2010.

Mr Browne resigned on 1 September 2009. Mr Browne's salary and wages above includes termination payment of $141,691 plus entitlements.

## REMUNERATION REPORT (AUDITED) - CONTINUED

### Remuneration for the year ended 30 June 2009

| | Short Term | | | Post Employment | Long Term | Share based Payments | Total | Performance related |
|---|---|---|---|---|---|---|---|---|
| | Salary and Fees | Other | Bonus | Superannuation | Long Service Leave | Performance Rights | | |
| | $ | $ | $ | $ | $ | $ | $ | % |
| **Non-executive directors** | | | | | | | | |
| Christopher Cooper | 93,547 | 0 | 0 | 8,419 | 0 | 0 | 101,966 | 0 |
| Rob Debernardi | 57,167 | 0 | 0 | 5,145 | 0 | 0 | 62,312 | 0 |
| Ron Langley | 5,044 | 0 | 0 | 454 | 0 | 0 | 5,498 | 0 |
| Peter Lewinsky | 57,167 | 0 | 0 | 5,145 | 0 | 0 | 62,312 | 0 |
| Roger Sawley | 62,312 | 0 | 0 | 0 | 0 | 0 | 62,312 | 0 |
| | 275,237 | 0 | 0 | 19,163 | 0 | 0 | 294,400 | 0 |
| **Executive directors** | | | | | | | | |
| Graham Davie | 269,633 | 0 | 55,676 | 29,278 | 4,587 | 130,940 | 490,114 | 38 |
| Karen Finley | 392,714 | 11,248 | 53,603 | 0 | 0 | 157,114 | 614,679 | 34 |
| | 662,347 | 11,248 | 109,279 | 29,278 | 4,587 | 288,054 | 1,104,793 | 36 |
| **Executives** | | | | | | | | |
| Aaron Rosenberg | 314,171 | 12,549 | 45,806 | 0 | 0 | 132,121 | 504,647 | 35 |
| Michael Browne | 310,829 | 2,406 | 9,746 | 0 | 0 | 0 | 322,981 | 3 |
| Cristina Weekes | 334,225 | 2,406 | 24,690 | 0 | 0 | 80,545 | 441,866 | 24 |
| Ricardo Fiusco | 198,873 | 0 | 33,178 | 20,885 | 3,379 | 64,575 | 320,890 | 30 |
| Ron Johnson | 193,448 | 0 | 26,725 | 19,815 | 3,288 | 62,793 | 306,069 | 29 |
| Marilyn Stephens | 113,297 | 0 | 16,024 | 11,639 | 1,911 | 37,679 | 180,550 | 30 |
| | 1,464,843 | 17,361 | 156,169 | 52,339 | 8,578 | 377,713 | 2,077,003 | 25 |
| | 2,402,427 | 28,609 | 265,448 | 100,780 | 13,165 | 665,737 | 3,476,196 | 27 |

Mr Langley was appointed on 29 May 2009.

Mr Debernardi resigned on 30 June 2009.

REMUNERATION REPORT (AUDITED) - CONTINUED

## Compensation Long Term Incentives granted during the year

| Year ended 30 June 2010 | LTIs Granted Number | Grant Date | Fair Value per LTI at Grant Date $ | Performance Period |
|---|---|---|---|---|
| Executive Directors | | | | |
| Graham Davie | 82,231 | 1 October 2009 | 1.72 | 3 years |
| Karen Finley | 92,812 | 1 October 2009 | 1.72 | 3 years |
| Executives | | | | |
| Aaron Rosenberg | 72,702 | 1 October 2009 | 1.72 | 3 years |
| Andrejs Bunkse | 72,702 | 1 October 2009 | 1.72 | 3 years |
| Sean Nolen | 0 | | | |
| Michael Browne | 0 | | | |
| Ricardo Fiusco | 40,385 | 1 October 2009 | 1.72 | 3 years |
| Ron Johnson | 39,288 | 1 October 2009 | 1.72 | 3 years |
| Marilyn Stephens | 22,842 | 1 October 2009 | 1.72 | 3 years |
| Total | 422,962 | | | |

| Year ended 30 June 2009 | LTIs Granted Number | Grant Date | Fair Value per LTI at Grant Date $ | Performance Period |
|---|---|---|---|---|
| Executive Directors | | | | |
| Graham Davie | 72,057 | 1 October 2008 | 1.45 | 3 years |
| Karen Finley | 90,071 | 1 October 2008 | 1.45 | 3 years |
| Executives | | | | |
| Aaron Rosenberg | 70,556 | 1 October 2008 | 1.45 | 3 years |
| Michael Browne | 0 | | | |
| Cristina Weekes | 75,059 | 1 October 2008 | 1.45 | 3 years |
| Ricardo Fiusco | 35,388 | 1 October 2008 | 1.45 | 3 years |
| Ron Johnson | 34,427 | 1 October 2008 | 1.45 | 3 years |
| Marilyn Stephens | 20,016 | 1 October 2008 | 1.45 | 3 years |
| Total | 397,574 | | | |

REMUNERATION REPORT (AUDITED) - CONTINUED

## Compensation Long Term Incentives granted and vested during the year

| Year ended 30 June 2010 | Value of LTIs granted<br>$ | Value of LTIs vested<br>$ | Value of LTIs granted and vested<br>$ |
|---|---|---|---|
| Executive Directors | | | |
| Graham Davie | 141,437 | 101,506 | 242,943 |
| Karen Finley | 159,637 | 130,485 | 290,122 |
| Executives | | | |
| Aaron Rosenberg | 125,047 | 110,651 | 235,698 |
| Andrejs Bunkse | 125,047 | 0 | 125,047 |
| Sean Nolen | 0 | 0 | 0 |
| Michael Browne | 0 | 0 | 0 |
| Ricardo Fiusco | 69,462 | 50,112 | 119,574 |
| Ron Johnson | 67,575 | 48,723 | 116,298 |
| Marilyn Stephens | 39,288 | 29,776 | 69,064 |

## REMUNERATION REPORT (AUDITED) - CONTINUED

### Compensation Long Term Incentives granted and vested during the year

| Year ended 30 June 2009 | Value of LTIs granted | Value of LTIs vested | Value of LTIs granted and vested |
|---|---|---|---|
| | $ | $ | $ |
| **Executive Directors** | | | |
| Graham Davie | 104,483 | 70,852 | 175,335 |
| Karen Finley | 130,603 | 83,882 | 214,485 |
| **Executives** | | | |
| Aaron Rosenberg | 102,306 | 76,257 | 178,563 |
| Michael Browne | 0 | 0 | 0 |
| Cristina Weekes | 108,836 | 0 | 108,836 |
| Ricardo Fiusco | 51,313 | 34,978 | 86,291 |
| Ron Johnson | 49,919 | 34,009 | 83,928 |
| Marilyn Stephens | 29,023 | 20,783 | 49,806 |

Signed in accordance with a resolution of the directors.

Graham Davie

Director

30 September 2010

## CORPORATE GOVERNANCE STATEMENT

The board of directors of Redflex Holdings Limited is responsible for the corporate governance of the Group. The board guides and monitors the business and affairs of Redflex Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the company's compliance with the ASX Corporate Governance Council's recommendations:

| | Recommendation | Complies Yes / No | Reference |
|---|---|---|---|
| 1.1 | Establish the functions reserved to the Board and those delegated to management and disclose those functions. | Yes | |
| 1.2 | Disclose the process for evaluating the performance of senior executives | Yes | |
| 2.1 | A majority of the Board should be independent directors. | Yes | |
| 2.2 | The chair should be an independent director. | Yes | |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual. | Yes | |
| 2.4 | The Board should establish a nomination committee | Yes | |
| 2.5 | Disclose the process for evaluating the performance of the board, its committees and individual directors. | Yes | |
| 2.6 | Disclose a statement as to the mix of skills and diversity which the board of directors is looking to achieve in membership of the board | * | |
| 3.1 | Establish a code of conduct to guide the directors, the chief executive officer, the chief financial officer, and any other key executives as to:<br>• the practices necessary to maintain confidence in the Company's integrity;<br>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Yes | Website |
| 3.2 | Establish a policy concerning diversity that includes requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them. | * | |
| 3.3 | Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. | * | |

* On 30 June 2010, the ASX Corporate Governance Council introduced changes to its CG Principles and Recommendations including three new recommendations and other amendments relating to diversity. These changes apply to the year ended 30 June 2012.

| | Recommendation | Complies Yes / No | Reference |
|---|---|---|---|
| 4.1 | The board should establish an audit committee | Yes | |
| 4.2 | The audit committee should be structured so that it:<br>• consists only of non-executive directors;<br>• consists of a majority of independent directors;<br>• is chaired by an independent chair, who is not chair of the board;<br>• has at least three members. | Yes | |
| 4.3 | The audit committee should have a formal charter | Yes | Website |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Yes | Website |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | Yes | Website |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Yes | Website |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Yes | |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk. | Yes | |
| 8.1 | The board should establish a remuneration committee | Yes | |
| 8.2 | Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Yes | |

Redflex Holdings Limited's corporate governance practices were in place throughout the year ended 30 June 2010.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Redflex Holdings Limited, refer to our website http://www.redflex.com.au.

## BOARD FUNCTIONS

The board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the board. The responsibility for the operation and administration of the company is delegated, by the Board, to the Chief Executive Officer and the executive management team. The board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has procedures in place to assess the performance of the CEO and the executive management team.

Whilst at all times the board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the board. To this end the board has established the following committees whose responsibilities are discussed throughout this Corporate Governance Statement:

- Audit and Risk Management (incorporating Finance and Treasury)
- Nomination
- Remuneration

The board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the board. The board has a number of mechanisms in place to ensure this is achieved including:

- board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- implementation of budgets by management and monitoring progress against budget via the establishment and reporting of both financial and non financial key performance indicators.

Other functions reserved to the board include:

- approving the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and disposals;
- ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- reporting to shareholders.

## STRUCTURE OF THE BOARD

The skills, experience and expertise of each director relevant to the position of director is included in the Directors' Report. Directors of Redflex Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, materiality is considered from both the company and the individual director's perspective, and is determined by consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount and is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. The qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship, and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

In accordance with the definition and the materiality thresholds set, the following non-executive directors of Redflex Holdings Limited are considered to be independent:

| Name | Position |
|---|---|
| Max Findlay | Chairman, Non executive director (appointed 19 November 2009) |
| Ian Davis | Non executive director (appointed 19 November 2009) |
| Rob Debernardi | Non executive director (appointed 19 November 2009) |
| Ron Langley | Non executive director |

There are procedures in place, agreed by the board, to enable directors to seek independent professional advice at the company's expense.

### Term of Office

The term of office held by each director in office at the date of this report is as follows:

| Name | Term in Office |
|---|---|
| Graham Davie | 15 years |
| Karen Finley | 3 years |
| Ron Langley | 1 year 4 months |
| Max Findlay | 10 months |
| Ian Davis | 10 months |
| Rob Debernardi | 10 months |

## TRADING POLICY

Under the company's securities trading policy, an executive or director must not trade in any securities of the company at any time when they are in possession of unpublished, price sensitive information.

Before commencing to trade, a director must consult with the Chairman or the Board and an employee must notify the company secretary within five days of the transaction occurring. Only in exceptional circumstances will approval be given to trade outside of the periods which commence two months after the end of the full or half year.

As required by ASX Listing Rules, the company notifies ASX of any transaction in the company's securities by a director.

## NOMINATION COMMITTEE

The Nomination Committee operates under a board-established charter to ensure that the board continues to operate within the established guidelines. The Nomination Committee currently comprises the full board and any business of the Committee is considered at regular board meetings.

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee operates under a charter approved by the board. It is the board's responsibility to ensure that an effective internal control framework exists. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information, as well as non-financial considerations such as the benchmarking of operational key performance indicators. The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Management Committee.

The Committee is also responsible for:

- establishing and monitoring the company's capital management strategy, including dividend payment strategies, for the board's consideration;
- assessing the company's funding requirements and making recommendations to the board concerning specific funding proposals;
- monitoring borrowings from financial institutions and compliance with borrowing covenants; and
- monitoring financial risks of and exposure to movements in interest rates and exchange rates. This involves reviewing and assessing the types of hedging products available for minimising these risks and making recommendations to the board.

The Committee also provides the board with additional assurance regarding the reliability of financial information in the financial reports.

All members of the Audit and Risk Management Committee are non-executive directors and during the year the members were:

- Ian Davis, Chair (appointed 19 November 2009)
- Max Findlay (appointed 19 November 2009)
- Ronald Langley (appointed 5 August 2009)
- Peter Lewinsky (resigned 19 November 2009)
- Christopher Cooper (resigned 19 November 2009)

For details regarding the number of meetings, the qualifications of members, and the number of meetings they attended, please refer to the Directors' Report.

The external auditor is invited to attend the meetings relating to the adoption of the half year and full year financial reports.

## RISK

The board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The company's process of risk management and internal compliance and control includes:

- establishing the company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- continuously identifying and measuring risks that might impact upon the achievement of the company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an annual assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- effective and efficient use of the Company's resources;
- compliance with applicable laws and regulations; and
- preparation of reliable published financial information.

The board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management.

## CEO AND CFO CERTIFICATION

The Chief Executive Officer and Chief Financial Officer have provided a written statement to the board that:

- their view provided on the company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board; and
- that the company's risk management and internal compliance and control system is operating effectively in all material respects.

## PERFORMANCE

Performance of the board and key executives is reviewed regularly against measurable and qualitative indicators that are aligned with the financial and non-financial objectives of the Group. The performance of directors is reviewed annually by the Chairman. If performance was considered unsatisfactory the director would be asked to retire.

## REMUNERATION COMMITTEE

The company's objective is to provide maximum stakeholder benefit from the retention of a high-quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' compensation to the company's financial and operational performance. The expected outcomes of the remuneration structure are retention and motivation of key executives; attraction of quality management to the company; and performance initiatives which allow executives to share the rewards of the success of the company.

There is no scheme to provide retirement benefits other than statutory superannuation.

The board is responsible for determining and reviewing compensation arrangements for directors, the Chief Executive Officer and the executive team.

The members of the Remuneration Committee are non-executive directors and during the year were:

- Ron Langley, Chair (appointed 5 August 2009)
- Ian Davis (appointed 19 November 2009)
- Rob Debernardi (appointed 19 November 2009)
- Peter Lewinsky (resigned 19 November 2009)
- Christopher Cooper (resigned 19 November 2009)

For details of the experience and expertise of members of the Remuneration Committee, please refer to the Directors' Report.

# STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2010

| | | Consolidated | |
|---|---|---|---|
| | Note | 2010 | 2009 |
| | | $'000 | $'000 |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 21 | 37,474 | 15,222 |
| Trade and other receivables | 11 | 29,878 | 24,548 |
| Inventories | 12 | 27,900 | 19,049 |
| Deferred cost asset | | 4,633 | 2,903 |
| Other assets | | 2,061 | 2,039 |
| **Total Current Assets** | | 101,946 | 63,761 |
| **Non-Current Assets** | | | |
| Property plant and equipment | 13 | 99,450 | 118,620 |
| Deferred tax asset | 9 | 4,460 | 2,695 |
| Intangible assets and goodwill | 14 | 15,223 | 12,374 |
| Deferred cost asset | | 8,897 | 8,843 |
| Other financial assets | | 683 | 0 |
| Other non-current assets | | 163 | 42 |
| **Total Non-Current Assets** | | 128,876 | 142,574 |
| **TOTAL ASSETS** | | 230,822 | 206,335 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 15 | 22,504 | 25,654 |
| Interest bearing borrowings | 16 | 374 | 554 |
| Income tax payable | | 181 | 0 |
| Provisions | 17 | 3,273 | 2,900 |
| **Total Current Liabilities** | | 26,332 | 29,108 |
| **Non Current Liabilities** | | | |
| Interest bearing borrowings | 16 | 80,288 | 81,320 |
| Deferred tax liabilities | 9 | 4,357 | 4,671 |
| Provisions | 18 | 3,758 | 1,856 |
| **Total Non Current Liabilities** | | 88,403 | 87,847 |
| **TOTAL LIABILITIES** | | 114,735 | 116,955 |
| **NET ASSETS** | | 116,087 | 89,380 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent company** | | | |
| Contributed equity | 19 | 121,765 | 86,117 |
| Reserves | 20 | (2,827) | 1,405 |
| Retained (losses)/earnings | 20 | (2,851) | 1,858 |
| **TOTAL EQUITY** | | 116,087 | 89,380 |

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

# STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| Revenue from operations | | | |
| Sale of goods and services | | 29,738 | 17,897 |
| Revenue from fee for service contracts | | 106,254 | 112,968 |
| Finance revenue | | 599 | 60 |
| Total revenue | 6 | 136,591 | 130,925 |
| Cost of goods sold | | 21,668 | 10,678 |
| Cost of fee for service contracts | | 33,825 | 35,988 |
| Cost of sales | | 55,493 | 46,666 |
| Gross profit | | 81,098 | 84,259 |
| Sales and marketing related expenses | | 11,597 | 12,787 |
| Administrative related expenses | | 24,686 | 20,504 |
| Program management expenses | | 3,393 | 3,902 |
| Amortisation of intangibles | | 1,770 | 1,470 |
| Depreciation - fee for service contract assets | | 26,202 | 25,719 |
| Depreciation - other | | 383 | 448 |
| Impairment on plant and equipment | | 8,438 | 1,600 |
| | | 76,469 | 66,430 |
| Profit before tax and financing costs | | 4,629 | 17,829 |
| Finance costs | | 4,187 | 4,458 |
| Profit before tax | | 442 | 13,371 |
| Income tax (benefit)/expense | 9 | (273) | 3,738 |
| Net profit for the period | | 715 | 9,633 |
| Other comprehensive income | | | |
| Foreign currency translation | | (5,132) | 14,187 |
| Total comprehensive income for the period | | (4,417) | 23,820 |
| Earnings per share (cents per share) | | | |
| Basic for profit attributable to ordinary equity holders of the parent company | | 0.68 cents | 10.54 cents |
| Diluted for profit attributable to ordinary equity holders of the parent company | | 0.66 cents | 10.32 cents |
| Dividends per share attributable to ordinary equity holders of the parent company | | 5.0 cents | 5.0 cents |

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

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 128,923 | 122,724 |
| Payments to suppliers and employees | | (101,672) | (93,945) |
| Interest received | | 599 | 60 |
| Interest paid | | (3,575) | (3,858) |
| Income tax paid | | (1,077) | (5,527) |
| **Net cash flows from (used in) operating activities** | 21 | 23,198 | 19,454 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (29,850) | (60,760) |
| Capitalised development costs | | (4,354) | (4,952) |
| Purchase of other financial assets | | (683) | 0 |
| **Net cash flows used in investing activities** | | (34,887) | (65,712) |
| | | | |
| **Cash flows from financing activities** | | | |
| Repaid bank borrowings | | 0 | (81,425) |
| Proceeds from bank borrowings | | 3,449 | 131,553 |
| Lease liability (repaid) incurred | | (987) | 872 |
| Proceeds from issue of ordinary shares | | 35,648 | 2,956 |
| Proceeds from term deposits | | 0 | 0 |
| Dividends paid | | (5,424) | (4,052) |
| **Net cash flows from financing activities** | | 32,686 | 49,904 |
| | | | |
| **Net increase in cash held** | | 20,997 | 3,646 |
| Effect of exchange rate changes on cash | | 1,255 | (514) |
| Cash at beginning of financial year | | 15,222 | 12,090 |
| **Cash and cash equivalents at the end of the period** | 21 | 37,474 | 15,222 |
| | | | |
| **Reconciliation of cash** | | | |
| **Cash at the end of the period consists of:** | | | |
| Cash at bank and in hand | | 37,474 | 15,222 |
| | 21 | 37,474 | 15,222 |

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

# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2010

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Contributed Equity | Foreign Currency Translation Reserve | Employee Equity Benefits Reserve | Accumulated Profits / (Losses) | Total Equity |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 30 June 2008 | 83,161 | (18,204) | 4,152 | (3,725) | 65,384 |
| Profit for the period | 0 | 0 | 0 | 9,633 | 9,633 |
| Currency translation differences | 0 | 14,489 | 0 | 2 | 14,491 |
| Total other comprehensive income | 0 | 14,489 | 0 | 9,635 | 24,124 |
| Exercise of employee options | 1,235 | 0 | 0 | 0 | 1,235 |
| Reclassification | 0 | (303) | 303 | 0 | 0 |
| Shares issued under the Dividend Reinvestment Plan | 1,721 | 0 | 0 | 0 | 1,721 |
| Dividends paid | 0 | 0 | 0 | (4,052) | (4,052) |
| Cost of share based payment | 0 | 0 | 968 | 0 | 968 |
| At 30 June 2009 | 86,117 | (4,018) | 5,423 | 1,858 | 89,380 |
| Profit for the period | 0 | 0 | 0 | 715 | 715 |
| Currency translation differences | 0 | (5,132) | 90 | 0 | (5,042) |
| Total other comprehensive income | 0 | (5,132) | 90 | 715 | (4,327) |
| Shares issued | 32,122 | 0 | 0 | 0 | 32,122 |
| Reclassification | 0 | 0 | 0 | 0 | 0 |
| Shares issued under the Dividend Reinvestment Plan | 3,526 | 0 | 0 | 0 | 3,526 |
| Dividends paid | 0 | 0 | 0 | (5,424) | (5,424) |
| Cost of share based payment | 0 | 0 | 810 | 0 | 810 |
| At 30 June 2010 | 121,765 | (9,150) | 6,323 | (2,851) | 116,087 |

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

## NOTE 1 CORPORATE INFORMATION

The financial report of Redflex Holdings Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of directors on 30 September 2010.

Redflex Holdings Limited is an Australian incorporated company and is limited by shares that are publicly traded on the Australian Securities Exchange (ASX).

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

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## BASIS OF PREPARATION

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

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under ASIC class order 98/100. The company is an entity to which the class order applies.

### (A) 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.

### (B) Changes in accounting policies

The following accounting policies were amended and adopted by Redflex during the year ended 30 June 2010.

AASB 8 and AASB 2007-3: Operating segments and consequential amendments to other Australian Accounting Standards which is mandatory for annual reporting periods beginning on or after 1 January 2009.

AASB 123 (Revised) and AASB 2007-6: Borrowing Costs and consequential amendments to other Australian Accounting Standards which is mandatory for annual reporting periods beginning on or after 1 January 2009.

AASB 101(Revised), AASB 2007-8 and AASB 2007-10: Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards which is mandatory for annual reporting periods beginning on or after 1 January 2009. The adoption of this standard has impacted the presentation of the financial statements through the replacement of the income statement, with a statement of comprehensive income and the replacement of the balance sheet, with a statement of financial position.

### (C) New Accounting Standards and Interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (C) New Accounting Standards and Interpretations - continued

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project<br>[AASB 5, 8, 101, 107, 117, 118, 136 & 139] | The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:<br>The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.<br>The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.<br>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.<br>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:<br>has primary responsibility for providing the goods or service;<br>has inventory risk;<br>has discretion in establishing prices;<br>bears the credit risk. | 1 January 2010 | The amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. | 1 July 2010 |

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (C) New Accounting Standards and Interpretations - continued

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2009-5 (con't) | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project<br>[AASB 5, 8, 101, 107, 117, 118, 136 & 139] | The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.<br>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.<br>The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges. | | | |
| AASB 124 (Revised) | Related Party Disclosures (December 2009) | The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:<br>the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;<br>entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and<br>the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.<br>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures. | 1 January 2011 | The amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. | 1 July 2011 |

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (D) Basis of consolidation

The consolidated financial statements comprise the financial statements of Redflex Holdings Limited and its subsidiaries (the Group) as at 30 June each year. Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting including unrealised profits arising from intra-Group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

### (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.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (F) Foreign currency translation

### (i) Functional and presentation currency

Both the functional and presentation currency of Redflex Holdings Limited and its Australian subsidiaries are Australian dollars ($). The United States subsidiaries' functional currency is United States dollars which is translated to the presentation currency.

### (ii) 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.

### (iii) Translation of Group companies' functional currency to presentation currency

The results of the foreign subsidiaries are translated into Australian dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries and the borrowings designated as hedges of the net investment are taken to the foreign currency translation reserve. If a foreign subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the profit or loss.

## (G) 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 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.

## (H) 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. Individual 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.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (I) 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.

## (J ) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Certain derivative instruments are also held for trading for the purpose of making short term gains. These derivatives do not qualify for hedge accounting and changes in fair value are recognised immediately in profit or loss in other revenue and expenses. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Held for trading derivative assets and liabilities are classified as current in the statement of financial position. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (Redflex Holdings Limited does not currently have any fair value hedges);
- Cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction (Redflex Holdings Limited currently does not have cash flow hedges attributable to future foreign currency inventory purchases and payment of interest on borrowings);
- Hedges of a net investment in a foreign operation, (Redflex Holdings Limited currently does not hedge its net investment in the United States operations).

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (J) Derivative financial instruments and hedging - continued

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

### (i) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit and loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

### (ii) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs or inventory purchases) when the forecast transaction occurs.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 30 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is taken immediately to other income/expense in the statement of comprehensive income. For interest rate cash flow hedges, any ineffective portion is taken to other expenses in the statement of comprehensive income.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### (iii) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to other comprehensive income based on the amount calculated using the direct method of consolidation.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (K) Investment and other financial assets

### Recognition and derecognition

All purchases and sales of financial assets are recognised on the trade date, ie the date that 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 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.

## (L) Property, Plant and Equipment

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

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

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

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate at each financial year-end.

### Derecognition

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

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

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (M) Leases

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

#### Group as a lessee

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

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

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.

### (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 of asset values, which is used as a source of information to assess any indicators of impairment. 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.

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 sell and 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) Goodwill and intangibles

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (O) Goodwill and intangibles - Continued

#### Goodwill - continued

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 USA traffic business
- The Australia/International traffic business.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates.

The Group performs its impairment testing as at 30 June each year using discounted cash flows under the fair value less costs to sell methodology for the Traffic division 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.

#### Intangibles

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 financial year end. 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 bases.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (O) Goodwill and intangibles - Continued

#### 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.

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

#### Development costs

Useful lives – finite

Amortisation method used – amortised over the period of expected future benefit from the related project on a straight-line basis. The amortisation period is generally 10 years.

Internally generated or acquired – internally generated

Impairment testing – annually as at 30 June for assets not yet available for use and more frequently when an indication of impairments exists. The amortisation method is reviewed at each financial year end.

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

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

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

### (P) 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.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (Q) 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 the balance sheet date.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (ie an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalized 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).

## (R) 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 balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

### 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 expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## (S) Share Based payment transactions

### Equity settled transaction

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. As a result, the expense recognised by Redflex Holdings Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. 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.

### The Long Term Incentive Plan for Executives

### Performance rights pricing model

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

The company uses a measure of 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.

In assessing 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 the pre-selected peer group (S&P/ASX 300) which is the comparison group selected by the board based on recommendations from Mercers. The key management personnel must satisfy the service conditions set at grant date. Performance Rights vest progressively from a threshold level of performance to a maximum level, evaluated against the comparator group of companies.

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

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

## (T) 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.

## (U) Revenue recognition

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

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (i) Revenue from sale of goods

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

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

### (ii) Revenue from fee for service contracts

Revenue in the United States 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.

### (iii) Deferred revenue

Certain of the company's sales include the sale of equipment combined with the provision of services for a period not 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.

### (iv) Interest revenue

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.

## (V) 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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

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

### Tax consolidation legislation

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

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

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

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

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

### 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (W) Earnings per share

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

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

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

### (X) Maintenance warranty

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

### (Y) Asset retirement obligation

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

### (Z) Deferred costs asset

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

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

# 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 trading in derivatives is undertaken, it is 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 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, liquidity risk is monitored through the development of future rolling cash flow forecasts.

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

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

# NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

## RISK EXPOSURES AND RESPONSES - CONTINUED

### (i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and its cash holdings. The level of debt is disclosed in Note 16.

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

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Financial assets | | |
| Cash at bank and in hand | 30,682 | 9,939 |
| Cash – restricted lockboxes | 6,792 | 5,283 |
| | 37,474 | 15,222 |
| Financial liabilities | | |
| Bank borrowings | 81,359 | 81,638 |
| | 81,359 | 81,638 |
| Net exposure | (43,885) | (66,416) |

The Group's policy is to manage its finance costs using predominantly variable rate debt associated with the currency in which the cash flows relating to the borrowings arise.

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to alternative financing, alternative hedging positions and a mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 30 June 2010, 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 Higher/(Lower) | | Equity Higher/(Lower) | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Consolidated | $'000 | $'000 | $'000 | $'000 |
| +1% (100 basis points) | (444) | (679) | (444) | (679) |
| - .5% (50 basis points) | 222 | 340 | 222 | 340 |

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

## NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

### (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 80% of the Group business occurring within the USA, and the other 20% arising from within Australia, but servicing other world-wide markets. As a result of significant investment operations in the USA and large purchases of inventory from the USA, the Group's statement of financial position can be affected significantly by movements in the US$/AU$ exchange rates. The USA business incurs all revenue and the vast majority of its expenses in US$, apart from the cost of cameras sourced from the Australian operations in AU$. The USA business operation accounts for the vast majority of the Group's capital expenditure requirements and related borrowings and accordingly, the Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US$.

Translational effects are therefore significant to the Group results with approximately 80% (2009: 80%) of the Group's revenues and costs incurred in currencies other than the presentation currency of the Group (predominantly US$), and the large capital expenditure related to that business also denominated in US$.

The Group does not hedge translational risk through available hedge products.

Aside from the USA operation, the Group also has transactional currency exposures arising occasionally from sales or purchases by an operating entity in currencies other than the functional currency.

The Group requires all of 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 2010, the Group had foreign currency hedge transactions in place in relation to net receivables in Hong Kong Dollars of AU$1.2 million relating to future receivables derived in that currency.

The Group has a borrowing of US$67.9 million (2009: US$65.7 million) which is a natural hedge of the net investment in the USA operation.

At 30 June 2010, the Group had not hedged foreign currency purchases that are firm commitments, as offsetting natural hedges substantially offset risk. Other than the USA operation, most sales commitments were denominated in AU$, other than single contracts in Hong Kong, Canada and Ireland where natural currency hedges offset currency risk.

Other than those foreign currency items discussed the Group has no other exposure to non-translation foreign currency risk.

# NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

### (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 balance 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 securitise 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 not significant. 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:

| | 2010 | 2009 |
|---|---|---|
| Consolidated | $'000 | $'000 |
| 6 months or less | 6,658 | 10,450 |
| 6-12 months | 14,789 | 13,962 |
| 1-5 years | 83,022 | 85,587 |
| Over 5 years | 0 | 0 |
| | 104,469 | 109,999 |

# NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

## (v) Liquidity risk - Continued

### 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 our ongoing operations such as property, plant, equipment and investments in working capital eg 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 enable effective control of future risks, Redflex has established comprehensive risk reporting, covering its world-wide business units, that reflects management's expectations of the settlement of financial assets and liabilities.

Year ended 30 June 2010

| | <=6 months | 6-12 months | 1-5 years | >5years | Total |
|---|---|---|---|---|---|
| Consolidated | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets | | | | | |
| Cash and cash equivalents | 37,474 | 0 | 0 | 0 | 37,474 |
| Trade and other receivables | 29,878 | 0 | 0 | 0 | 29,878 |
| Other financial assets | 683 | 0 | 0 | 0 | 683 |
| | 68,035 | 0 | 0 | 0 | 68,035 |
| Financial liabilities | | | | | |
| Trade and other payables | 5,546 | 14,058 | 0 | 0 | 19,604 |
| Interest bearing loans and borrowings * | 1,112 | 731 | 83,022 | 0 | 84,865 |
| | 6,658 | 14,789 | 83,022 | 0 | 104,469 |
| Net maturity | 61,377 | (14,789) | (83,022) | 0 | (36,434) |

* Interest bearing loans and borrowings includes future interest payments of $2.9 million.

At balance date, the Group has available approximately AU$38.2 million of unused credit facilities available for its immediate use as follows: US$23.6 million and AU$11.5 million.

Year ended 30 June 2009

| | <=6 months | 6-12 months | 1-5 years | >5years | Total |
|---|---|---|---|---|---|
| Consolidated | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets | | | | | |
| Cash and cash equivalents | 15,222 | 0 | 0 | 0 | 15,222 |
| Trade and other receivables | 24,548 | 0 | 0 | 0 | 24,548 |
| | 39,770 | 0 | 0 | 0 | 39,770 |
| Financial liabilities | | | | | |
| Trade and other payables | 9,133 | 13,228 | 0 | 0 | 22,361 |
| Interest bearing loans and borrowings | 1,317 | 734 | 85,587 | 0 | 87,638 |
| | 10,450 | 13,962 | 85,587 | 0 | 109,999 |
| Net maturity | 29,320 | (13,962) | (85,587) | 0 | (70,229) |

## (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.

## (i) Significant accounting judgments

### Depreciation and impairment of property, plant and equipment

The major Group assets are represented by property, plant and equipment consisting mainly of red light and speed camera detection equipment. These assets are installed in various cities throughout the USA. The contracts under which these assets are installed vary significantly between contracts, however most contract periods are for a period of at least five years.

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

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

The Group assesses impairment of all assets at each reporting date based on each contract and evaluates conditions specific to the Group and to the particular assets that may lead to impairment. These include contract termination date, any cost neutrality issues, legislative and legal challenges combined with economic and political environments. This review is performed on a contract by contract basis.

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

### Taxation

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

## NOTE 4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - CONTINUED

### (i) Significant accounting judgments - Continued

#### Uncertainty arising as a result of group tax restructure

During the year ended 30 June 2009, the Group restructured its global tax affairs in order to provide for 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.

#### 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 continues to review expected collection rates in relation to citation work in progress. In the past a historical collection average was used. This has been revised to calculate citation work in progress on a city by city basis.

#### Share based payments

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

#### Asset retirement obligations

The asset retirement obligation liability is based on management's expectation of future costs to be incurred, based on previous experience in terminated contracts. During the current financial year management revised its estimate of the asset retirement obligations upwards from 50% to 100% of sites during the period. This resulted in a net increase in the asset retirement obligation of $2.2 million and an increase in the net asset retirement obligation liability of $2.2 million. The net impact on the profit or loss for the period was immaterial.

## NOTE 5 OPERATING SEGMENTS

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 different products and services different markets.

The Traffic division operates within two key markets, the USA and Australia/International. The Traffic business in the USA is predominantly a Build Own Operate and Maintain business providing fully outsourced traffic enforcement programs to cities and townships. The Australian/International Traffic business involves the sale of traffic enforcement products to those markets.

The primary segmental split segregates the operating units into revenue from recurring fee for service business and revenue related to the sale of goods and services. The Corporate division represents the Group's Head Office which is based in Melbourne, Australia.

Transfer prices between operating 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 2010 and 30 June 2009.

## NOTE 5 OPERATING SEGMENTS - CONTINUED

Year ended 30 June 2010

| Operating Segments | USA Traffic $'000 | Australian/ International Traffic $'000 | Total $'000 |
|---|---|---|---|
| Revenue | | | |
| Revenue from sale of goods and services | 971 | 28,767 | 29,738 |
| Revenue from fee for service contracts | 106,254 | 0 | 106,254 |
| Finance revenue | 6 | 3 | 9 |
| Inter-segment revenue | 0 | 10,290 | 10,290 |
| Total segment revenue | 107,231 | 39,060 | 146,291 |
| Inter-segment elimination | | | (10,290) |
| Head office finance revenue | | | 590 |
| Total consolidated revenue | | | 136,591 |
| Result | | | |
| Earnings before interest, tax, depreciation and amortisation | 27,682 | 8,223 | 35,905 |
| Depreciation | (26,202) | (332) | (26,534) |
| Amortisation | (191) | (1,579) | (1,770) |
| Segment result | 1,289 | 6,312 | 7,601 |
| Head office result | | | (2,972) |
| Profit before tax and finance charges | | | 4,629 |
| Finance charges | | | (4,187) |
| Profit before income tax | | | 442 |
| Income tax expense | | | 273 |
| Net profit for the year | | | 715 |
| Assets and liabilities | | | |
| Segment assets | 140,775 | 39,474 | 180,249 |
| Head office assets | | | 50,573 |
| Total assets | | | 230,822 |
| Segment liabilities | 105,492 | 7,486 | 112,978 |
| Head office liabilities | | | 1,757 |
| Total liabilities | | | 114,735 |
| Other segment Information | | | |
| Capital expenditure | 29,316 | 526 | 29,842 |
| Head office capital expenditure | | | 8 |
| Total capital expenditure | | | 29,850 |
| Cash flow information | | | |
| Net cash flow from operating activities | 21,917 | 1,569 | 23,486 |
| Head office operating cash flow | | | (288) |
| Net cash flow from operating activities | | | 23,198 |
| Net cash flow from investing activities | (19,427) | 312 | (19,115) |
| Head office investing cash flow | | | (15,772) |
| Net cash flow from investing activities | | | (34,887) |
| Net cash flow from financing activities | 2,433 | 28 | 2,461 |
| Head office financing cash flow | | | 30,225 |
| Net cash flow from financing activities | | | 32,686 |

## NOTE 5 OPERATING SEGMENTS – CONTINUED

Year ended 30 June 2009

| Operating Segments | USA Traffic $'000 | Australian/ International Traffic $'000 | Total $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from sale of goods and services | 1,575 | 16,322 | 17,897 |
| Revenue from fee for service contracts | 112,968 | 0 | 112,968 |
| Finance revenue | 0 | 51 | 51 |
| Inter-segment revenue | 0 | 27,715 | 27,715 |
| Total segment revenue | 114,543 | 44,088 | 158,631 |
| Inter-segment elimination | | | (27,715) |
| Head office finance revenue | | | 9 |
| Total consolidated revenue | | | 130,925 |
| **Result** | | | |
| Earnings before interest, tax, depreciation and amortisation | 38,470 | 10,343 | 48,813 |
| Depreciation | (25,719) | (400) | (26,119) |
| Amortisation | (199) | (1,271) | (1,470) |
| Segment result | 12,552 | 8,672 | 21,224 |
| Head office result | | | (3,395) |
| Profit before tax and finance charges | | | 17,829 |
| Finance charges | | | (4,458) |
| Profit before income tax | | | 13,371 |
| Income tax expense | | | (3,738) |
| Net profit for the year | | | 9,633 |
| **Assets and liabilities** | | | |
| Segment assets | 151,323 | 40,780 | 192,103 |
| Head office assets | | | 14,232 |
| Total assets | | | 206,335 |
| Segment liabilities | 109,173 | 7,106 | 116,279 |
| Head office liabilities | | | 676 |
| | | | 116,955 |
| **Other segment Information** | | | |
| Capital expenditure | 60,275 | 430 | 60,705 |
| Head office capital expenditure | | | 55 |
| Total capital expenditure | | | 60,760 |
| **Cash flow information** | | | |
| Net cash flow from operating activities | 10,626 | 12,754 | 23,380 |
| Head office operating cash flow | | | (3,926) |
| Net cash flow from operating activities | | | 19,454 |
| Net cash flow from investing activities | (55,144) | (15,736) | (70,880) |
| Head office investing cash flow | | | 5,168 |
| Net cash flow from investing activities | | | (65,712) |
| Net cash flow from financing activities | 51,000 | 0 | 51,000 |
| Head office financing cash flow | | | (1,096) |
| Net cash flow from financing activities | | | 49,904 |

## NOTE 5 OPERATING SEGMENTS – CONTINUED

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 | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| USA | 107,231 | 114,543 |
| Australia | 26,419 | 16,037 |
| Other | 2,941 | 345 |
| Total revenue | 136,591 | 130,925 |

## NOTE 6 OTHER REVENUE, OTHER INCOME AND EXPENSES

| | Consolidated | |
|---|---|---|
| | 30 June 2010 | 30 June 2009 |
| | $'000 | $'000 |
| Revenues and expenses | | |
| Sale of goods and services | 29,738 | 17,897 |
| Revenue from fee for service contracts | 106,254 | 112,968 |
| Finance revenue | 599 | 60 |
| Total Revenue | 136,591 | 130,925 |
| Depreciation, amortisation and impairment costs included in income statement | | |
| Depreciation on assets in fee for service business | 26,202 | 25,719 |
| Depreciation of other assets | 383 | 448 |
| Amortisation of intangibles | 1,770 | 1,470 |
| Impairment of assets | 8,438 | 1,600 |
| Employee benefits expense | | |
| Wages and salaries | 35,126 | 36,805 |
| Payroll benefits | 3,867 | 3,728 |
| Contract labour | 2,853 | 2,950 |
| Superannuation | 866 | 805 |
| Payroll taxes | 2,606 | 2,864 |
| Share-based payment expense | 810 | 968 |
| Other payroll related expenses | 1,841 | 1,578 |
| | 47,969 | 49,698 |
| Research and development costs | | |
| Expensed in administrative expenses | 176 | 465 |

# NOTE 7 DIVIDENDS PAID AND PROPOSED

## (a) Recognised amounts

The directors intend to pay a dividend in respect of the year ended 30 June 2010 of 5 cents per share. Certain changes are proposed to conform the Company's Constitution to recent changes to the law in relation to the payment of dividends. The proposed changes clarify that the directors may declare or determine dividends to the maximum extent permitted by law. Shareholders will be asked to approve changes to the Constitution at the company's AGM.

Subsequent to the adoption of the 2009 financial statements, the directors paid a fully franked dividend of 5 cents per share and recognised the amount in the 2010 financial statements.

## (b) Unrecognised amounts

Dividends on ordinary shares

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Final franked dividend | 5,501 | 5,424 |

## (c) Franking credit balance

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Franking credits available for the subsequent financial year are: | | |
| Franking account balance at year end at 30% (2009: 30%) | 5,527 | 7,839 |
| Franking credits that will arise at year end from the payment of income tax payable | 404 | 0 |
| Franking debits that will arise at year end from payment of dividends | 0 | 0 |
| Franking credits that the entity may be prevented from distributing in the subsequent financial year | 0 | 0 |
| | 5,931 | 7,839 |
| Franking credits available for future reporting periods | | |
| Impact on the franking account of dividends proposed or declared before the final report was authorised for issue but not recognised as a distribution to equity holders | (2,357) | (2,312) |
| | 3,574 | 5,527 |

## NOTE 8 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit 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 amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of dilutive options not yet converted to shares.

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

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Net profit for the period for basic and diluted earnings per share | 715 | 9,633 |
| | Thousands | Thousands |
| Weighted average number of ordinary shares for basic earnings per share | 104,990 | 91,429 |
| Effect of dilution –performance rights not yet converted to shares | 2,611 | 1,910 |
| Adjusted weighted average number of ordinary shares for diluted earnings per share | 107,601 | 93,339 |

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

## NOTE 9 INCOME TAX

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| INCOME TAX EXPENSE | | |
| Major components of income tax expense are: | | |
| STATEMENT OF COMPREHENSIVE INCOME | | |
| Current income tax | | |
| Current income tax charge | 1,397 | 3,516 |
| Adjustments in respect of current income tax of previous years | 409 | (1,056) |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | (2,079) | 1,278 |
| Income tax (benefit) expense reported in the profit or loss | (273) | 3,738 |

NUMERICAL RECONCILIATION BETWEEN AGGREGATE TAX EXPENSE RECOGNISED IN THE PROFIT OR LOSS AND TAX EXPENSE CALCULATED PER THE STATUTORY INCOME TAX RATE

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| | 2010 | 2009 |
|---|---|---|
| Accounting profit before income tax | 442 | 13,371 |
| At the statutory income tax rate of 30% (2009: 30%) | 133 | 4,011 |
| Adjustments in respect of current income tax of previous years | 409 | (1,056) |
| Impact of tax rate differential on foreign operations | (263) | 1,055 |
| Research and development concessions | (414) | (304) |
| Other | (138) | 32 |
| At effective income tax rate of Nil % (2009: 28.0%) | (273) | 3,738 |
| Income tax (benefit) expense reported in profit or loss | (273) | 3,738 |

## NOTE 9 INCOME TAX - CONTINUED

| | Statement of Financial Position | | Statement of Comprehensive Income | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $'000 | $'000 | $'000 | $'000 |
| DEFERRED TAX | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| CONSOLIDATED | | | | |
| (i) Deferred tax liabilities | | | | |
| Accelerated depreciation for tax purposes | 11,402 | 8,785 | 2,617 | 2,388 |
| Taxable profit on sale of cameras ahead of recognition in the accounts | (10,550) | (7,323) | (3,227) | (1,727) |
| Capitalised development costs | 3,505 | 3,209 | 296 | 1,104 |
| Gross deferred tax liabilities | 4,357 | 4,671 | | |
| (ii) Deferred tax assets | | | | |
| Employee Entitlements | 1,398 | 1,245 | (153) | (223) |
| Provisions | 3,062 | 1,450 | (1,612) | (264) |
| Losses available for offset against future taxable income | 0 | 0 | | 0 |
| Gross deferred tax assets | 4,460 | 2,695 | | |
| Deferred tax charge | | | (2,079) | 1,278 |

The consolidated entity has tax losses, arising in USA, with a tax value of $5.01 million (2009: $4.62 million) that are available indefinitely for offset against taxable profits of the companies and in the country in which the losses arose.

At 30 June 2010 there is no recognised or unrecognised deferred income tax liability (2009: $Nil) 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 prorata 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 balance date, the possibility of default is remote. The head entity of the tax consolidated group is Redflex Holdings Limited.

## NOTE 10 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Cash at bank and in hand | 30,682 | 9,939 |
| Restricted cash | 6,792 | 5,283 |
| Short term deposits | 0 | 0 |
| Cash and cash equivalents | 37,474 | 15,222 |

Cash at bank and in 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 is $37,473,580 (2009: $15,221,931).

The company collects citation revenue for cities under some contracts. The proceeds are received in lock-box accounts, and are shown above as restricted cash. The allocation of entitlements to a city and to Redflex is determined and made subsequent to each month-end.

## NOTE 11 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Trade receivables | 30,011 | 24,652 |
| Allowance for impairment losses | (133) | (104) |
| | 29,878 | 24,548 |

Trade receivables are non-interest bearing and are generally on 30 day terms.

**Movements in the provision for impairment loss were as follows:**

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| At 1 July | 104 | 540 |
| Charged (utilised) for the year | 29 | (436) |
| At 30 June | 133 | 104 |

**At 30 June 2010, the ageing analysis of trade receivables is as follows:**

| | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| | Total | 0-30 days | 31-60 days | 61-90 days PDNI* | 61-90 days CI* | + 91 days PDNI* | + 91 days CI* |
| At 30 June 2010 | 30,011 | 21,468 | 1,725 | 983 | 0 | 5,702 | 133 |
| At 30 June 2009 | 24,652 | 19,579 | 1,341 | 1,104 | 0 | 2,524 | 104 |

*PDNI – Past due not impaired

*CI – Considered impaired

## NOTE 12 CURRENT ASSETS - INVENTORIES

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Work in progress – at cost | 12,099 | 7,768 |
| Raw materials and camera components – at cost | 17,824 | 11,711 |
| Provision for write-downs | (2,023) | (430) |
| | 27,900 | 19,049 |

Raw material and camera components represent items held for the manufacture of photo enforcement camera systems for use within the business or for resale as individual components.

## NOTE 13 NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

### Year ended 30 June 2010

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Plant and equipment $'000 | Furniture and other $'000 | Computer equipment $'000 | Asset Retirement Obligation $'000 | Total $'000 |
| At 1 July 2009 net of accumulated depreciation and impairment | 110,015 | 2,328 | 4,869 | 1,408 | 118,620 |
| Additions | 23,509 | 71 | 3,486 | 2,376 | 29,442 |
| Impairment * | (8,438) | 0 | 0 | 0 | (8,438) |
| Disposals | 0 | (1) | (4) | (106) | (111) |
| Transfer to inventory | (6,726) | 0 | 0 | 0 | (6,726) |
| Depreciation for the year | (22,627) | (673) | (2,502) | (783) | (26,585) |
| Exchange adjustment | (6,306) | (155) | (249) | (42) | (6,752) |
| At 30 June 2010 net of accumulated depreciation and impairment | 89,427 | 1,570 | 5,600 | 2,853 | 99,450 |
| | | | | | |
| At 1 July 2009 | | | | | |
| Cost | 170,310 | 4,245 | 9,262 | 1,910 | 185,727 |
| Accumulated depreciation and impairment | (60,295) | (1,917) | (4,393) | (502) | (67,107) |
| Net carrying amount | 110,015 | 2,328 | 4,869 | 1,408 | 118,620 |
| | | | | | |
| At 30 June 2010 | | | | | |
| Cost | 162,989 | 3,961 | 12,292 | 3,934 | 183,176 |
| Accumulated depreciation and impairment | (73,562) | (2,391) | (6,692) | (1,081) | (83,726) |
| Net carrying amount | 89,427 | 1,570 | 5,600 | 2,853 | 99,450 |

* Impairment charges relate to USA Traffic operating segment. The impairment charges arose due to the write down of speed camera installation assets relating to contracts that were terminated during the period, including those assets associated with the DPS Arizona state wide speed program. In calculating the impairment charge, the Group has valued the assets using the value in use method. As no cash flows are expected to be derived from the respective assets they have been written down to nil.

## NOTE 13 NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT - CONTINUED

### Year ended 30 June 2009

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Plant and equipment $'000 | Furniture and other $'000 | Computer equipment $'000 | Asset Retirement Obligation $'000 | Total $'000 |
| At 1 July 2008 net of accumulated depreciation and impairment | 66,270 | 1,076 | 2,617 | 1,318 | 71,281 |
| Additions | 55,061 | 1,959 | 3,740 | 441 | 61,201 |
| Impairment | (1,422) | (56) | (43) | (79) | (1,600) |
| Depreciation for the year | (23,057) | (788) | (1,820) | (502) | (26,167) |
| Exchange adjustment | 13,163 | 137 | 375 | 230 | 13,905 |
| At 30 June 2009 net of accumulated depreciation and impairment | 110,015 | 2,328 | 4,869 | 1,408 | 118,620 |
| At 1 July 2008 | | | | | |
| Cost | 101,511 | 2,357 | 4,959 | 1,318 | 110,145 |
| Accumulated depreciation and impairment | (35,241) | (1,281) | (2,342) | 0 | (38,864) |
| Net carrying amount | 66,270 | 1,076 | 2,617 | 1,318 | 71,281 |
| At 30 June 2009 | | | | | |
| Cost | 170,310 | 4,245 | 9,262 | 1,910 | 185,727 |
| Accumulated depreciation and impairment | (60,295) | (1,917) | (4,393) | (502) | (67,107) |
| Net carrying amount | 110,015 | 2,328 | 4,869 | 1,408 | 118,620 |

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

### LEASED ASSETS

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2010 is $558,110 (2009: $1,511,401).

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities, the amount pledged is equal to the outstanding finance lease and hire purchase obligation as disclosed in Note 22.

## NOTE 14 NON CURRENT ASSETS - INTANGIBLES AND GOODWILL

### Year Ended 30 June 2010

| | Consolidated | | |
|---|---|---|---|
| | Development Costs | Goodwill | Total |
| | $'000 | $'000 | $'000 |
| At 1 July 2009, net of accumulated amortisation and impairment | 11,974 | 400 | 12,374 |
| Additions | 4,750 | 0 | 4,750 |
| Amortisation for the year | (1,770) | 0 | (1,770) |
| Exchange adjustment | (131) | 0 | (131) |
| At 30 June 2010, net of accumulated amortisation and impairment | 14,823 | 400 | 15,223 |
| At 1 July 2009 | | | |
| Cost | 17,135 | 400 | 17,535 |
| Accumulated amortisation and impairment | (5,161) | 0 | (5,161) |
| Net carrying amount | 11,974 | 400 | 12,374 |
| At 30 June 2010 | | | |
| Cost | 21,738 | 400 | 22,138 |
| Accumulated amortisation and impairment | (6,915) | 0 | (6,915) |
| Net carrying amount | 14,823 | 400 | 15,223 |

## NOTE 14 NON CURRENT ASSETS - INTANGIBLES AND GOODWILL - CONTINUED

### Year ended 30 June 2009

| | Consolidated | | |
|---|---|---|---|
| | Development Costs | Goodwill | Total |
| | $'000 | $'000 | $'000 |
| At 1 July 2008, net of accumulated amortisation and impairment | 8,477 | 400 | 8,877 |
| Additions | 4,952 | 0 | 4,952 |
| Amortisation for the year | (1,470) | 0 | (1,470) |
| Exchange adjustment | 15 | 0 | 15 |
| At 30 June 2009, net of accumulated amortisation and impairment | 11,974 | 400 | 12,374 |
| At 1 July 2008 | | | |
| Cost | 12,271 | 400 | 12,671 |
| Accumulated amortisation and impairment | (3,794) | 0 | (3,794) |
| Net carrying amount | 8,477 | 400 | 8,877 |
| At 30 June 2009 | | | |
| Cost | 17,135 | 400 | 17,535 |
| Accumulated amortisation and impairment | (5,161) | 0 | (5,161) |
| Net carrying amount | 11,974 | 400 | 12,374 |

### 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. The asset is tested for impairment when an indicator of impairment arises.

### GOODWILL

Goodwill acquired through business combinations has been allocated to the Australian/International Traffic business as the cash generating unit for impairment testing.

Goodwill was acquired upon the acquisition of the business and business assets of Poltech Pty Ltd in 2003 and is impairment tested on an annual basis. The recoverable amount of the Australian/International Traffic segment has been determined based upon a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

## NOTE 14 NON CURRENT ASSETS - INTANGIBLES AND GOODWILL - CONTINUED

### Impairment testing of goodwill

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

- Basis used to determine the value assigned to budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year increased for marginal expected efficiency improvements.
- The yield on a five year Government Bond rate consistent with external informational sources is utilised.
- Projected cash flows have been discounted using a pre-tax discount rate of 14% (2009: 14%).
- Revenue growth has been forecast based on average historical rates for the budgeted period. An extrapolated growth rate of 10% has been used beyond the budgeted period.

The basis used to determine the value assigned to the materials and labour is the CPI forecast for Australia where resources are used.

## NOTE 15 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Current | | |
| Trade payables | 19,604 | 22,361 |
| Deferred revenue | 2,900 | 3,293 |
| Trade and other payables | 22,504 | 25,654 |

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 16 INTEREST-BEARING LOANS AND BORROWINGS

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| **Current** | | |
| Obligations under finance leases and hire purchase contracts | 374 | 554 |
| | 374 | 554 |
| **Non-Current** | | |
| Obligations under finance leases and hire purchase contracts | 184 | 957 |
| Bank borrowings | 81,359 | 82,878 |
| Deferred financing costs | (1,255) | (2,515) |
| | 80,288 | 81,320 |

### FINANCING FACILITIES AVAILABLE

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| **Total facilities** | | |
| Bank borrowings | 106,805 | 124,255 |
| AU$ working capital facility | 11,500 | 5,000 |
| | 118,305 | 129,255 |
| **Facilities used at reporting date** | | |
| Bank borrowings | 81,359 | 82,878 |
| Deferred financing costs | (1,255) | (2,515) |
| Security for letters of credit issued to customers | 0 | 0 |
| | 80,104 | 80,363 |
| **Facilities unused at reporting date** | 38,201 | 48,892 |

The Group enjoys a US$91.5 million (AU$106.8 million) secured revolving credit facility for funding growth within the USA traffic division, together with an AU$11.5 million facility to address international and local business opportunities. The initial loan principal was US$100 million (at 30 June 2009, the AU$ equivalent was $124.3 million). The temporary switch in the loan facility limits was made to accommodate new international business opportunities and reverts back to a predominantly US$ facility in January 2011. The Commonwealth Bank of Australia in conjunction with two other major Australian banks was granted a first and only priority senior security interest over the assets of Redflex Traffic Systems Inc and its subsidiaries, together with a fixed and floating charge over the assets and undertakings of Redflex Holdings Limited. The loan principal is not required to be repaid within the next twelve months and is available for redraw to the facility limit if repaid.

Lease liabilities are secured by way of a charge over the leased assets.

## NOTE 16 INTEREST-BEARING LOANS AND BORROWINGS - CONTINUED

### (a) Fair value

The carrying amount of the Group's current and non-current borrowings approximate 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 17 CURRENT LIABILITIES – PROVISIONS

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Employee entitlements | 2,163 | 2,064 |
| Provision for warranties | 445 | 617 |
| Asset retirement obligation – liability | 665 | 219 |
| | 3,273 | 2,900 |

### (a) Movements in provisions

Please refer to Note 18 for details.

### (b) Nature and timing of provisions

Please refer to Note 18 for details

## NOTE 18 NON CURRENT LIABILITIES – PROVISIONS

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Employee entitlements | 284 | 165 |
| Asset retirement obligation – liability | 3,474 | 1,691 |
| | 3,758 | 1,856 |

# NOTE 18 NON CURRENT LIABILITIES – PROVISIONS CONTINUED

## (A) Movements in provisions

| | Consolidated | | | |
|---|---|---|---|---|
| | Maintenance Warranties | Employee Entitlements | Asset Retirement Obligation | Total |
| | $'000 | $'000 | $'000 | $'000 |
| At 1 July 2009 | 617 | 2,229 | 1,910 | 4,756 |
| Arising during the year | 578 | 877 | 2,229 | 3,684 |
| Utilised during the year | (144) | (659) | 0 | (803) |
| Unused amounts reversed | (606) | 0 | 0 | (606) |
| At 30 June 2010 | 445 | 2,447 | 4,139 | 7,031 |
| | | | | |
| Current 2010 | 445 | 2,163 | 665 | 3,273 |
| Non Current 2010 | 0 | 284 | 3,474 | 3,758 |
| At 30 June 2010 | 445 | 2,447 | 4,139 | 7,031 |
| | | | | |
| Current 2009 | 617 | 2,064 | 219 | 2,900 |
| Non Current 2009 | 0 | 165 | 1,691 | 1,856 |
| At 30 June 2009 | 617 | 2,229 | 1,910 | 4,756 |

### Superannuation

During the year ended 30 June 2010 the Group had an obligation to contribute 9% of an Australian employee's salary 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 2010 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 and all will have been incurred within two years of the balance sheet date.

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

### (ii) Asset retirement obligation

The Build Own Operate and Maintain business within the USA 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 remove 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 during the financial year.

# NOTE 19 CONTRIBUTED EQUITY

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| ORDINARY SHARES: | | |
| Issued and fully paid | 121,765 | 86,117 |

## Movements in ordinary shares on issue

| | Number of shares Thousands | $'000 |
|---|---|---|
| At 30 June 2008 | 90,260 | 83,161 |
| Issued during the year as a result of: | | |
| Dividend Reinvestment Plan | 660 | 1,721 |
| Vesting of performance rights under the LTI Plan | 500 | 0 |
| Conversion of options | 653 | 1,235 |
| At 30 June 2009 | 92,073 | 86,117 |
| Issued during the year as a result of: | | |
| Dividend Reinvestment Plan | 1,539 | 3,526 |
| Vesting of performance rights under the LTI Plan | 601 | 0 |
| Shares issued – private placement | 7,500 | 15,300 |
| Shares issued – rights issue | 8,298 | 16,822 |
| At 30 June 2010 | 110,011 | 121,765 |

## 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 20 RETAINED EARNINGS AND RESERVES

## MOVEMENTS IN RETAINED EARNINGS WERE AS FOLLOWS:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Balance 1 July | 1,858 | (3,725) |
| Net profit | 715 | 9,633 |
| Dividends paid | (5,424) | (4,052) |
| Currency translation | 0 | 2 |
| Balance 30 June | (2,851) | 1,858 |

## 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:

| | Consolidated | | |
|---|---|---|---|
| | Foreign currency translation | Employee equity benefits reserve | Total |
| | $'000 | $'000 | $'000 |
| At 30 June 2008 | (18,204) | 4,152 | (14,052) |
| Cost of share based payments | 0 | 968 | 968 |
| Effect of exchange rate movement | 14,186 | 303 | 14,489 |
| At 30 June 2009 | (4,018) | 5,423 | 1,405 |
| Cost of share based payments | 0 | 810 | 810 |
| Effect of exchange rate movement | (5,132) | 90 | (5,042) |
| At 30 June 2010 | (9,150) | 6,323 | (2,827) |

# NOTE 21 STATEMENT OF CASH FLOWS RECONCILIATION

## Reconciliation of net profit after tax to net cash flows from operations

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| RECONCILIATION OF STATEMENT OF CASH FLOWS | | |
| For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following: | | |
| Cash at bank and in hand | 37,474 | 15,222 |
| Short-term deposits | 0 | 0 |
| | 37,474 | 15,222 |
| Reconciliation from the net profit after tax to the net cash flows from operations | | |
| Net Profit/(Loss) after income tax from continuing operations | 715 | 9,633 |
| Non Cash Flow Items | | |
| Depreciation expense | 25,802 | 25,665 |
| Asset retirement obligation depreciation | 783 | 502 |
| Amortisation of intangibles | 1,770 | 1,470 |
| Provision for employee entitlements | (10) | 1,257 |
| Impairment and write-down of property, plant and equipment | 8,438 | 1,600 |
| Deferred financing costs amortisation | 612 | 600 |
| Share based payments | 810 | 968 |
| Change in operating Assets and Liabilities | | |
| Decrease/(Increase) in prepayments | (370) | (304) |
| Decrease/(Increase) in receivables - current | (6,466) | (9,589) |
| Decrease/(Increase) in inventories | (3,426) | (9,654) |
| Decrease/(Increase) in deferred tax asset | (1,765) | 578 |
| Increase/(Decrease) in deferred tax liability | (29) | 1,621 |
| Increase/(Decrease) in deferred revenue | (538) | 1,512 |
| Increase/(Decrease) in taxation provisions | 444 | (3,994) |
| Increase/(Decrease) in payables | (1,438) | 5,651 |
| Decrease/(Increase) in deferred costs asset | (2,134) | (8,062) |
| Net cash from activities | 23,198 | 19,454 |

Disclosure of financing facilities is shown in Note 20.

# NOTE 22 COMMITMENTS AND CONTINGENCIES

## (a) Bank Indemnity Guarantees

The company's bankers have issued indemnity guarantees to certain customers in respect of rental deposits, bid bonds and performance bonds of $2,317,093 (2009: $1,834,481).

## (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 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 | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Within 1 year | 3,975 | 2,448 |
| After 1 year but not more than 5 years | 10,176 | 6,012 |
| More than 5 years | 442 | 4,138 |
| | 14,593 | 12,598 |

## (C) Finance lease commitments – Group as lessee

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of payments | Minimum lease payments | Present value of payments |
| | $'000 | $'000 | $'000 | $'000 |
| Within 1 year | 372 | 365 | 583 | 554 |
| After 1 year but not more than 5 years | 182 | 166 | 1,014 | 957 |
| Total minimum lease payments | 554 | 531 | 1,597 | 1,511 |
| Less amounts representing finance charges | (23) | 0 | (86) | 0 |
| Present value of minimum lease payments | 531 | 531 | 1,511 | 1,511 |

Finance leases generally relate to leased motor vehicles within the USA.

## NOTE 23 COMMITMENTS AND CONTINGENCIES - CONTINUED

### (D) Capital commitments

At 30 June 2010 the Group has commitments of $4,644,049 (2009: $5,460,575) principally relating to the installation of camera systems in contracted cities within Redflex Traffic Systems Inc's Build Own Operate and Maintain business in the USA. The company has contracts with numerous jurisdictions within the USA. The terms of contracts specify that Redflex can 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 for these customers, however, it is not possible to determine how many will ultimately be installed and therefore the commitments shown represent only those where firm orders have been placed with contractors for current installations.

The commitments contracted for at reporting date, but not provided for are:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Within one year | 4,644 | 5,461 |
| After one year but not more than five years | 0 | 0 |
| Longer than five years | 0 | 0 |
| | 4,644 | 5,461 |

# NOTE 24 RELATED PARTY DISCLOSURE

## (a) Subsidiaries

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

### Shares in Controlled Entities

| | Country of Incorporation | Equity interest 2010 % | Equity interest 2009 % | Investment 2010 $'000 | Investment 2009 $'000 |
|---|---|---|---|---|---|
| Controlled entities of Redflex Holdings Limited | | | | | |
| Redflex Enforcement Services Pty Ltd | Australia | 100 | 100 | 0 | 0 |
| Redflex Pty Ltd | Australia | 100 | 100 | 3,357 | 3,357 |
| Aerospace Systems Pty Ltd | Australia | 100 | 100 | 100 | 100 |
| RTS R & D Pty Ltd | Australia | 100 | 100 | 0 | 0 |
| Redflex Traffic Systems (Canada) Inc | Canada | 100 | 100 | 0 | 0 |
| Redflex Traffic Systems Limited | UK | 100 | 100 | 0 | 0 |
| Redflex Traffic Systems Inc | USA | 100 | 100 | 46,210 | 45,571 |
| | | | | 49,667 | 49,028 |
| Controlled entities of Redflex Pty Ltd | | | | | |
| Redflex Traffic Systems Australia Pty Ltd | Australia | 100 | 100 | | |
| Interactive (No 1) Pty Ltd * | Australia | 0 | 100 | | |
| Interactive (No 2) Pty Ltd * | Australia | 0 | 100 | | |
| Interactive (No 3) Pty Ltd * | Australia | 0 | 100 | | |
| Interactive (No 4) Pty Ltd * | Australia | 0 | 100 | | |
| Interactive (No 5) Pty Ltd * | Australia | 0 | 100 | | |
| Interactive (No 6) Pty Ltd * | Australia | 0 | 100 | | |
| *These companies were placed in Members Voluntary Liquidation on 28 May 2010. | | | | | |
| Controlled entities of Redflex Traffic Systems Inc | | | | | |
| Redflex Traffic Systems Pty Ltd | Australia | 100 | 100 | | |
| Redflex Traffic Systems (California) Inc | USA | 100 | 100 | | |
| Controlled entities of Redflex Traffic Systems Pty Ltd | | | | | |
| Redflex Traffic Pty Ltd | Australia | 100 | 100 | | |

## (B) Ultimate parent

Redflex Holdings Limited is the ultimate parent of the Group.

## (C) Key management personnel

Details relating to KMP, including remuneration paid, are included in Note 25.

## (D) Transactions with related parties

Sales to and purchases from related parties are made as arms 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.

## NOTE 25 KEY MANAGEMENT PERSONNEL

### (A) Compensation of key management personnel

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Short term employee benefits | 2,585 | 2,696 |
| Post-employment benefits | 101 | 101 |
| Long-term employment benefits | 13 | 13 |
| Share based payments | 509 | 666 |
| | 3,208 | 3,476 |

### (B) Options held by key management personneL

There were no options held by key management personnel at 30 June 2010 (30 June 2009: nil).

# NOTE 25 KEY MANAGEMENT PERSONNEL - CONTINUED

## (c) Shares held by key management personnel

| | Shares held at 1 July 2009 | Vesting of Performance Rights | Conversion of Options | Bought (Sold) on market | Shares held at 30 June 2010 |
|---|---|---|---|---|---|
| Directors | | | | | |
| Graham Davie | 1,560,266 | 65,488 | 0 | 168,327 | 1,794,081 |
| Ian Davis | 0 | 0 | 0 | 45,000 | 45,000 |
| Max Findlay | 0 | 0 | 0 | 0 | 0 |
| Karen Finley | 249,614 | 84,184 | 0 | (37,750) | 296,048 |
| Robin Debernardi | 2,865,286 | 0 | 0 | 306,497 | 3,171,783 |
| Ronald Langley | 250,000 | 0 | 0 | 30,644 | 280,644 |
| | 4,925,166 | 149,672 | 0 | 512,718 | 5,587,556 |
| Executives | | | | | |
| Aaron Rosenberg | 30,657 | 71,388 | 0 | (25,994) | 76,051 |
| Andrejs Bunkse | 0 | 0 | 0 | 0 | 0 |
| Sean Nolen | 0 | 0 | 0 | 0 | 0 |
| Michael Browne | 0 | 0 | 0 | 0 | 0 |
| Ronald Johnson | 278,656 | 31,434 | 0 | (127,218) | 182,872 |
| Ricardo Fiusco | 276,529 | 32,330 | 0 | (12,851) | 296,008 |
| Marilyn Stephens | 107,731 | 19,210 | 0 | 0 | 126,941 |
| | 693,573 | 154,362 | 0 | (166,063) | 681,872 |

| | Shares held at 1 July 2008 | Vesting of Performance Rights | Conversion of Options | Bought (Sold) on market | Shares held at 30 June 2009 |
|---|---|---|---|---|---|
| Directors | | | | | |
| Christopher Cooper | 1,142,917 | 0 | 0 | 636,250 | 1,779,167 |
| Graham Davie | 1,459,206 | 74,581 | 0 | 26,479 | 1,560,266 |
| Karen Finley | 122,982 | 88,297 | 135,000 | (96,665) | 249,614 |
| Robin Debernardi | 2,816,666 | 0 | 0 | 48,620 | 2,865,286 |
| Peter Lewinsky | 45,298 | 0 | 0 | 782 | 46,080 |
| Roger Sawley | 24,000 | 0 | 0 | 24,000 | 48,000 |
| Ronald Langley | 0 | 0 | 0 | 250,000 | 250,000 |
| | 5,611,069 | 162,878 | 135,000 | 889,466 | 6,798,413 |
| Executives | | | | | |
| Aaron Rosenberg | 19,596 | 80,270 | 0 | (69,209) | 30,657 |
| Michael Browne | 0 | 0 | 0 | 0 | 0 |
| Cristina Weekes | 0 | 0 | 0 | 0 | 0 |
| Ronald Johnson | 265,498 | 35,799 | 0 | (22,641) | 278,656 |
| Ricardo Fiusco | 299,710 | 36,819 | 0 | (60,000) | 276,529 |
| Marilyn Stephens | 225,853 | 21,877 | 0 | (139,999) | 107,731 |
| | 810,657 | 174,765 | 0 | (291,849) | 693,573 |

## NOTE 25 KEY MANAGEMENT PERSONNEL - CONTINUED

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

| | Performance Rights held at 1 July 2009 | Granted during the year | Forfeited during the year | Vested during the year | Lapsed during the year | Outstanding Performance Rights at 30 June 2010 |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| Graham Davie | 200,728 | 82,231 | 0 | (65,488) | (9,100) | 208,371 |
| Ian Davis | 0 | 0 | 0 | 0 | 0 | 0 |
| Max Findlay | 0 | 0 | 0 | 0 | 0 | 0 |
| Karen Finley | 246,697 | 92,812 | 0 | (84,184) | (11,697) | 243,628 |
| Robin Debernardi | 0 | 0 | 0 | 0 | 0 | 0 |
| Ronald Langley | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 447,425 | 175,043 | 0 | (149,672) | (20,797) | 451,999 |
| Executives | | | | | | |
| Aaron Rosenberg | 203,772 | 72,702 | 0 | (71,388) | (9,919) | 195,167 |
| Andrejs Bunkse | 0 | 72,702 | 0 | 0 | 0 | 72,702 |
| Sean Nolen | 0 | 0 | 0 | 0 | 0 | 0 |
| Michael Browne | 47,037 | 0 | (47,037) | 0 | 0 | 0 |
| Ronald Johnson | 96,189 | 39,288 | 0 | (31,434) | (4,368) | 99,675 |
| Ricardo Fiusco | 98,910 | 40,385 | 0 | (32,330) | (4,492) | 102,473 |
| Marilyn Stephens | 57,460 | 22,842 | 0 | (19,210) | (2,669) | 58,423 |
| Total | 503,368 | 247,919 | (47,037) | (154,362) | (21,448) | 528,440 |

## NOTE 25 KEY MANAGEMENT PERSONNEL - CONTINUED

| | Performance Rights held at 1 July 2008 | Granted during the year | Forfeited during the year | Vested during the year | Lapsed during the year | Outstanding Performance Rights at 30 June 2009 |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| Christopher Cooper | 0 | 0 | 0 | 0 | 0 | 0 |
| Graham Davie | 203,252 | 72,057 | 0 | (74,581) | 0 | 200,728 |
| Karen Finley | 244,923 | 90,071 | 0 | (88,297) | 0 | 246,697 |
| Robin Debernardi | 0 | 0 | 0 | 0 | 0 | 0 |
| Peter Lewinsky | 0 | 0 | 0 | 0 | 0 | 0 |
| Roger Sawley | 0 | 0 | 0 | 0 | 0 | 0 |
| Ronald Langley | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 448,175 | 162,128 | 0 | (162,878) | 0 | 447,425 |
| Executives | | | | | | |
| Aaron Rosenberg | 213,486 | 70,556 | 0 | (80,270) | 0 | 203,772 |
| Michael Browne | 0 | 47,037 | 0 | 0 | 0 | 47,037 |
| Cristina Weekes | 72,723 | 75,059 | 0 | 0 | 0 | 147,782 |
| Ronald Johnson | 97,561 | 34,427 | 0 | (35,799) | 0 | 96,189 |
| Ricardo Fiusco | 100,341 | 35,388 | 0 | (36,819) | 0 | 98,910 |
| Marilyn Stephens | 59,321 | 20,006 | 0 | (21,867) | 0 | 57,460 |
| Total | 543,432 | 282,473 | 0 | (174,755) | 0 | 651,150 |

# NOTE 26 SHARE-BASED REMUNERATION PLANS

## (A) TYPES OF SHARE-BASED REMUNERATION PLANS

### (i) Long Term Incentive Plan

In July 2006 Redflex established a Long Term Incentive Plan (LTIP) for executives. 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. Settlement of the Performance Rights can be made in accordance with the LTIP Rules.

The performance measure is Redflex Holdings Limited's relative total shareholder return (TSR) performance compared with the TSR performance of a comparator group consisting of companies in the S&P/ASX 300 at grant date over the same period. TSR is calculated as the change in capital value of Redflex Holdings Limited over a five-year period, plus dividends expressed as a percentage of the opening capital value.

The performance period is generally expected to be three years, however, the initial offers were transitional arrangements with shorter performance periods designed to provide a degree of continuity of long term incentives to executives who previously participated in the company's Employee Option Plan.

The performance hurdle has a threshold minimum below which the Performance Rights will lapse. No Performance Rights will vest if Redflex Holdings Limited's TSR performance is less than the TSR performance achieved by 50% of the companies in the comparator group, and 50% will vest if this hurdle is reached. The maximum number of Performance Rights in a grant will vest if the company's TSR performance is equal to or greater than the TSR performance achieved by 75% of the companies in the comparator group. If the company's TSR performance is between the two thresholds the number of Performance Rights that vest is determined on a directly proportional basis.

### (ii) Executive Share Plan

No shares were issued under the Executive Share Plan (ESP) in the financial year ended 30 June 2010 (2009: Nil).

### (iii) Employee Option Plan

Under the Employee Option Plan Redflex could grant non-transferable options over ordinary shares to executives and certain members of staff. No options were issued under this plan in the financial year ended 30 June 2010 (2009: Nil).

# NOTE 26 SHARE-BASED REMUNERATION PLANS - CONTINUED

## (B) SUMMARY OF EMPLOYEE REMUNERATION ARRANGEMENTS

### (i) Employee Option Plan

There were no transactions within this plan during the year ended 30 June 2010.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number | WAEP | Number | WAEP |
| RDFAS options | | | | |
| Outstanding at the beginning of the year | 0 | 0 | 135,000 | 0.66 |
| Exercised during the year | 0 | 0 | (135,000) | 0.66 |
| Outstanding at the end of the year | 0 | 0 | 0 | 0 |
| RDFAT options | | | | |
| Outstanding at the beginning of the year | 0 | 0 | 1,013,000 | 3.16 |
| Exercised during the year | 0 | 0 | (518,000) | 2.21 |
| Expired during the year | 0 | 0 | (495,000) | 2.26 |
| Outstanding at the end of the year | 0 | 0 | 0 | 0 |

### (ii) Long Term Incentive Plan for Executives

The number of performance rights transactions during the year ended 30 June 2010 were:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. | WAEP | No. | WAEP |
| Performance Rights | | | | |
| Outstanding at the beginning of the year | 1,962,012 | 0 | 1,704,626 | 0 |
| Granted during the year | 1,007,225 | 0 | 775,811 | 0 |
| Forfeited during the year | (351,921) | 0 | (18,670) | 0 |
| Vested during the year | (601,148) | 0 | (499,755) | 0 |
| Lapsed during the year | (83,529) | 0 | 0 | 0 |
| Outstanding at the end of the year | 1,932,639 | 0 | 1,962,012 | 0 |

# NOTE 26 SHARE-BASED REMUNERATION PLANS - CONTINUED

## (C) PERFORMANCE RIGHTS PRICING MODEL

### Equity-settled transactions

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

The company uses a measure of 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.

In assessing 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 the pre-selected peer group (S&P/ASX 300) which is the comparison group selected by the board based on recommendations from Mercers. The key management personnel must satisfy the service conditions set at grant date. Performance Rights vest progressively from a threshold level of performance to a maximum level, evaluated against the comparator group of companies.

### Performance Rights Formula

| Year ended 30 June 2010 | 1 October 2009 |
|---|---|
| Share price at valuation date | $2.42 |
| Expected volatility | 42% |
| Risk-free interest rate | 4.9% |
| Expected life of performance right | 3 years |
| Dividend yield | 2.0% |

| Year ended 30 June 2009 | 1 October 2008 |
|---|---|
| Share price at valuation date | $2.25 |
| Expected volatility | 37% |
| Risk-free interest rate | 5.16% |
| Expected life of performance right | 3 years |
| Dividend yield | 1.5% |

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

The weighted average remaining contractual life for the performance rights is 3 years (2009: 3 years).

## NOTE 27 PARENT ENTITY INFORMATION

Information relating to the parent entity, Redflex Holdings Limited

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Current assets | 15,087 | 909 |
| Non-current assets | 87,642 | 70,695 |
| Total assets | 102,729 | 71,604 |
| | | |
| Current liabilities | 581 | 673 |
| Non-current liabilities | 11 | 9 |
| Total liabilities | 592 | 682 |
| | | |
| Net assets | 102,137 | 70,922 |
| | | |
| Contributed equity | 121,765 | 86,117 |
| Retained earnings | (25,861) | (20,618) |
| Reserves | 6,233 | 5,423 |
| Total shareholders' equity | 102,137 | 70,922 |
| | | |
| Profit of the parent entity | 179 | 5,393 |
| Total comprehensive income of the parent entity | 179 | 5,393 |

## NOTE 28 EVENTS AFTER BALANCE SHEET DATE

There were no significant events subsequent to year end and prior to the date of this report that have not been dealt with elsewhere in this report.

## NOTE 29 AUDITOR'S REMUNERATION

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Amount received or due and receivable by Ernst & Young (Australia) for: | | |
| An audit or review of the financial report of the consolidated entity | 255,000 | 253,000 |
| Other services in relation to the consolidated entity for: | | |
| Assurance related matters | 135,000 | 82,000 |
| Taxation matters | 0 | 0 |
| Amount received or due and receivable by related practices of Ernst & Young (Australia) for: | | |
| Audits or review of subsidiaries | 272,047 | 334,020 |
| | 662,047 | 669,020 |

# DIRECTOR'S DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the company and the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

The directors draw attention to Note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

On behalf of the board

Graham Davie
Director
Melbourne
30 September 2010

ERNST & YOUNG

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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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *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. These Auditing 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

ERNST & YOUNG

### *Auditor's Opinion*

In our opinion:

1. 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 at 30 June 2010 and of its performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 38 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Ashley C. Butler
Partner
Melbourne
30 September 2010

# ASX ADDITIONAL INFORMATION

Additional information required by ASX and not shown elsewhere in this report is as follows. This information is current as at 22 September 2010.

## Distribution of equity securities

There were 2,509 holders of 110,010,757 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 |
|---|---|---|
| 1 – 1,000 | 563 | 284,098 |
| 1,001 – 5,000 | 953 | 2,453,232 |
| 5,001 – 10,000 | 386 | 2,792,890 |
| 10,001 – 100,000 | 529 | 14,028,982 |
| 100,001 – over | 78 | 90,451,555 |
| | 2,509 | 110,010,757 |
| Holding less than a marketable parcel | 157 | 11,715 |

## Substantial Holders

| Name | Ordinary Shares | % of Issued Capital |
|---|---|---|
| Macquarie Group Limited | 13,281,905 | 12.07% |
| Mrs Elizabeth Cooper | 12,246,944 | 11.13% |
| Thorney Holdings | 7,376,945 | 6.71% |
| Hunter Hall | 6,923,353 | 6.29% |
| Investaco Pty Ltd | 6,716,463 | 6.11% |
| Ms Cheng Man Oy | 5,783,244 | 5.26% |
| Renaissance Smaller Companies Pty Ltd | 5,838,728 | 5.31% |

## Twenty largest holders of quoted equity securities

| Name | Shares Held | % of Issued Capital |
|---|---|---|
| ANZ NOMINEES LIMITED <CASH INCOME A/C> | 8,127,222 | 7.39% |
| COGENT NOMINEES PTY LIMITED | 8,113,882 | 7.38% |
| MACQUARIE RADAR HOLDINGS PTY LIMITED | 6,637,953 | 6.03% |
| MACQUARIE SPECIAL SITUATIONS MASTER FUND LIMITED | 6,637,952 | 6.03% |
| MS CHENG MAN OY | 6,182,252 | 5.62% |
| INVESTACO PTY LTD | 6,039,823 | 5.49% |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 5,198,526 | 4.73% |
| MRS ELIZABETH GERALDINE COOPER | 4,918,008 | 4.47% |
| NATIONAL NOMINEES LIMITED | 4,550,602 | 4.14% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 4,063,852 | 3.69% |
| NELLSTAR PTY LTD | 3,152,090 | 2.87% |
| VERTEX BIANCA NOMINEES PTY LTD <SUPERANNUATION FUND A/C> | 2,149,944 | 1.95% |
| O'CONNOR HOLDINGS PTY LTD | 1,571,215 | 1.43% |
| INVESTACO PTY LTD | 1,500,000 | 1.36% |
| CONINGSBY NOMINEES PTY LTD <SUPER FUND A/C> | 1,415,668 | 1.29% |
| MACRIHANISH PTY LTD | 1,356,228 | 1.23% |
| BLUE JADE PTY LTD | 2,315,327 | 2.10% |
| ANZ NOMINEES LIMITED <INCOME REINVEST PLAN A/C> | 1,136,726 | 1.03% |
| MR GRAHAM WILLIAM DAVIE | 1,659,742 | 1.51% |
| SANDHURST TRUSTEES LTD <JMFG CONSOL A/C> | 997,070 | 0.91% |
| Top 20 Holders of Ordinary Fully Paid Shares | 77,724,082 | 70.65% |

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