REDFLEX
HOLDINGS

REDFLEX HOLDINGS LIMITED

Annual Financial Report 2013

REDFLEX - MAKING A **SAFER** WORLD

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REDFLEX HOLDINGS LIMITED

ABN 96 069 306 216

Redflex Holdings Limited shares are listed on ASX (Australian Securities Exchange) Code RDF

Directors

Michael McConnell, Interim Chairman
Robert DeVincenzi, Chief Executive Officer
Albert Moyer
Robin Debernardi
Terence Winters, appointed 7 August 2013

Company Secretary

Marilyn Stephens

Registered Office

31 Market Street, South Melbourne,
Victoria, Australia 3205

Principal Places of Business

Australia

31 Market Street, South Melbourne,
Victoria, Australia 3205
Redflex Holdings Limited: Phone: +61 3 9674 1715
Redflex Traffic Systems Pty Ltd: Phone: +61 3 9674 1800

USA

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

Share Register

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

Solicitors

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

Auditors

Ernst & Young
8 Exhibition Street, Melbourne
Victoria, Australia 3000

FINANCIAL PERFORMANCE SUMMARY

RESULTS FROM OPERATIONS

	2013	2012
Revenue ($M)	137.4	146.3
Earnings before interest, taxation, depreciation and amortisation ($M) *	35.4	48.8
Operating profit after tax ($M)	7.3	15.1
Weighted average number of shares (million)	110.6	110.3
Basic earnings per share (cents)	6.61	13.69
Earnings per share based on earnings before interest, tax, depreciation and amortisation (cents) *	32.0	44.2

FINANCIAL POSITION

	2013	2012
Current assets ($M)	69.2	66.5
Non-current assets ($M)	127.3	117.2
Current liabilities ($M)	29.5	25.5
Non-current liabilities ($M)	41.8	44.1
Shareholders' equity ($M)	125.2	114.1

The previous corresponding period is the year ended 30 June 2012

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

1. Throughout this report, Redflex has included certain non-IFRS financial information, including EBITDA, net debt and free cash flow.
2. EBITDA reflects Earnings before Interest, Tax, Depreciation, and Amortisation and is reconciled to Net Profit before Tax on page 5.
3. This information is presented to assist in making appropriate comparisons with prior periods and to assess the performance of the company. EBITDA is the measure most frequently quoted in the industry and forms the basis upon which investors, financiers and analysts are briefed.
4. Non-IFRS information is not audited.

CHAIRMAN'S LETTER

Dear Shareholders

Fiscal year 2013 marked one of the most difficult years in the two-decade history of Redflex. On March 4, 2013, following a five month internal investigation, we provided comprehensive disclosure of findings to the marketplace regarding violations of Company policies and code of conduct, and potential violations of US law. At the same time we announced that a former EVP at our US subsidiary, RTSI, had been terminated and that three other senior members of management at RTSI had resigned.

The findings were sobering; the leadership changes significant; the Company faced a crisis.

What did we do?

- First, your Board decided to disclose openly and transparently the investigative findings and indicated its intention to fully cooperate with authorities. This was painful for many of our stakeholders including our employees, customers and shareholders. We believed then and we believe now that the integrity of a company has no price and this was the only option available to ensure a positive future for the Company.
- Second, we developed a comprehensive remediation and enhanced compliance plan. Specifically, we developed and have largely implemented 41 action items to strengthen our internal compliance function and processes.
- Third, we developed a tactical business strategy designed to preserve shareholder value. In addition to the compliance and remediation actions, the Company executed a holistic communication plan both internally and externally; its messaging was direct, open and forthright. Importantly, anticipating the loss and transition of the Chicago contract, the Company developed and executed a significant restructuring program to reduce the operating costs of the US business by approximately $10 million.

Your Board and management team rapidly implemented these initiatives over a ninety day period following our March disclosures.

These actions were successful in stabilizing the Company. Despite our challenges, the Company returned a Net Profit After Tax of $7.3 million and Operating Cash Flow of $27.5 million. The Company's financial condition remains solid with virtually no net debt and continued strong free cash flow generation. For FY2013, the Company declared two dividends totaling 5 cents per share.

Looking forward I have every confidence that our new team is committed to the Company and feels a sense of urgency in the pursuit of our future.

Key areas of focus include:

- We developed a FY2014 financial plan predicated primarily on the retention of our current US customer base while continuing to build our international presence. The early results of these initiatives are promising. Customer retention rates remain at historical levels. International business continues to compete for and win meaningful and strategic contracts. Our technological innovation continues to deliver improvements in performance and value to our customers.
- We will develop a longer-term strategy that builds upon the current foundation and begins the process of creating a new culture, driving incremental growth and restoring shareholder value.
- Concurrent with the development of a long-term strategy for the Company, we will recruit a Global CEO whose skill set and experiences match the requirements of our plan. Additionally we will continue to evaluate the skills and capabilities of the Board so they best match the Company's strategic direction.
- We will assess the Company's capital needs and develop a capital management program that optimizes its financial resources.

We will communicate with you during the coming fiscal year about our progress towards these initiatives.

Unfortunately, we do not control the timing or outcome of any potential actions that may be taken by various authorities against the Company. We have been steadfast in our commitment to fully cooperate. We believe the new leadership and the Company have done everything within their control to demonstrate decisive and remedial action, full cooperation and accountability. We will report to you as circumstances warrant.

I would like to sincerely thank those at the Company who have worked so hard and diligently during such a difficult time. Much hard work remains ahead for the Board and management. Our goal is to make Redflex a world class Company in the markets in which it competes, one that delivers increasing shareholder value and returns on invested capital and one that every day distances itself from its sobering past. We will continue to develop innovative products and services that meet customer demand and deliver these with a high degree of efficiency and productivity. Our new team has started the rebuilding process by focusing on restoring the trust and confidence in who we are and how we conduct ourselves. I am proud to be a part of this Group and look forward to the future together.

Michael McConnell
Interim Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

REVIEW OF OPERATIONS

Revenue from the Group's operations for the financial year ended 30 June 2013 was $137.4 million, a decrease of 6.1% on the previous year revenue of $146.3 million.

The reduction in revenue was primarily attributable to the non-North American operations, with revenue down approximately $10.7 million on the previous financial year during which there were significant sales into the Middle East. International sales during the year to our international customers totaled $43.1 million. Sales to international customers in the previous financial year totaled $53.8 million.

The revenue attributable to the North America market, predominantly the USA Build Own Operate and Maintain (BOOM) business, increased by 1.8% to $94.2 million from $92.5 million in the previous financial year.

Net profit before tax was $8.6 million, a decrease of 59.7% over the previous year profit of $21.3 million, and EBITDA was $35.4 million, a decrease of 27.5% over the previous year EBITDA of $48.8 million.

These results were only slightly affected by a positive average AU$/US$ exchange rate movement of 0.5% over the year.

Contributing factors to the year's results were:

- Reduced gross profit due to lower international sales compared to the prior year (approximately $4.4 million);
- Losses on the Student Guardian bus stop-arm operation subsequent to the acquisition of the Smart Bus operations in May 2012 (approximately $2.2 million);
- Reversal of deferred compensation payable upon the acquisition of Smart Bus of approximately $3.0 million;
- Impairment of goodwill arising from the acquisition of Smart Bus of approximately $2.1 million;
- Legal and associated costs related to the internal investigation into the City of Chicago contract and related matters (approximately $3.7 million);
- Provision for doubtful receivables to recognise the uncertainty around international collections ($2.0 million);
- Impairment of capitalised development costs of approximately $0.7 million;
- Costs of retrenchments and early termination agreements relating to the cost reduction exercise in the USA (approximately $0.5 million);
- A bonus to the Group CEO, Mr Robert DeVincenzi, of approximately $600k based primarily on performance objectives determined in early 2013, and the expensing and subsequent reversal of approximately $787k relating to Mr DeVincenzi's forfeiture of performance rights and options; and
- Non-statutory entitlements payable to Mr Graham Davie on his retirement as Group CEO, including bringing forward the cost of performance rights not yet vested ($434k).

Year on year comparison

A comparison of the Group's performance for FY2013 and FY2012 is as follows.

	FY2013 $'000	FY2012 $'000
EBITDA (non IFRS measure)	35,377	48,770
Depreciation	(21,596)	(22,252)
Amortisation	(4,024)	(3,245)
Interest	(1,156)	(1,957)
Net profit before tax	**8,601**	**21,316**

CHIEF EXECUTIVE OFFICER'S REPORT

Operational Focus

The key elements of the operational focus of the company continue to be:

- Sustainment of the USA business in light of the reduced revenues and possible contagion effect arising from the disclosure of our internal investigative findings.
- Reduction of risk in the business, particularly in the USA where Redflex currently assumes almost all of the risks in programs shared with municipal clients.
- Maximisation of revenue from existing, renewed and new contracts.
- Investigation of new sources of revenue from existing customers.
- Reducing the capital costs of camera systems and improving operational efficiencies through technology development.

FINANCIAL RESOURCES

The company has a $76.6 million (US$70.0 million) revolving credit facility with a syndicate of three Australian banks, and, in addition, an $8.0 million working capital facility for guarantees and bonds required to support contracts with certain customers.

The slowing rate of new installations within the USA market has reduced the demand for capital to service that market. Cash flow from operations should be sufficient to fund the Group's capital requirements.

The total drawn amount at 30 June 2013 was $26.3 million (US$24.0 million). The net debt position of the Group at 30 June 2013 was $4.8 million, including restricted cash of $6.3 million.

The net cash flow from operations for FY2013 was lower than anticipated due to:

- Delayed payment of receivables from contracts in the Middle East and South East Asia. This has led to an increase in receivables of approximately $2.1 million over 30 June 2012 levels;
- Inventories increasing by $4.2 million over 30 June 2012 levels. This reflects the slower rate of USA installations and a build of inventory ahead of the requirements for the Malaysia contract; and
- Tax payments of $4.1 million in Australia, USA, and Saudi Arabia.

DIVIDENDS

During FY2013, a fully franked, interim dividend of 2.0 cents per share was paid on 28 June 2013.

Directors have declared a final dividend of 3.0 cents per share payable on 2 December 2013. This dividend is to be partially franked in that 2.0 cents is to be franked and 1.0 cent is to be unfranked.

CHIEF EXECUTIVE OFFICER'S REPORT

NORTH AMERICAN OPERATIONS

Results for the North American Operations

Revenue for the year ended 30 June 2013 was up 1.9% over the same period in the prior year at $94.2 million (FY2012: $92.4 million).

New Contracts

The company signed 9 new contracts during FY2013. These contracts are for:

Alorton, IL
Capitol Heights, MD
Jackson, TN
Jacksonville, FL
Monroeville, OH
Norfolk, VA
Phenix City, AL
Plaquemines Parish, LA
Youngstown, OH

Installations

The total number of installed systems in the USA as at 30 June 2013 was 1,987 (FY2012: 2,010).

During the year 85 new systems were installed and 108 were removed. The number of installed systems includes cameras that may not be generating revenue for reasons including: warning periods, delays in going live, legislative issues, road works, maintenance actions, or pending removals.

The number of non-revenue producing approaches averaged 100 during FY2013, compared to an average of 114 during FY2012.

Contract Renewals

During FY2013, 46 contracts with 748 approaches were renewed at a renewal rate of 92% including Chicago. Excluding the Chicago renewal the rate was 85%. Of those approaches that were not renewed, the majority were in Cary, North Carolina, where the city discontinued the program, and in Globe, Arizona, and Hayward, California, where the city councils voted to terminate the existing contracts.

During FY2014 we expect 70 contracts to become due for renewal representing 513 approaches, excluding Chicago, where the contracts involving 384 approaches expire on 31 January 2014 and notwithstanding the City's ability to terminate for convenience during that term.

Write-downs for contracts that were not renewed totaled $1.8 million (FY2012: $2.2 million).

Legal and Legislative Environment

The level of litigation throughout the industry remains significant but continues to decline as the industry matures and litigation precedents accumulate.

Redflex legislative efforts are focused on defending against adverse developments that may arise in state and local legislative initiatives. Redflex is supporting the filing of bills in certain states seeking enablement and enhancements for red light and speed road safety cameras, as well as for photo enforcement of school bus stop-arm infractions.

Redflex continues to face the challenges raised through local voter initiatives and referendums. Consistent with overall industry dynamics, during FY2013, citizen initiatives prevented several Redflex contracts being renewed after their terms expired.

CHIEF EXECUTIVE OFFICER'S REPORT

NORTH AMERICAN OPERATIONS - CONTINUED

Chicago Contracts

Since 2003, Redflex has held contracts with the City of Chicago, to provide automated traffic enforcement products. Under two contracts, entered into in 2008, Redflex installed and manages 384 automated enforcement systems for the City. The contracts expired on 31 January 2013; however, Redflex has since received two six-month extensions that extend the contracts through to 31 January 2014, on substantially the same terms and conditions as the expiring contracts. The contracts contain clauses that allow the City to terminate them for convenience at will.

In FY2013, the Chicago contracts contributed 13% of Redflex's total Group revenue.

Sidley Austin investigation

On 17 October 2012, Redflex Holdings directed the law firm Sidley Austin to investigate and advise on whistleblower allegations of improper activity in connection with the red-light-camera contract between its subsidiary Redflex Traffic Systems Inc and the City of Chicago. The allegations claimed that: 1) Redflex's payments made to a Redflex consultant in Chicago ("the Consultant") had been passed to the City employee who ran the red light camera program ("the City Program Manager"); and 2) Redflex had paid for vacations for the City Program Manager. Sidley Austin was also directed to investigate and advise on whether an earlier investigation into these issues had been properly conducted.

The allegations had been made two years earlier in an August 2010 letter from a whistleblower. In September 2010, following its investigation into these allegations, an outside law firm advised that the allegations were without merit, except for one US$910 hotel stay in Arizona by the City Program Manager for which Redflex paid. Redflex did not inform the City of Chicago's Board of Ethics about the allegations or findings at that time.

Summary of the investigative findings

In summary, the investigation concluded that the whistleblower allegations did have merit, in that:

1. The arrangement between the City Program Manager, the Consultant, and Redflex will likely be considered bribery by the authorities;
2. Redflex did provide vacation-related expenses and other items of value to the City Program Manager in violation of the City of Chicago's Governmental Ethics Ordinance;
3. The 2010 investigation was clearly inadequate in that it failed to identify that the allegations were true, and there was inadequate oversight;
4. The 2012 disclosures to the Chicago Board of Ethics and the Chicago Tribune by certain persons involved with the 2010 investigation were improper; and
5. Certain Redflex officials violated company policies and code of conduct.

Remedial activities

Redflex has implemented significant improvements in governance and compliance to ensure that Redflex conducts business in a way that meets the highest ethical standards. Key elements of the program include:

- The appointment of a Director of Compliance and an enhanced training program for all employees on compliance policies;
- Changes in key management personnel within the USA business;
- Anti-bribery, anti-corruption and compliance training for all employees, directors, and contracted commercial intermediaries; expanded training for high risk job classifications.
- A whistleblower hotline and dedicated email address to enable reporting of suspicions of illegal or unethical behaviour on an anonymous basis and an assurance that those reports will be reviewed, investigated and resolved. Reports will flow directly to the Chair of the Audit and Risk Management Committee and to the Director of Compliance simultaneously.

CHIEF EXECUTIVE OFFICER'S REPORT

Conclusion

On 11 April 2013 Redflex advised that it had ended the independent internal investigation launched in October 2012, arising from concerns relating to the City of Chicago contract, save for follow-up items.

The investigation by Sidley Austin identified potential issues involving Redflex Traffic Systems Inc and certain former employees in two additional geographies in the United States. Redflex expects to continue to cooperate with authorities in the future as circumstances dictate.

The Chicago city administration has authority to issue a variety of penalties ranging from monetary penalties to debarment. To date no monetary penalties have been presented to the company.

All previous deferred cost assets relating to the City of Chicago contracts have been fully amortised. The total costs of the investigation activity from October 2012 through to 30 June 2013 are approximately $3.7 million. As a result of Redflex's continuing cooperation with relevant authorities, we expect to incur additional modest costs going forward.

Restructuring of the North American business

In the absence of further red light camera contract extensions with the City of Chicago, we expect a revenue reduction of approximately $18 million on a full year basis. There is also potential for revenue loss from other municipal contract terminations that may arise as a result of the disclosures associated with the investigative findings, although this has not been significant to date.

Given the expected revenue decline, Redflex has undertaken a number of cost reduction actions that will yield approximately $10 million in annualised cash savings. Costs directly associated with the Chicago contract will be reduced in line with the contract terminations and costs that are not directly associated with the Chicago contracts have been substantially reduced to recognise the lower revenue base.

Redflex Guardian

REDFLEX Guardian™ addresses the safety needs of children on school buses. It combines the operations of Redflex's product for school bus stop-arm photo enforcement together with the operations of Smart Bus which the Group acquired in FY2012 for an initial payment of US$4.5 million (AU$4.4 million) with potential further payments subject to financial performance measures being met.

Video tracking is used to capture offences by drivers who pass buses which are stationary with safety lights flashing whilst children are getting on and off. Up to the end of June 2013, Redflex had been awarded 35 revenue producing contracts along with 35 pilot programs.

REDFLEX Guardian™ is currently deployed by 70 school districts in ten states. Eleven states currently allow the use of school bus stop-arm enforcement technology and at least another ten states are considering authorising legislation. The likely volume of citations arising from installations is unknown at this stage, and is a key determinant of future revenue and profitability.

The operation is in its initial start-up phase and incurred a loss of $2.2 million for FY2013. See note 5.

Redflex has recently been selected (as a result of a request for proposal) to install cameras on 300 buses for a school district in Georgia.

CHIEF EXECUTIVE OFFICER'S REPORT

REDFLEX INTERNATIONAL OPERATIONS

Australia

The international business is subject to peaks and troughs with international customers. There has been an increase in the level of long term recurring revenue through service contracts and maintenance, which goes some way to smoothing the variability;

Although revenue was down approximately $10.6 million compared to the prior year, Redflex International finished the year on a positive note with the significant award of the NSW Roads and Maritime Services (RMS) expanded Mobile Camera Program. Redflex has been operating the Interim Mobile Camera Program for RMS since 2010 and provides and operates six in-car mobile cameras with stage 1 back-office adjudication services. This interim program involved the delivery of 930 enforcement hours per month. The expanded program is for the delivery of 7000 hours per month when fully operational, a significant amount of which will be delivered by Redflex. RMS also purchased for the six vehicles a technology enhancement that provides additional photo evidence of speeding vehicles, including the identification of speeding motorcycles.

Two additional point-to-point zones were allocated by RMS to Redflex for the enforcement of speeding heavy vehicles. Our new mapping radar has been deployed at these zones, with RMS benefitting from reduced installation costs and the elimination of recurring maintenance costs that are associated with traditional in-road sensors. RMS has also enabled the installation of the new mapping radar at two existing red light and speed enforced intersections in Sydney which were chosen specifically due to their particularly challenging topography and traffic patterns. Extensive testing has demonstrated that the Redflex mapping radar is extremely effective at these challenging sites.

In Victoria, Redflex was awarded the contract to supply and install a point-to-point speed camera system for the new Peninsula Link freeway between Frankston and Mount Martha. The system incorporates new Redflex products including new cameras and infra-red LED-based flash units. The cameras automatically read the number plates of each vehicle as they pass the first and second cameras. The average speed is calculated and any vehicle averaging over the speed limit is detected as an offender.

Redflex has also installed new speed camera systems in the Domain and Burnley Tunnels for the Department of Justice. The systems interface to the variable speed limit signs in the tunnel to enforce the active speed limit. The system also includes Automatic Number Plate Recognition technology for identifying vehicles of interest and will have the functionality to enforce vehicles illegally travelling in barred lanes.

Redflex continues to support the Department of Justice through a series of upgrade contracts to existing sites around Victoria.

In addition, Redflex was honoured to receive a commendation at the Governor of Victoria Export Awards, in the category of Large Advanced Manufacturer for our continued year on year growth in exports.

Redflex has installed two point-to-point systems for the South Australia Police. These are the first point-to-point speed camera systems installed in the State and form part of the ongoing contract which Redflex holds with the Department of Planning, Transport and Infrastructure in association with the South Australian Police. The system counts the number of axles per vehicle to identify vehicle class, and in conjunction with a registration look-up applies the correct speed threshold to be enforced. The sites also incorporate variable speed limit signs for passenger vehicles.

Redflex has signed a new contract for one year, with a further one-year option, with the Northern Territory Government. The contract involves running a back-office processing centre, collecting payments for the program, and assisting the NT Government's Fines Recovery Unit. Four new red light and speed cameras are scheduled to be installed in NT this year.

Queensland Police Service (QPS) has recently bought the latest software release of Redflex's large-scale Image and Infringement Processing System (IIPS). This release allows for easier migration of the existing mobile wet film business into the IIPS back office system. Incidents processed by the QPS Traffic Camera Office are currently captured with mobile wet film cameras. Following the full migration to digital cameras, approximately 90% of all incidents will be processed in IIPS.

QPS also deployed Redflex red-light/speed systems in five cities throughout Queensland replacing existing red-light enforcement systems.

CHIEF EXECUTIVE OFFICER'S REPORT

Middle East

Conditions in the Middle East remain challenging. In Saudi Arabia, we continue to provide ticket processing services for the Eastern Province, Aseer and Tabuk. We are working to have our new non-intrusive camera systems approved by the Ministry of Interior.

The Abu Dhabi project is progressing slowly, as we deal with a number of issues associated with the installation of the systems.

Ireland Safety Camera Program

Forty-four vehicles are now operational in Ireland for the Go Safe project, in which Redflex operates as a Consortium partner with Spectra (from Ireland) and Egis Projects SA (from France). Redflex owns a 16% stake in the Consortium and received coupon interest and a management fee in FY2013. Redflex expects further returns on that investment in FY2014 and beyond.

Malaysia

The Automated Enforcement System (AES) program has now been launched in Malaysia. The contract has an estimated worth to Redflex of over $50 million. We are contracted to provide state-of-the-art speed enforcement technology with 450 fixed speed cameras, 140 mobile cameras, extensive enterprise back-office software, and implementation services.

The AES program received approval to go live on 27 September 2012, with the issuance of infringements commencing on 8 October. Redflex has delivered the first tranche of 30 cameras which have been activated. The roll-out of the program is much slower than originally advised to Redflex, and the future timing of requirements is uncertain. While the rate of fatalities on Malaysian roads increased 14.2% nationwide, the areas at which the cameras are installed showed reduced accident rates.

Recent press reports indicate that the Malaysian Acting Transport Minister proposes to have the operation and enforcement of the AES managed by a wholly-owned government company. Redflex has a supply contract with a private concessionaire, Beta Tegap Sdn Bhd, who is likely to be directly impacted by this proposal as they hold the existing contract with the Malaysian Government.

Accordingly, we now expect that the orders originally anticipated for FY2014 will be further delayed and that the expansion of the project to its original intended size may now extend over a number of years.

Washington DC

Redflex was awarded a contract to supply over-height and over-weight enforcement camera systems to the District of Columbia Metropolitan Police Department in Washington DC, USA. This contract arose through the joint efforts of the USA and Australian business units. The camera systems are currently being installed and revenue will be recognized in the Australia/International business segment.

RESEARCH AND DEVELOPMENT

New Mapping Radar technology to monitor traffic light controlled intersections for both red-light offences and speed offences is performing very well. Systems are currently installed in a number of sites throughout the USA and are replacing the current loops embedded in the road surface.

Redflex has also developed a school bus enforcement system for the North American business unit. In the USA, when a school bus stops to allow the children to exit, no vehicle is allowed to pass the bus. When the bus stops and the stop-arm is extended, the system automatically begins enforcing. High resolution photographs and a high resolution video clip for every offending vehicle are automatically inserted into infringement files from which citations are issued. Competitive evaluation trials were held at Rhode Island, USA, and our system excelled in image quality, compliance with electrical and temperature requirements, aesthetics, and detection methods.

CHIEF EXECUTIVE OFFICER'S REPORT

OUTLOOK FOR THE 2014 FINANCIAL YEAR

We have faced many challenges during the recently concluded financial year. We have been encouraged by the support of our customers and our colleagues around the world who remained focused on delivering improved traffic safety to the motoring and pedestrian public.

In North America, the business continues to effectively compete in the market. Since February 2013, when we made our initial public comments regarding our investigative process, we have taken on 70 new, renewed or extended contracts.

Internationally, we continue to expand our business and technology value proposition. In Australia, the recently announced award by the RMS in support of the mobile speed camera road safety initiatives in New South Wales is also a very positive development for Redflex.

We expect to achieve strong cash flow generation and to be in a position to repay all bank debt during FY2014 in the absence of alternative capital demands.

Thank you.

Signed in accordance with a resolution of the directors.

Robert DeVincenzi
30 September 2013

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2013.

DIRECTORS

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

Michael McConnell - BA (Econ), MBA - Non-executive interim chairman

Mr McConnell served as the CEO of Collectors Universe from March 2009 to August 2012 and since retiring as CEO, he has served in a non-executive director role. From 1994 to 2007, Mr McConnell served as a Managing Director of Shamrock Capital Advisors. He led a $1.2 billion direct investment fund and was a member of the firm's Executive Committee. He was involved in 34 principal investment transactions of over $2.7 billion in both public and private companies. The investments spanned a variety of industries, including media, entertainment, software, radio broadcasting, cable distribution, basic materials, chemicals, and consumer products, in companies domiciled globally, including the USA, Australia, New Zealand, Ireland, and Israel.

Mr McConnell has served on numerous public and private company boards in the USA, Australia, New Zealand and Ireland.

Mr McConnell received his BA in economics from Harvard University in 1988 and his MBA degree (Shermet Scholar) from the Darden School of the University of Virginia in 1994. Mr McConnell is a member of the Board of Governors of the microfinance organisation Opportunity International, an Elder of La Canada Presbyterian Church and former director of the La Canada Educational Foundation.

Mr McConnell was a non-executive director of Paperlinx Limited until November 2012. During the last three years Mr McConnell has not been a director of any other Australian listed public company.

DIRECTORS' REPORT

Robert DeVincenzi - BSBA, MA-ORGL - Chief Executive Officer

Appointed 30 September 2012

Previously, Mr DeVincenzi was President and CEO of LaserCard Corporation, a biometric identification systems business supporting government and commercial clients around the world. Mr DeVincenzi joined LaserCard Corporation in June 2008 and was instrumental in repositioning the company's solution portfolio, and dramatically improving operating profitability. The financial and strategic turnaround of the company led to a successful merger with HID Global/ASSA ABLOY in 2011.

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

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

Subsequent to year end, Mr DeVincenzi and the company entered into a Transition Agreement whereby Mr DeVincenzi's 10 September 2012 employment contract was terminated and transition arrangements regarding his ongoing involvement with Redflex were agreed. Mr DeVincenzi continues to serve as an executive director and Group CEO. Please see Section 8 of the Remuneration Report for full details of Mr DeVincenzi's Transition Agreement.

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

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 chaired the Remuneration Committee during the financial year. Mr Debernardi serves on the Audit and Risk Management Committee.

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

DIRECTORS' REPORT

Albert Moyer – Non-executive director

Appointed 10 February 2013

Mr Moyer has been a private financial consultant since 2000. In 2005 Mr Moyer served as Interim President and Interim Chief Executive Officer of Telenetics Corp. He served as an Executive Vice President and Chief Financial Officer for QAD Inc, from March 1998 to February 2000. He was engaged as a consultant to QAD, assisting in the sales operations of the Americas Region from September 2000 to February 2002. Prior to join QAD in 1998 Mr Moyer served as the Vice President and Chief Financial Officer of Allergan Inc, from August 1995 to March 1998. He served as Chief Financial Officer of Western Digital Corp, Coldwell Banker Corp, and National Semiconductor Corp. Further, Mr Moyer served as Chief Executive Officer of Enhansys Inc.

Mr. Moyer has 40 years of experience in executive positions overseeing the financial operations of several companies, many of which rank in the Fortune 1000, and have substantial overseas operations.

Mr Moyer has been a Director of MaxLinear Inc since October 2009, a Director of CalAmp Corp. (formerly California Amplifier Inc) since February 2004, and a Director of Collectors Universe Inc since 2003. Mr Moyer has been a Director at Virco Mfg Corporation since 2004 and serves as Lead Independent Director. He has also served as a Director of Occam Networks Inc, Lasercard Corporation, QAD Inc, and Earthshell Corporation.

In 2008, Mr Moyer earned an Advanced Professional Director Certification from the USA Corporate Directors Group. Mr Moyer holds a Bachelor of Science in Finance and Business Administration from Duquesne University and graduated from Advanced Management Program at the University of Texas, Austin.

Mr Moyer chairs the Audit and Risk Management Committee.

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

Terence Winters – FAICD – Non-executive director

Appointed 7 August 2013

Mr Winters has served as Chairman and Non-Executive Director of Australian listed and private companies and charities. He is currently Chairman of Seeing Machines Limited (a UK AIM listed company), Converge International Limited, and Intelledox Pty Ltd and completed his term as Chairman of Australian Home Care Services Pty Ltd on 10 September 2013.

He brings a great depth of experience in the governance and operations of international technology companies and social enterprises and he has a positive track record for leading strategic and cultural change programs at board level. After working for Motorola for 10 years, he founded Link Telecommunications Pty Ltd in Australia in 1982 and was Chief Executive Officer and/or Chairman of Link at different times until 1999 when he sold his interest in the company. He led the creation of Optus Communications Pty Ltd from 1989 to 1992 and served on the Optus board until 1995.

In addition, Mr Winters has spent over 17 years on various boards within the Opportunity International Network (OIN) and served as global Chairman of Opportunity International Network Inc for a four year term which was completed in May 2010. OIN is a non-government organisation involved in the provision of Micro Enterprise Development and regulated Micro Finance Banking Services in over 30 developing countries. Mr Winters was also Chairman of the Multiple Sclerosis Society of Victoria and MS Limited for 10 years until his term ended in 2007.

DIRECTORS' REPORT

Graham Davie – B.Sc., Grad Dip Mil Av, former CEO and Executive director

Resigned 30 September 2012

Mr Davie served as Redflex Group Chief Executive Officer from 2002 until his retirement in September 2012.

Previously Mr Davie held the position of Managing Director of the Redflex Communications business since 1993. He 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.

Mr Davie's expertise also included 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.

Ian Davis – LLB (Hons), former Non-executive director

Resigned 6 February 2013

Mr Davis served as a member of the Audit and Risk Management Committee and as a member of the Remuneration Committee until his resignation.

Mr Davis is a senior partner and previously National Chairman of International law firm Minter Ellison. 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 and Chairman of the Produce and Grocery Industry Code Administration Committee. 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.

Maxwell Findlay - B.Ec. (Pol), former Non-executive director

Resigned 6 February 2013

Mr Findlay chaired the Board and also served on the Audit and Risk Management Committee and the Remuneration Committee until his resignation.

Mr Findlay has over 30 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 the company from $50 million to $850 million 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 is Chairman of EVZ Limited and a director of SMEC Holdings Limited, Skilled Group Limited, and The Royal Children's Hospital and was previously a director of TSV Limited.

Karen Finley – MBA, former President and CEO of RTSI and Executive director

Resigned 28 February 2013

Ms Finley was appointed President and CEO of Redflex Traffic Systems Inc in 2005 and held that position until her resignation.

Before joining Redflex, Ms Finley was director of corporate services for Scottsdale Insurance Company. Ms Finley has an MBA from Western International University and a bachelor's degree in business management from Phoenix University.

DIRECTORS' REPORT

Directors' interests in the share capital of the company

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

	Number of Relevant Interests over Ordinary Shares	Number of Performance Rights over Ordinary Shares
Michael McConnell	50,000	0
Robert DeVincenzi	0	0
Rob Debernardi	3,171,783	0
Albert Moyer	0	0
Terry Winters	0	0

Company Secretary

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

DIVIDENDS

Directors have declared a final dividend in respect of FY2013:

- 3.0 cents per share partially franked (2012: 5.0 cents fully franked)
  (2.0 cents fully franked, 1.0 cent unfranked);
- Record date for determining entitlements to the dividend is 20 November 2013; and
- Payment date is 2 December 2013.

An interim dividend in respect of FY2013 of 2.0 cents per share fully franked was paid on 28 June 2013.

	Cents	$'000
Final dividend recommended on ordinary shares	3.0	3,323
Interim FY2013 dividend paid during FY2013	2.0	2,215
Final dividend declared post balance sheet date and not provided for within FY2013		
Final dividend for FY2012 shown as recommended in the FY2012 report	5.0	5,517
These amounts were not recognised as a liability in FY2012 but were brought to account in FY2013.		

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 and provision of associated services to international markets outside of North America, by Redflex Traffic Systems Pty Ltd.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Group overview

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

The focus of the company is to enhance public safety through innovative technologies, such as red-light, speed, and school bus stop-arm photo enforcement solutions.

The Redflex Group comprises two main subsidiaries. Redflex Traffic Systems Inc, based in the USA, focuses on the large North American market. Redflex Traffic Systems Pty Ltd, based in Australia, focuses on the Australian market and International markets except North America.

A Build Own Operate and Maintain (BOOM) business model prevails in the USA, where Redflex provides camera systems and a comprehensive range of services to customers on a fully outsourced basis. BOOM contract terms are typically three to five years with optional extension periods.

The International business comprises a mix of product and service sales, and BOOM type contracts.

Performance indicators

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

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW - CONTINUED

Operating results for the year

The Group's net profit from operations after income tax is $7.3 million (FY2012: $15.1 million).

Revenue from operations was $137.4 million (FY2012: $146.3 million), down 6.1% from the previous year.

The net profit before tax of $8.6 million compares to $21.3 million in the previous financial year.

Cash generation from the business remains strong with net debt of approximately $4.8 million at 30 June 2013 (including restricted cash of $6.3 million).

Revenue

Operating segments	First half $'000	Second half $'000	2013 $'000	2012 $'000	Change %
North American business	47,507	46,696	**94,203***	92,493*	1.8
Australian/International business	21,661	21,516	**43,177**	53,825	(19.8)
Head office interest income	5	0	**5**	5	-
Revenue	**69,173**	**68,212**	**137,385**	**146,323**	**(6.1)**

*Includes sales of $2.2 million to Canada (FY2012: $3.4 million)

Earnings before interest, tax, depreciation and amortisation (EBITDA)

	First half $'000	Second half $'000	2013 $'000	2012 $'000
Traffic business	20,746	17,842	38,588	52,005
Head Office costs	(2,110)	(1,101)	(3,211)	(3,235)
EBITDA	**18,636**	**16,741**	**35,377**	**48,770**

Net profit before tax

	First half $'000	Second half $'000	2013 $'000	2012 $'000
Traffic business	7,621	4,204	11,825	24,015
Head Office costs	(2,118)	(1,106)	(3,224)	(2,699)
Net profit before tax	**5,503**	**3,098**	**8,601**	**21,316**

Net Profit after tax

	First half $'000	Second half $'000	2013 $'000	2012 $'000
Net profit after tax	**3,603**	**3,712**	**7,315**	**15,107**

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW - CONTINUED

Shareholder returns

	2013	2012	2011	2010	2009	2008	2007
Basic earnings per share (cents)	6.61	13.69	9.33	0.68	10.54	11.79	8.25
Net tangible asset backing per share (cents)	87.90	78.32	78.36	91.69	83.64	62.88	66.20
Return on assets (%)	3.7	8.3	5.9	0.3	4.7	8.4	6.8
Return on equity (%)	5.8	13.2	9.9	0.6	10.8	15.6	11.1
Interest bearing debt/equity ratio (%)	20.8	21.2	35.9	69.5	91.6	50.0	32.9
Available franking credits ($'000)	26	2,356	4,757	5,931	7,839	7,808	4,749

Liquidity and capital resources

The statement of cash flows illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2013 of $0.9 million (FY2012: increase of $5.6 million). The decrease was caused by a number of factors which include the delay in the collection of receivables due from the Middle East and South East Asia, and an increase in inventory in anticipation of supply for the Malaysian contract.

Operating activities generated $27.5 million of net cash in-flows.

Cash flows used in investing activities of $21.5 million reflect the installation of 85 red light and speed limit enforcement cameras in the USA.

Cash flows from financing activities decreased by net $8.7 million, of which $0.96 million (US$1.0 million) was for repayment of borrowings, and $7.7 million was paid to shareholders as fully franked dividends.

Asset and capital structure

	2013 $'000	2012 $'000
Debt		
Interest bearing borrowings	(26,034)	(24,219)
Cash at bank, on hand, and restricted cash	21,246	22,162
Net debt	**(4,788)**	**(2,057)**
Total equity	125,250	114,139
Total capital employed	**120,462**	**112,082**
Gearing (%)	4.0%	1.8%

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

Shares issued during the year

During FY2013, 416,711 shares were issued pursuant to the vesting of performance rights pertaining to executive remuneration. During the previous financial year, nil shares were issued in respect of the vesting of performance rights.

Details of shares issued and performance rights vested are shown within the Remuneration Report.

Performance rights over shares

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

At the date of this report there are 2,213,724 performance rights on issue. At 30 June 2013, there were 2,343,047 performance rights on issue (30 June 2012: 2,769,177). Pursuant to Mr DeVincenzi's transition arrangements announced to ASX on 17 July 2013, Mr DeVincenzi waived his 129,323 performance rights and the forfeiture has been taken into account in the financial results reported at 30 June 2013.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW - CONTINUED

Options over shares

At the date of this report there are no options on issue (FY2012: nil), the forfeiture of Mr DeVincenzi's 3,000,000 options pursuant to his transition arrangements having been taken into account in the results reported at 30 June 2013.

Profile of debts

At 30 June 2013, the net debt position of the Group was $4.8 million including restricted cash of $6.3 million. The net debt position was up by $2.1 million from the prior year.

The company has a $76.6 million (US$70.0 million) secured revolving credit facility with a syndicate of three Australian banks, and, in addition, an $8.0 million working capital facility for guarantees and bonds required to support contracts with certain customers. The facility was renewed during FY2012 and it expires on 10 August 2014. The total drawn amount at 30 June 2013 was $26.3 million (US$24.0 million).

Capital expenditure

Under the terms of most contracts undertaken by the North American Traffic business, the company is required to fund all equipment and costs for camera system installations. With 85 new camera systems installed and the installation of school bus stop-arm enforcement cameras, the company incurred capital expenditure of $14.5 million during the year.

The North American Traffic business entity, Redflex Traffic Systems Inc, owns the capital assets located at intersections with the exception of those in Chicago, and derives recurring revenue streams from either: (i) fixed or variable monthly rentals that are based on red light and/or speed ticket infringements that have been paid or have been issued; or, (ii) monthly fixed fees.

Treasury policy

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

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

Risk management

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 operational and financial performance against budgets and other key performance measures. The board reviews and receives advice on operational and financial risks. Appropriate risk management strategies are developed to mitigate 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:

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW - CONTINUED

Risk management - continued

Risks Related To Our Business

The following risks have been identified as those most likely to have a significant effect on the company's performance in future periods, predominantly within the USA:

1. **Banning or restrictive legislation may be enacted in some geographies caused by citizen backlash or local political actions counter to the company's interests.**
   - Company strategy to mitigate – The Company maintains an active communications and legislative affairs program to minimise the risks associated with adverse legislation. The program is focused on developing local traffic safety advocacy groups, developing political support at a local, state or provincial level and communicating the safety and efficacy of automated traffic enforcement systems to the public.
2. **Potential legal action challenging the validity of our enforcement programs, causing us significant costs to defend.**
   - Company strategy to mitigate – In combination with our client agencies, the Company maintains an active outreach and communications program to communicate photo enforcement effectiveness and validity to the public. Further, the Company maintains an internal and external set of legal resources that represent and defend the Company's interests from adverse legal actions.
3. **The potential contagion effect of our internal investigative disclosures may impact our ability to continue to retain existing customers and win new contracts.**
   - Company strategy to mitigate – The Company has adopted, implemented and publicised a comprehensive remediation program to further strengthen our internal compliance and reporting systems to assure the confidence of our customers. The Company has also administered an intensive communications program with our client agencies to provide periodic updates on our actions and to seek input.
4. **If we are unable to safeguard the integrity, security and privacy of our data or our customers data, our business could be disrupted and our reputation impaired.**
   - Company strategy to mitigate – The Company utilises sophisticated methods, standards and technologies to address our customer data integrity and security needs, as stated in their respective procurement documents.
5. **The uneven nature of our contracts outside of the North American business make it difficult to predict our future performance.**
   - Company strategy to mitigate – As a result of an effective sales and marketing strategy, the Company has been steadily improving its market coverage and installed base of systems installed over prior years. In addition to achieving some level of geographic market diversification, the Company has also pursued steps necessary to increase as a percentage of total revenue, the recurring revenue that comes from service and maintenance agreements. The uneven nature of our international contracts is not due to the Company's actions, but rather due to the characteristics of the market.
6. **Other parties may claim that our products or services infringe the proprietary rights of others.**
   - Company strategy to mitigate – The Company vigorously defends against unjustified and unsubstantiated patent infringement claims made from time to time. The research and development focus of the Company is to engage in the innovative development of unique technologies that are based on Company innovation or prior art. Where necessary the Company seeks and maintains patent protection on strategically valuable Intellectual property.

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

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs other than that total equity increased to $125.3 million from $114.1 million, an increase of $11.1 million due to movements in the AU$/US$ exchange rate.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events subsequent to year end and prior to the date of this report, other than the following:

Changes to key management personnel

Appointment of independent director

Mr Terence (Terry) Winters was appointed an independent, non-executive director to the board of Redflex Holdings Limited on 7 August 2013.

Appointment of CEO of North America Traffic business

Mr James (Jim) Saunders was appointed President and Chief Executive Officer of Redflex Traffic Systems Inc on 17 July 2013.

Appointment of CEO of Australia/International business

Mr Ricardo Fiusco was appointed Chief Executive Officer of Redflex Traffic Systems Pty Ltd on 31 July 2013. Mr Fiusco's title was previously General Manager of RTSPL.

Transition arrangements for the Group CEO

Mr Robert DeVincenzi and the company entered into arrangements in relation to his transition from Group CEO and President and CEO of Redflex Traffic Systems Inc to a noneexecutive director role with Redflex Holdings Limited. On 17 July 2013, Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. Mr DeVincenzi continues as Group CEO whilst the Board conducts a search for a replacement. Following the appointment of a new Group CEO Mr DeVincenzi will provide ongoing service as a consultant and will continue to serve the board as a non-executive director, subject to the usual shareholder approval at AGMs.

The key terms of Mr DeVincenzi's Executive Transition Agreement which was unanimously agreed by the board (Mr DeVincenzi abstained) are:

- Mr DeVincenzi has (a) waived his entitlement to a short term incentive, (b) waived his entitlement to 129,323 performance rights issued on 10 September 2012 which have been cancelled, (c) waived his rights to any future issue of performance rights under his long term incentive, and (d) waived his entitlement to 3 million options which were issued on 10 September 2012 and which have been cancelled. In accordance with the accounting treatment required under AASB2 - Share Based Payments, the cost of LTIs including options over ordinary shares in relation to Mr DeVincenzi's employment contract have been expensed and credited in the FY2013 year. As at 30 June 2013, on the basis of the probability of an understanding of the negotiated arrangements existing between the company and Mr DeVincenzi and that the associated legal documentation would be finalised within a short period of time, the option costs have been expensed and credited within the year ended 30 June 2013.
- Mr DeVincenzi is entitled to a bonus of US$540,000 (AU$589,134) for FY2013 year performance, based primarily on performance objectives determined in early 2013. This amount has been accrued at 30 June 2013.
- Mr DeVincenzi continues to be employed in the position of Group CEO for the transition period ending 17 January 2014 or earlier if a new Group CEO is hired. He is entitled to a base annual salary of US$450,000 (AU$438,212) with no entitlement to participate in incentive or option plans. On the last day of the transition period, he is entitled to receive a completion bonus of US$310,000 (AU$339,428). This amount will be expensed in FY14.
- For a 12 month period following the end of the transition period, Mr DeVincenzi shall provide consulting services as reasonably requested of up to 20 hours per week in California with reasonable travel as mutually agreed. Over this period he may perform services for or be employed by other companies other than a competitor. Over this period he is entitled to a consulting fee of US$25,000 (AU$27,373) per month and is entitled to be reimbursed for family health insurance premiums. Mr DeVincenzi's consulting fees will be expensed as incurred.

DIRECTORS' REPORT

SIGNIFICANT EVENTS AFTER THE BALANCE DATE - CONTINUED

Settlement of Class Action suit relating to New Jersey

Eight putative Class Actions have been served against Redflex and five Redflex New Jersey customer cities. The Plaintiffs are classes of individuals who were charged with running a red light, had paid the fine and who challenged the validity of the charged offence and voluntary payment of the fine.

Redflex had intended to defend these actions as the certification process being challenged was not a Redflex responsibility. To prove our case we would have had to express a claim against our customers, as Redflex's defence of the case on merits may diverge from the cities' defence.

Based upon a court ordered mediation, Redflex determined it was best for the Group to settle the action, with no admission of liability, by way of making payment of approximately US$750,000 (AU$821,198), rather than incur non-recoverable legal costs estimated to be significantly in excess of this amount, or alternatively seek legal cost reimbursement by likely legal action against the customers of the cities.

Under the accounting Standard AASB 137: Provisions, Contingent Liabilities and Contingent Assets, the decision to settle this matter in August 2013 gave rise to a constructive obligation at that date, which did not exist prior to that time. Accordingly this amount will be expensed in FY2014.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The North American business continues to effectively compete in the market with 70 new contracts, renewals or extensions having been taken on in that market since 1 February 2013 when we began the process of disclosing the findings associated with our internal investigation. The business has a number of key performance indicators which include an increase in the number of installed camera systems, and an 85% renewal rate of contracts that come up for renewal after running their full terms. We expect to increase the number of installed cameras and sign further new contracts in the year ahead.

In the Australia/International business, the recently announced award to Redflex of the NSW Roads and Maritime Services (RMS) expanded Mobile Camera Program is a very positive development. The international business is subject to peaks and troughs with international customers.

We expect to achieve strong cash flow generation and to be in a position to repay all bank debt during FY2014 in the absence of alternative capital demands. We will consider all capital management options, including the possibility of further acquisitions.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has agreed to indemnify the current directors of the company: Michael McConnell, Robert DeVincenzi, Robin Debernardi, Albert Moyer, and Terence Winters, and the Company Secretary and all executive officers of the company and any related body corporate, against any liability that may arise from their positions within the company.

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

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

DIRECTORS' REPORT

DIRECTORS' MEETINGS

Directors' meetings held and attended during the year ended 30 June 2013, and up to the date of this report were:

	Board	Audit and Risk Management Committee	Remuneration Committee
Number of meetings held	**32**	**4**	**6**
Number of meetings attended			
Michael McConnell	27	4	5
Robert DeVincenzi	24	3	3
Rob Debernardi	32	4	6
Albert Moyer	15	1	1
Terry Winters	4	1	0
Graham Davie	8	3	3
Ian Davis	15	2	1
Max Findlay	14	2	4
Karen Finley	15	2	5

Mr McConnell and Mr Debernardi were eligible to attend all meetings held. Mr DeVincenzi who was appointed 30 September 2012 was eligible to attend 24 board meetings; Mr Moyer who was appointed 10 February 2013 was eligible to attend 16; Mr Winters who was appointed 7 August 2013 was eligible to attend 4; Mr Davie who resigned on 30 September 2012, was eligible to attend 8; Mr Davis who resigned on 6 February 2013 was eligible to attend 15; Mr Findlay who resigned on 6 February 2013, was eligible to attend 15; and Ms Finley who resigned on 28 February 2013 was eligible to attend 15.

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.

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

Audit and Risk Management	Remuneration	Nomination
Albert Moyer, Chair	Rob Debernardi, Chair	Full board
Michael McConnell	Michael McConnell	
Rob Debernardi	Albert Moyer	
Ian Davis	Ian Davis	
Max Findlay	Max Findlay	

Mr Davis and Mr Findlay resigned on 6 February 2013.

DIRECTORS' REPORT

ROUNDING

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

AUDITOR INDEPENDENCE

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

NON AUDIT SERVICES

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

Total non-audit, remuneration related services provided by Ernst & Young in FY2013 amounted to $45,650.

PUT EYs AUDITOR INDEPENDENCE CERTIFICATE ON THIS SPECIAL PAGE

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2013 outlines the remuneration arrangements of the company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented in the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements:
    A. Remuneration principles and strategy
    B. Approach to setting remuneration
    C. Detail of incentive plans
4. Remuneration results for FY2013
    A. Directors and Key Management Personnel
    B. Former KMP
5. Executive remuneration outcomes for 2013 (including link to performance)
6. Summary of executive contractual arrangements
7. Non-executive director remuneration arrangements
    A. Remuneration policy for non-executive directors
    B. Structure of non-executive director remuneration
    C. Contractual arrangements with interim chairman
8. Additional statutory disclosures
9. Subsequent events

1 INTRODUCTION

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

The remuneration committee continued to review the approach to executive remuneration and the rewards for delivering the key business objectives. In relation to Redflex's LTI Plan and awards made in FY2013 and to be made in subsequent years, the comparator group against which Redflex's total shareholder return is assessed comprises the S&P/ASX 300 index companies, excluding companies in the Financial and Metals and Mining GICS (Global Industry Classification Standard) sector, at grant date, whereas for grants made prior to FY2013, companies in those sectors were included. The remuneration committee felt that the change was most appropriate to Redflex on the basis that it is a reasonably large comparator group that would prevent volatility effects causing short-term anomalies; it would be acceptable to the market as a reference; and, it acknowledges that Redflex has no direct peers in the Australian market.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

2 REMUNERATION GOVERNANCE

Remuneration Committee

The remuneration committee comprises three independent non-executive directors.

The remuneration committee has delegated decision making authority for some matters related to the remuneration arrangements for NEDs and executives, and is required to make recommendations to the board on other matters.

Specifically, the board approves the remuneration arrangements of the CEO and other executives and all awards made under the long-term incentive (LTI) plan, following recommendations from the remuneration committee. The board also sets the aggregate remuneration for NEDs, which is then subject to shareholder approval, and fixes fee levels for NEDs. The remuneration committee approves the level of the Group STI pool, having regard to the recommendations made by the CEO.

The remuneration committee meets at appropriate times during the year. On invitation, the CEO attends certain remuneration committee meetings where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

Further information on the remuneration committee's role, responsibilities and membership is on line at www.redflex.com.au.

Use of remuneration consultants

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

Remuneration report shareholder vote

61.85% of the votes cast by shareholders at the 2012 AGM in relation to the FY2012 remuneration report, were in favour of the adoption of the report. As the resolution was approved by less than a 75% majority, the company received a 'first strike' which will result in the outcome of the remuneration report resolution at the 2013 AGM determining whether or not a board spill resolution will be put to shareholders. Having noted the 'first strike', the directors reviewed and considered the Group's remuneration strategy and decided that no specific action was required.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

3 EXECUTIVE REMUNERATION ARRANGEMENTS

3.A Remuneration principles and strategy

Redflex Holdings Limited's executive remuneration plan is designed to attract, motivate and retain high performing individuals and align the interests of executives and shareholders.

The following diagram illustrates how the company's remuneration plan aligns with the company's strategic direction and links remuneration outcomes to performance.

Redflex Business Objective:
To be recognized as an international leader in our industry and build long-term value for shareholders.

Remuneration plan linkages to business objective:	
Align the interests of executives with shareholders	**Attract, motivate and retain high performing individuals**
- The remuneration framework incorporates "at-risk" components, including both short and longer term elements delivered in equity. - Performance is assessed against a suite of financial and non-financial measures relevant to the success of the company and generating returns for shareholders.	- The remuneration offering is competitive for companies of a similar size and complexity. - Deferred and longer-term remuneration is designed to encourage retention.

Remuneration component	Vehicle	Purpose	Link to Performance
Fixed remuneration	Represented by total fixed remuneration (TFR). Comprises base salary, superannuation contributions (in Australia) and other benefits. Executives may receive their fixed remuneration in a way optimal for the recipient but within the cap established for the TFR.	To provide competitive fixed remuneration set with reference to role, market and experience.	Company and individual performance are considered during the annual remuneration review
Short term incentive	Paid in cash.	To reward executives for their contribution to achievement of Group, business unit and individual outcomes.	Linked to achievement of operational targets and key performance indicators. The board also has the capability to award discretionary bonuses in certain situations, ie retention bonuses.
Long term incentive	Awards are made in the form of performance rights which vest into shares or, in the USA, cash payments at the Board's discretion.	To reward executives for their contribution to the creation of shareholder value over the longer term.	Vesting of awards is generally dependent on Redflex Holdings Limited's TSR performance relative to an ASX peer group.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

3 EXECUTIVE REMUNERATION ARRANGEMENTS - CONTINUED

3.B Approach to setting remuneration

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

Fixed Remuneration for the Chief Executive Officer of Redflex Holdings Limited, the Chief Executive Officer of Redflex Traffic Systems Inc, the Chief Executive Officer of Redflex International, 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 Chief Executive Officer is reviewed each year by the CEO who reports to the board with recommendations for the following year.

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

In FY2013, the executive remuneration framework consisted of fixed remuneration and short and long term incentives. In summary, the CEO and executives have the following target remuneration mix:

	STI opportunity	LTI opportunity (face value)
CEO	30% of fixed remuneration with a maximum opportunity (if target stretch is met) of 60% of fixed remuneration	60% of fixed remuneration
Other executives	Between 10% and 30% of fixed remuneration with a maximum opportunity (if target stretch is met) of 60% of fixed remuneration	Between 20% and 60% of fixed remuneration

Subsequent to year end, the company and the CEO, Mr Robert DeVincenzi, entered into an Executive Transition Agreement whereby Mr DeVincenzi's 10 September 2012 employment contract was terminated. Please see Section 5 of the Remuneration Report for full details of the Transition Agreement.

3.C Detail of incentive plans

Short Term Incentives (STI)

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

Actual STI payments awarded to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. Targets are set by a cascading process from the board through the executive group. The targets 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.

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. 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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

3 EXECUTIVE REMUNERATION ARRANGEMENTS - CONTINUED

3.C Detail of incentive plans - continued

Long Term Incentives (LTIs)

LTI awards are made annually to executives in order to align remuneration with the creation of shareholder value over the long term. As such, LTI awards are made only to executives and other key talent who have an impact on the Group's performance against the relevant long-term performance measure. Awards are made under the Long Term Incentive Plan, the rules of which are published on www.redflex.com.au.

Structure

LTI awards are made under the company's LTI plan and are delivered in the form of performance rights that will vest after three years subject to meeting the performance measure, with no opportunity to retest.

Performance Measure to determine vesting

The company uses relative total shareholder return (TSR) as the performance measure for the LTI Plan.

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

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

For LTI awards up to and including FY2012, the peer group chosen for comparison is the ASX 300 constituents at the start of the performance period. The peer group for FY2013 and future awards is the comparator group which comprises the S&P/ASX 300 index companies but excludes companies that are in the Financial and Metals and Mining GICS (Global Industry Classification Standard) sector, at grant date as those industry groups were considered inappropriate comparators.

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

The vesting schedule is as follows:

Relative TSR performance outcome	Percentage of award that will vest
Below the 50th percentile	0%
At the 50th percentile (target performance)	50%
Between the 50th and 75th percentile	Straight line vesting between 50-100%
At or above the 75th percentile	100%

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

Table 4a and 4b in section 7 provides details of LTIs awarded and vested during the year and Tables 5a and 5b in section 8 provides details of the value of LTIs awarded, vested and lapsed during the year.

Change of control provisions

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

4 REMUNERATION RESULTS FOR FY2013

Performance and resulting remuneration outcomes for the year

Following the principles established in previous years, the FY2013 Short Term Incentive (STI) plan provides for awards of a cash bonus subject to the attainment of clearly defined measures for the Group, business units, and individuals. A target STI of up to 30% of fixed remuneration is based on achievement of performance targets with a further 30% available for over achievement of those targets.

For the purpose of the FY2013 report, accruals were made at year end relating to bonuses payable to the Group CEO, Mr DeVincenzi - US$540,000 (AU$589,134) based primarily on performance objectives determined in early 2013, (an additional completion bonus of US$310,000 (AU$339,428) payable on 17 January 2014 which is the end date of Mr DeVincenzi's six month transition period will be expensed in FY2014).

During FY2013, STIs were paid that related to the FY2012 performance of the Group, the performance of the executive's business unit, and the achievements of individual KPIs that were set at the beginning of FY2012.

Neither Group nor business unit targets were met in FY2013, however, accruals were taken up that included retention bonuses payable to certain KMPs, and 100% of individual KPIs which were set at the commencement of FY2013. Assessments of achievements against individual KPIs are expected to be completed in the first quarter of FY2014.

With regard to LTIs, the total shareholder return (TSR) performance hurdle for the grant of performance rights on 1 October 2009 was met at the testing date in FY2013 (1 October 2012) as Redflex Holdings Limited's TSR percentile rank was 50.6% which resulted in 51.2% of LTIs vesting.

Remuneration changes

Generally, changes to base executive remuneration were constrained this year, with the majority of executives receiving CPI increases to fixed remuneration in line with the budget applied to our broader workforce. Certain retention bonuses totaling approximately $266,000 were paid to certain KMPs in the period of uncertainty for Redflex occurring after the disclosures of the internal investigation and the organisation and leadership changes that occurred as a result.

For the purposes of this report, the term executive includes the Group Chief Executive Officer, senior executives and the company secretary of the parent and the Group for the year ending 30 June 2013.

4.A Directors and key management personnel

Non-executive directors

Michael McConnell	Interim Chairman (non-executive)
Robin Debernardi	Director (non-executive)
Albert Moyer	Director (non-executive) appointed 10 February 2013
Terence Winters	Director (non-executive) appointed post reporting date on 7 August 2013

Executive director

Robert DeVincenzi	Group Chief Executive Officer

Other executives

Ron Johnson	Group Chief Financial Officer
Ricardo Fiusco	General Manager (appointed CEO post reporting date), Redflex Traffic Systems Pty Ltd
James Saunders	Chief Executive Officer, RTSI, appointed post reporting date on 17 July 2013
Simon Pickup	Manager, China, Redflex Traffic Systems Pty Ltd (formerly Manager, Saudi Arabia)
Marilyn Stephens	Company Secretary

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

4 REMUNERATION RESULTS FOR FY2013 - CONTINUED

4.B Former KMP

Non-executive directors

Maxwell Findlay	Chairman (non-executive)- resigned 6 February 2013
Ian Davis	Director (non-executive) – resigned 6 February 2013

Executive directors

Graham Davie	Group Chief Executive Officer – retired 30 September 2012
Karen Finley	President and Chief Executive Officer of RTSI – resigned 28 February 2013

Other executives

Andrejs Bunkse	General Counsel, RTSI – resigned 28 February 2013
Sean Nolen	Chief Financial Officer, RTSI – resigned 28 February 2013
Aaron Rosenberg	EVP Sales RTSI – terminated 20 February 2013

The former Group CEO and executive director, Mr Graham Davie, retired on 30 September 2012. Mr Davie's 82,231 performance rights that were granted to him after shareholder approval at the 2009 AGM, vested in full without reference to TSR performance outcome at the testing date of 1 October 2012.

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue, except for those indicated in the tables above and described in Section 9 of this Remuneration Report.

5 EXECUTIVE REMUNERATION OUTCOMES FOR FY2013 (INCLUDING LINK TO PERFORMANCE)

Company performance and its link to short-term incentives

The financial performance measures driving 70% of STI payment outcomes are the profit of the Group and the relevant business unit for the financial year compared to targets set at the commencement of the period.

Performance against targets

The following table outlines FY2013 Group and business unit performance against targets.

Business unit	Performance measure	FY2013 performance versus targets
Group	Profit after tax	Below target
USA operations	Profit after tax	Below target
Aust/International operations	Profit after tax	Below target

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

5 EXECUTIVE REMUNERATION OUTCOMES FOR FY2013 (INCLUDING LINK TO PERFORMANCE) - CONTINUED

Performance against targets - continued

The following table outlines the proportion of maximum STI that was earned and forfeited in relation to FY2013.

	FY2013 - Proportion of maximum STI	
	% Earned	% Forfeited
Robert DeVincenzi	100*	0*
Ron Johnson	30	70
Ricardo Fiusco	30	70
Simon Pickup	30	70
Marilyn Stephens	30	70

*Subsequent to year end and before the date of this report, the company and Mr DeVincenzi entered into an Executive Transition Agreement dated 17 July 2013 whereby Mr DeVincenzi is entitled to an STI of US$540,000 (AU$589,134), paid in August 2013. Details of the transition arrangements for Mr DeVincenzi are included in Section 5 of the Remuneration Report.

Company performance and its link to LTIs

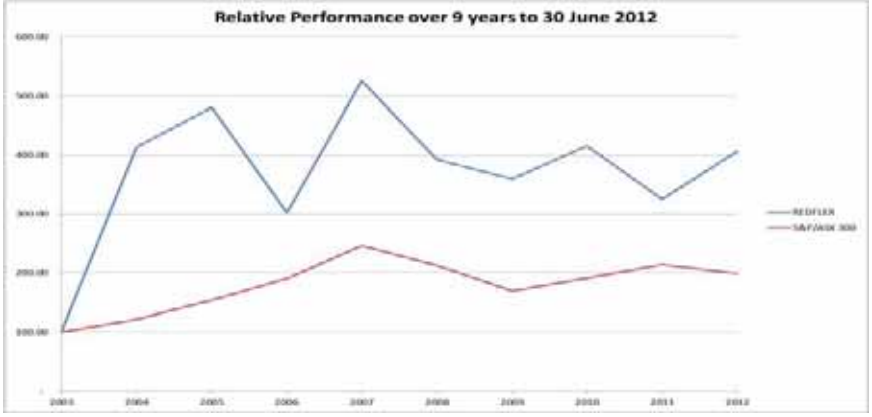
The performance measure that drives LTI vesting for awards made up to and including FY2013 is Redflex's TSR performance relative to the TSR of the individual companies within the S&P/ASX 300 index (excluding Financials Sector, Metal and Mining Industry companies according to GICS code from FY2013).

REMUNERATION REPORT (AUDITED) - CONTINUED

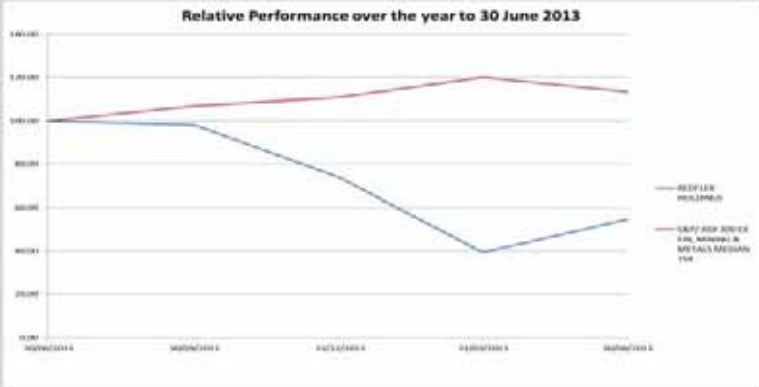
5 EXECUTIVE REMUNERATION OUTCOMES FOR 2013 (INCLUDING LINK TO PERFORMANCE) CONTINUED

Company performance and its link to LTIs - continued

The following graph below shows the value from 30 June 2003 to 30 June 2012 of a notional $100 invested in Redflex or the S&P/ASX 300 Accumulation Index (including Financials, Metal and Mining Industry companies) on 30 June 2003.



The following graph shows the value over the year to 30 June 2013 of a notional $100 invested on 30 June 2012 in Redflex or the median TSR performance company contained in S&P/ASX 300 Index (as at the grant date of the FY2013 plan) excluding Financials Sector, Metal and Mining Industry companies.



LTI vesting outcomes

The table below outlines both vesting and expected outcomes for outstanding awards in FY2013. Projected outcomes for awards still to be tested are based on assuming a median ranking.

	FY2010 grant (1 Oct 2009)	FY2011 grant (1 Oct 2010)
Relative TSR performance	50.6% percentile	Median ranking
Implication for vesting	416,711 performance rights vested, 318,801 lapsed.	50% of awards will vest if median ranking at testing date of 1 October 2013.

REMUNERATION REPORT (AUDITED) - CONTINUED

5 EXECUTIVE REMUNERATION OUTCOMES FOR FY2013 (INCLUDING LINK TO PERFORMANCE) – CONTINUED

The tables below outlines the actual remuneration outcomes for executives in FY2013. The table includes fixed remuneration earned and paid in FY2013 and the STI cash paid in FY2013 and earned for FY2012 performance. During the year, the TSR hurdle ranking was 50.6% and accordingly a proportion of the FY2010 LTI grants vested. Note that the value actually received by individuals differs from the remuneration outlined in Tables 2a and 2b which are based on accounting values.

Table 1a: Actual Remuneration outcomes for FY2013 – Executive KMP

	Fixed including superannuation	Long service leave accrual	Medical / Other	STI cash including superannuation	Value of LTI award vested (FY2010 LTI grant)	Total remuneration received
Executive director						
Robert DeVincenzi	355,345	0	10,164	0	0	365,509
Other KMP						
Ron Johnson	270,481	3,928	0	150,000	34,598	459,007
Ricardo Fiusco	255,625	3,928	2,250	95,745	35,564	393,112
Simon Pickup	232,411	2,729	97,673	51,480	18,676	402,969
Marilyn Stephens	138,427	2,127	0	54,153	20,115	214,822

Table 1b: Actual Remuneration outcomes for FY2013 – Former executive KMP

	Fixed including superannuation	Eligible termination payment	Leave paid on termination	Medical/ other	STI cash including superannuation	Value of LTI award vested (FY2010 LTI grant)	Total remuneration received
Former executive directors							
Graham Davie [1]	81,231	243,694	184,756	0	243,695	141,437	894,813
Karen Finley [2]	239,710	0	46,046	3,173	108,786	81,734	479,449
Former other KMP							
Andrejs Bunkse [3]	164,888	0	7,454	9,578	84,932	64,024	330,876
Sean Nolen [3]	154,364	0	14,406	9,405	51,821	0	229,996
Aaron Rosenberg [4]	156,393	0	28,852	13,397	77,436	64,024	340,102

[1] The former Group CEO, Mr Graham Davie, resigned on 30 September 2012 having served as Group CEO since 2002. Under the terms of the separation arrangements, Mr Davie's 82,231 performance rights that were due for testing on 1 October 2012, vested in full regardless of performance criteria.

[2] The former CEO of the USA business, Ms Karen Finley, resigned on 28 February 2013.

[3] The resignation date of Mr Andrejs Bunkse, the former General Counsel of RTSI, and Mr Sean Nolen, the former Chief Financial Officer of RTSI, was 28 February, 2013.

[4] Mr Aaron Rosenberg, the former Executive Vice President of Sales in the North American Traffic business was dismissed on 20 February 2013.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) - CONTINUED

5 EXECUTIVE REMUNERATION OUTCOMES FOR 2013 (INCLUDING LINK TO PERFORMANCE) - CONTINUED

Remuneration of key management personnel (KMP)
Table 2a: Remuneration for the years ended 30 June 2013 and 30 June 2012 - Executive KMP

		Short term benefits			Post employment	Long term benefits	Share based payments	Total	Performance related
		Salary and fees	Bonus ^	Non monetary	Superannuation	Long service leave	Performance rights		
		$	$	$	$	$	$	$	%
Executive director									
Robert DeVincenzi	2013	355,345	525,855 [1]	10,164	0	0	0 [2]	891,364	59%
	2012	0	0	0	0	0	0	0	-
Other KMP									
Ron Johnson	2013	250,576	22,500	0	19,905	3,928	22,721	319,630	14%
	2012	223,572	108,702	0	29,905	3,823	76,242	442,244	42%
Ricardo Fiusco	2013	234,518	14,362	2,250	21,107	3,928	22,721	298,886	12%
	2012	217,691	74,206	2,055	26,271	3,660	67,827	391,710	36%
Simon Pickup	2013	225,043	7,722	97,673	7,368	2,729	7,874	348,409	4%
	2012	212,438	43,461	180,935	0	3,575	36,034	476,443	17%
Marilyn Stephens	2013	126,997	7,452	0	12,100	2,127	8,202	156,878	10%
	2012	123,128	42,619	0	14,917	2,070	38,363	221,097	37%
	2013	**1,192,479**	**577,891**	**110,087**	**60,480**	**12,712**	**61,518**	**2,015,167**	**32%**
	2012	**776,829**	**268,988**	**182,990**	**71,093**	**13,128**	**218,466**	**1,531,494**	**32%**

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

[1] The bonus of US$540,000 (AU$589,134) that was paid to Mr DeVincenzi in August 2013 was based primarily on performance objectives determined in early 2013 and satisfied at reporting date.

[2] On 17 July 2013, Mr DeVincenzi entered into an Executive Transition Agreement with the company. Within this Agreement he waived his entitlement to 129,323 performance right and 3 million options which were issued on 10 September 2012. The expensing of the performance rights and options cost for FY2013 was also reversed in FY2013 as the terms of the Agreement had been substantially determined at 30 June 2013.

REMUNERATION REPORT (AUDITED) - CONTINUED

5 EXECUTIVE REMUNERATION OUTCOMES FOR 2013 (INCLUDING LINK TO PERFORMANCE) - CONTINUED

Table 2b: Remuneration for the years ended 30 June 2013 and 30 June 2012 – former executive KMP

		Short term benefits			Post employment			Share based payments		
		Salary and fees	Bonus ^	Non monetary benefits	Super-annuation	Leave paid on term. or accrued	Eligible termination payment	Performance rights	Total	Performance related
		$	$	$	$	$		$	$	%
Former executive directors										
Graham Davie [1]	2013	74,524	77,982	0	6,707	184,756	243,694	0	587,663	13%
	2012	300,687	151,096	0	40,660	4,968	0	138,109	635,520	46%
Karen Finley [2]	2013	239,710	26,499	3,173	0	46,046	0	0	315,428	8%
	2012	306,067	82,435	4,580	0	0	0	147,286	540,368	43%
Other Former KMP										
Andrejs Bunkse [3]	2013	164,888	20,615	9,578	0	7,454	0	0	202,535	10%
	2012	239,753	64,575	13,329	0	0	0	106,847	424,504	40%
Sean Nolen [3]	2013	154,364	12,273	9,405	0	14,406	0	0	190,448	6%
	2012	224,449	36,114	13,328	0	0	0	40,670	314,561	24%
Aaron Rosenberg [4]	2013	156,393	33,736	13,397	0	28,852	0	0	232,378	15%
	2012	239,753	153,989	19,430	0	0	0	115,373	528,545	51%
	2013	**789,879**	**171,105**	**35,553**	**6,707**	**281,514**	**243,694**	**0**	**1,528,452**	**11%**
	2012	**1,310,709**	**488,209**	**50,667**	**40,660**	**4,968**	**0**	**548,285**	**2,443,498**	**42%**

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

[1] The former Group CEO, Mr Graham Davie, resigned on 30 September 2012 having served as Group CEO since 2002. Under the terms of the separation arrangements, Mr Davie's 82,231 performance rights that were due for testing on 1 October 2012, vested in full regardless of performance criteria.

[2] The former CEO of the USA business, Ms Karen Finley, resigned on 28 February 2013.

[3] The resignation date of Mr Andrejs Bunkse, the former General Counsel, and Mr Sean Nolen, the former Chief Financial Officer, RTSI, was 28 February, 2013.

[4] Mr Aaron Rosenberg, the former Executive Vice President of Sales in the North American Traffic business was dismissed on 20 February 2013.

REMUNERATION REPORT (AUDITED) - CONTINUED

6 SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP are formalised in employment agreements.

Group CEO – Mr Robert DeVincenzi

Mr Robert DeVincenzi joined the Redflex Group on 10 September 2012. Mr DeVincenzi's employment contract was dated 17 September 2012 and was effective from 10 September 2012 to the commencement of an Executive Transition Agreement effective 17 July 2013. Mr DeVincenzi's employment contract included terms typical for a contract of this nature, as follows:

- Salary entitlement of US$450,000 (AU$438,212) per annum, reviewed annually;
- Maximum STI comprising 60% of base pay having regard to incentives relating to budget performance and assessable against key performance indicators, 70% based on Redflex profit performance and 30% based on individual performance.
- Long term incentive of 60% of base pay in accordance with the terms of the Redflex LTI Plan.
- Grant of 3 million options to subscribe for Redflex shares. The exercise price was based on the 90 day VWAP prior to the relevant pricing date, namely 10 September 2012, 1 July 2013, 1 July 2014 and 1 July 2015, being 750,000 options on each occasion. Each tranche generally vesting on a one third basis on the date one year, two years and three years after the relevant pricing date, with one half subject to the satisfaction of time based criteria namely continuing to be the CEO, and one half subject to the satisfaction of performance criteria set by the Redflex Board. Each option was to expire seven years after vesting if they hadn't expired earlier.

Group CEO Transition Arrangements

On 17 July 2013, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. Mr DeVincenzi continues as Group CEO up until 17 January 2014 whilst the Board conducts a search for a replacement. Following the appointment of a new Group CEO Mr DeVincenzi will provide ongoing service as a consultant and will continue to serve the board as a non-executive director, subject to the usual shareholder approval at AGMs. Mr DeVincenzi's Executive Transition Agreement was unanimously agreed by the board (Mr DeVincenzi abstained). The key terms of the Agreement are:

- Mr DeVincenzi has (a) waived his initial entitlement to a short term incentive under the STI Plan, (b) waived his entitlement to the 129,323 performance rights that were issued under the LTI Plan on 10 September 2012 which have been cancelled, (c) waived his rights to any future issue of performance rights under his long term incentive, and (d) waived his entitlement to 3 million options which were issued on 10 September 2012 and which have been cancelled.
- Mr DeVincenzi is entitled to a bonus of US$540,000 (AU$589,134) for FY2013 year performance based primarily on performance objectives determined in early 2013. This bonus was paid in August 2013.
- Mr DeVincenzi continues to be employed in the position of Chief Executive Officer of the Redflex Group for the transition period ending 17 January 2014 or earlier if a new Group CEO is hired. He will perform those services in California with reasonable travel as mutually agreed. Over this period his duty is to perform reasonable projects as directed. He is entitled to a base annual salary of US$450,000 (AU$438,212) with no entitlement to participate in incentive or option plans. On the last day of the transition period, he is entitled to receive a completion bonus of US$310,000 (AU$339,428).
- For a twelve month period following the end of the transition period, Mr DeVincenzi shall provide consulting services as reasonably requested of up to 20 hours per week from California with reasonable travel as mutually agreed. Over this period he may perform services for or be employed by other companies other than a competitor. Over this period he is entitled to a consulting fee of US$25,000 (AU$27,373) per month and is entitled to be reimbursed for family health insurance premiums.

Whilst the Group CEO Transition Agreement was not finalised until 17 July 2013, the Board had high expectations of completing it at reporting date, and accordingly such items relating to FY2013 were accounted for in FY2013. These included:

- reversal of STI accruals and expensing of the bonus;
- expensing and reversal of performance rights; and
- expensing and reversal of options.

REMUNERATION REPORT (AUDITED) - CONTINUED

6 SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS - CONTINUED

Redflex Traffic Systems Inc (RTSI)
President and CEO of RTSI – Robert DeVincenzi

During FY2013, Mr DeVincenzi was appointed President and CEO of RTSI, in addition to continuing as Group CEO. Mr DeVincenzi's compensation arrangements were not varied to take into account this additional role.

Outgoing Group CEO – Mr Graham Davie, retired 30 September 2012

On 10 September 2012, the company announced that Mr Graham Davie had decided to retire from executive responsibilities. In regard to the cessation of his employment and directorship with effect from 30 September 2012, the company and Mr Davie agreed on terms which are customary for an arrangement of this nature. The arrangements comprised the following entitlements for Mr Davie:

- Payment of 39 weeks' salary and accrued employee benefits in satisfaction of Mr Davie's contractual entitlements being an aggregate amount of $431,890.
- An amount of $194,956 being Mr Davie's STI entitlement for the 2012 financial year and $48,739 being with respect to the 2013 financial year.
- Mr Davie retained his LTI performance rights on the basis that his employment ceased as a consequence of a qualifying reason for the purposes of the LTI Plan Rules, except for those LTIs that were due to be tested on 1 October 2012 vest in full. Mr Davie needs to continue to observe employment contractual obligations which survive termination.

During FY2013 up to the cessation of his employment, Mr Davie was the Redflex Holdings Limited Chief Executive Officer and he was employed under a contract dated 8 January 2009 which had an indefinite term. Under the terms of that contract:

- Mr Davie's annual total fixed remuneration (TFR) effective 1 October 2011 was $324,926.
- STIs of up to 30% of TFR were available on achievement of performance targets with a further 30% available for over-achievement of those targets.
- Mr Davie was eligible to participate in the company's LTI plan, subject to receiving any required shareholder approval and his maximum LTI opportunity was 60% of TFR.
- Either Mr Davie or the company could have terminated the employment relationship at any time for any lawful reason, or no reason, with or without cause. If the company terminated Mr Davie's employment for any reason other than cause the company would pay any total fixed remuneration due to Mr Davie through the last day of employment, plus any accrued bonus, and the company would 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 terminated Mr Davie's employment for cause the company would 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 terminated his employment for good reason, the company would pay any total fixed remuneration due to him through the last day of employment, plus any accrued bonus, and the company would continue to pay Mr Davie's total fixed remuneration for a period of six weeks after the effective date of termination.

REMUNERATION REPORT (AUDITED) - CONTINUED

6 SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS - CONTINUED

Former CEO and President of RTSI – Ms Karen Finley

During FY2013 up to her resignation effective 28 February 2013, Ms Finley was President and CEO of RTSI and she was employed under a contract dated 3 March 2009 which had an indefinite term. Under the terms of that contract:

- Ms Finley's annual total fixed remuneration (TFR) effective 1 October 2012 was US$327,820 (AU$319,233), and for the period 1 July to 30 September 2012 Ms Finley's annual TFR was US$318,270 (AU$309,933.
- STIs of up to 30% of TFR were available on achievement of performance targets with a further 30% available for over-achievement of those targets.
- Ms Finley was eligible to participate in the company's LTI plan, subject to receiving any required shareholder approval and her maximum LTI opportunity was 60% of her TFR.
- Either Ms Finley or the company could have terminated the employment relationship at any time for any lawful reason, or no reason, with or without cause. If the company terminated Ms Finley's employment for any reason other than cause the company would pay any total fixed remuneration due to Ms Finley through the last day of employment, plus any accrued bonus, and the company would 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 terminated Ms Finley's employment for cause the company would 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 would be paid, retained or forfeited in accordance with the terms of such plan, provided, however, that the company should have no obligation to make any payments toward these benefits from and after termination.
- If Ms Finley terminated her employment for good reason, the company would pay any total fixed remuneration due through the last day of employment, plus any accrued bonus, and the company would continue to pay Ms Finley's total fixed remuneration for a period of six weeks after the effective date of termination.

Incoming President and CEO of Redflex Traffic Systems Inc – Mr James Saunders

On 17 July 2013, Redflex announced to ASX that after significant restructuring of the RTSI business and the finalisation of the FY2014 operating plan for the business, Mr James Saunders had been appointed President and CEO of RTSI. Under the terms of Mr Saunders' employment contract:

- Mr Saunders' annual TFR is US$285,000 (AU$277,535).
- STIs of up to 30% of TFR are normally available on achievement of performance targets with a further 30% available for over-achievement of those targets. The performance criteria for FY2014 has been amended such that Mr Saunders is entitled to receive 30% of TFR provided he serves until 30 June 2014, regardless of performance.
- Mr Saunders is entitled to receive a further matching payment for over-achievement of performance targets.
- Mr Saunders is eligible to participate in the company's LTI plan and his maximum LTI opportunity is 60% of TFR.
- Mr Saunders has an entitlement to receive a bonus payable no later than 31 October 2013 of US$18,000 (AU$19,709) based on certain performance criteria.

REMUNERATION REPORT (AUDITED) - CONTINUED

6 SUMMARY OF EXECUTIVE CONTRACTUAL ARRANGEMENTS - CONTINUED

CEO of Redflex Traffic Systems Pty Ltd – Mr Ricardo Fiusco

Subsequent to year end, the head of the Australian/International Traffic business, Mr Ricardo Fiusco, was appointed Chief Executive Officer of Redflex Traffic Systems Pty Ltd.

Under the terms of Mr Fiusco's employment contract:

- Mr Fiusco's annual TFR is $257,500 effective 1 October 2012.
- STIs of up to 30% of TFR are available on achievement of performance targets with a further 30% available for over-achievement of those targets.
- Mr Fiusco is eligible to participate in the company's LTI plan and his maximum LTI opportunity is 60% of TFR.

Other key management personnel

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 to 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 pro rata subject to performance over this shortened period.

7 NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

7.A Remuneration policy for non-executive directors

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

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

The company's constitution and ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held in 2010 when shareholders approved an aggregate remuneration of $700,000 per year. The board will not seek any increase for the non-executive director pool at the 2013 AGM.

REMUNERATION REPORT (AUDITED) - CONTINUED

7 NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS - CONTINUED

7.B Structure of non-executive director remuneration

Each non-executive director (NED) receives a fixed fee for being a director and a fee for the additional time commitment made by directors who serve as Chair and/or on one or more sub committees. NEDs do not receive retirement benefits, except for superannuation where this is applicable, nor do they participate in any incentive programs.

The remuneration of NEDs for the years ended 30 June 2013 and 30 June 2012 is detailed in Table 3.

Table 3: NED remuneration for the year ended 30 June 2013 and comparative 2012 remuneration

	Financial year	Short-term benefits			Post employment	Total
		Salary and Fees	Other fees	Non monetary	Superannuation	
Michael McConnell [1]	2013	172,986	80,454	0	0	**253,440**
	2012	67,286	0	0	0	**67,286**
Robin Debernardi	2013	80,849	0	0	7,276	**88,125**
	2012	66,793	0	0	6,011	**72,804**
Albert Moyer [2]	2013	36,956	0	0	0	**36,956**
	2012	0	0	0	0	**0**
Maxwell Findlay [3]	2013	77,352	0	0	6,962	**84,314**
	2012	117,742	0	0	10,597	**128,339**
Ian Davis [3]	2013	43,596	0	0	3,924	**47,520**
	2012	66,793	0	0	6,011	**72,804**
	2013	**411,739**	**80,454**	**0**	**18,162**	**510,355**
	2012	**318,614**	**0**	**0**	**22,619**	**341,233**

[1] Mr McConnell was appointed 2 August 2011.
[2] Mr Moyer was appointed on 10 February 2013.
[3] Mr Findlay and Mr Davis resigned on 6 February 2013.

7.C Contractual arrangements with interim chairman

Mr McConnell's annual compensation for his appointment as interim chair is $340,832 (US$350,000), and the term of his interim appointment is from 1 March 2013 to 1 January 2014. If for any reason Mr McConnell is removed from this role prior to 1 January 2014, then he shall receive a payment equal to the then remaining outstanding amount due as if he had served in this role until 1 January 2014. The board determined unanimously (Mr McConnell abstained) that Mr McConnell's remuneration arrangements were appropriate taking into consideration the additional work required to provide active management support and supervision to the business, related activities subsequent to the completion of the internal investigation, development and execution of the RTSI restructuring program, sufficient continuity with shareholders and other external constituents and board development activities.

At the conclusion of Mr McConnell's term as interim chair, which is set for 1 January 2014, the chair compensation TFR will return to the previous level of $145,000 per annum which was in effect on 1 October 2012.

Mr McConnell has received $80,454 (US$75,000) for his oversight of the 2012 CEO search process and the internal investigation in the USA. This amount was accrued for accounting purposes at 30 June 2013 as the services had been rendered. This amount was paid in September 2013, and satisfied at reporting date.

REMUNERATION REPORT (AUDITED) - CONTINUED

8 ADDITIONAL STATUTORY DISCLOSURES

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

Tables 4a and 4b disclose the LTIs (performance rights) granted to executives as remuneration during FY2013. LTIs do not carry any voting or dividend rights and depending on Redflex's TSR, may or may not vest at the end of the performance period.

Table 4a: Performance rights awarded, vested, lapsed or forfeited during the year (Consolidated) - KMP

		Terms and conditions for each grant during the year					
	Financial Year	Performance Rights awarded during the year Number	Award Date	Fair Value per LTI at Award Date	Performance period	Number vested during year ended 30 June 2013	Number lapsed forfeited or cancelled during year ended 30 June 2013
Executive Director							
Robert DeVincenzi	2013	129,323	10 Sep 2013	$1.20	>3 years to 1 Oct 2016	0	0*
	2012	0	-	-	-	0	0
Other KMP							
Ron Johnson	2013	75,735	1 Oct 2012	$1.20	3 years	0	0
	2012	85,227	1 Oct 2011	$1.27	3 years	0	0
	2011	37,495	1 Oct 2010	$1.80	3 years	0	0
	2010	39,288	1 Oct 2009	$1.72	3 years	20,115	19,173
Ricardo Fiusco	2013	75,735	1 Oct 2012	$1.20	3 years	0	0
	2012	54,400	1 Oct 2011	$1.27	3 years	0	0
	2011	38,541	1 Oct 2010	$1.80	3 years	0	0
	2010	40,385	1 Oct 2009	$1.72	3 years	20,677	19,708
Simon Pickup	2013	26,245	1 Oct 2012	$1.20	3 years	0	0
	2012	29,250	1 Oct 2011	$1.27	3 years	0	0
	2011	20,643	1 Oct 2010	$1.80	3 years	0	0
	2010	21,207	1 Oct 2009	$1.72	3 years	10,858	10,349
Marilyn Stephens	2013	27,341	1 Oct 2012	$1.20	3 years	0	0
	2012	30,769	1 Oct 2011	$1.27	3 years	0	0
	2011	21,799	1 Oct 2010	$1.80	3 years	0	0
	2010	22,842	1 Oct 2009	$1.72	3 years	11,695	11,147

*Pursuant to the Executive Transition Agreement dated 17 July 2013, Mr DeVincenzi waived his entitlement to 129,323 performance rights as described in Section 5.

REMUNERATION REPORT (AUDITED) - CONTINUED

8 ADDITIONAL STATUTORY DISCLOSURES - CONTINUED

Table 4b: Performance rights awarded, vested, lapsed or forfeited during the year (consolidated) – Former KMP

		Terms and conditions for each grant during the year					
	Year	Performance Rights awarded during the year Number	Award Date	Fair Value per LTI at Award Date	Performance period	Number vested during year ended 30 June 2013	Number lapsed or forfeited during year ended 30 June 2013
Former Executive Directors							
Graham Davie	2013	0	-	0	-	0	0
	2012	110,770	1 Oct 2011	$1.27	3 years	0	0
	2011	78,478	1 Oct 2010	$1.80	3 years	0	0
	2010	82,231	1 Oct 2009	$1.72	3 years	82,231	0
Karen Finley	2013	92,933	1 Oct 2012	$1.20	3 years	0	92,933
	2012	111,397	1 Oct 2011	$1.27	3 years	0	111,397
	2011	79,701	1 Oct 2010	$1.80	3 years	0	79,701
	2010	92,812	1 Oct 2009	$1.72	3 years	47,520	45,292
Other former KMP							
Aaron Rosenberg	2013	72,799	1 Oct 2012	$1.20	3 years	0	72,799
	2012	87,261	1 Oct 2011	$1.27	3 years	0	87,261
	2011	62,433	1 Oct 2010	$1.80	3 years	0	62,433
	2010	72,702	1 Oct 2009	$1.72	3 years	37,223	35,479
Andrejs Bunkse	2013	72,799	1 Oct 2012	$1.20	3 years	0	72,799
	2012	87,261	1 Oct 2011	$1.27	3 years	0	87,261
	2011	62,433	1 Oct 2010	$1.80	3 years	0	62,433
	2010	72,702	1 Oct 2009	$1.72	3 years	37,223	35,479
Sean Nolen	2013	45,435	1 Oct 2012	$1.20	3 years	0	45,435
	2012	54,461	1 Oct 2011	$1.27	3 years	0	54,461
	2011	38,965	1 Oct 2010	$1.80	3 years	0	38,965

Mr Graham Davie retired from executive responsibilities on 30 September 2012. Mr Davie retained his LTI performance rights on the basis that his employment ceased as a consequence of a qualifying reason for the purposes of the LTI Plan Rules, except for those LTIs that were due to be tested on 1 October 2012 vested in full. Mr Davie needs to continue to observe employment contractual obligations which survive termination.

Other former KMPs forfeited their performance rights at the time their employment ended. Ms Karen Finley, Mr Andrejs Bunkse and Mr Sean Nolen resigned effective 28 February 2013.

Mr Aaron Rosenberg was dismissed on 20 February 2013 as a result of the Sidley Austin investigation which uncovered numerous violations of company policy and company code of conduct by Mr Rosenberg. The company has filed suit against Mr Rosenberg to recover certain damages. Under the terms of the LTI Plan, the company has retained a holding lock on 122,482 shares that had been issued in Mr Rosenberg's name as a result of performance rights vesting; this number includes the 37,223 shares issued during FY2013.

REMUNERATION REPORT (AUDITED) - CONTINUED

8 ADDITIONAL STATUTORY DISCLOSURES - CONTINUED

Table 5a: Value of performance rights awarded, vested, lapsed or forfeited during the year ^ - KMP

	Value of Performance Rights awarded during the year	Remuneration consisting of LTIs for the year	Value of Performance Rights vested during the year	Value of Performance Rights lapsed or forfeited during the year
	$	%	$	$
Executive Directors				
Robert DeVincenzi	38,797	0	0	0*
Other KMP				
Ron Johnson	22,721	7%	34,598	32,978
Ricardo Fiusco	22,721	8%	35,564	33,898
Simon Pickup	7,874	2%	18,676	17,800
Marilyn Stephens	8,202	5%	20,115	19,173

*Please see Section 5 for details regarding Mr DeVincenzi's Transition Agreement dated 17 July, 2013, whereby Mr DeVincenzi waived his entitlement to 129,323 performance rights.

Table 5b: Value of performance rights awarded, vested, lapsed or forfeited during the year ^ - Former KMP

	Value of Performance Rights awarded during the year	Remuneration consisting of LTIs for the year	Value of Performance Rights vested during the year	Value of Performance Rights lapsed or forfeited during the year
	$	%	$	$
Former Executive Directors				
Graham Davie	0	0	141,437	0
Karen Finley	0	0	81,734	474,358
Other Former KMP				
Aaron Rosenberg	0	0	64,024	371,584
Andrejs Bunkse	0	0	64,024	371,584
Sean Nolen	0	0	0	193,824

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

The peer group for awards made in FY2013 and for awards made in future years is the comparator group which comprises the S&P/ASX 300 index companies but excluding companies that are in the Financial and Metals and Mining GICS (Global Industry Classification Standard) sector, at grant date. For awards up to and including FY2012, the peer group was a similar comparator group except that companies in the Financial and Metals and Mining GICS sector were included.

REMUNERATION REPORT (AUDITED) - CONTINUED

8 ADDITIONAL STATUTORY DISCLOSURES - CONTINUED

Table 6a: Shares issued on vesting of performance rights - KMP

	Financial year	Number of Shares Issued
Executive Directors		
Robert DeVincenzi	2013	0
	2012	0
Other KMP		
Ron Johnson	2013	20,115
	2012	0
Ricardo Fiusco	2013	20,677
	2012	0
Simon Pickup	2013	10,858
	2012	0
Marilyn Stephens	2013	11,695
	2012	0

Table 6b: Shares issued on vesting of performance rights – Former KMP

	Financial year	Number of Shares Issued
Former Executive Directors		
Graham Davie	2013	82,231
	2012	0
Karen Finley	2013	47,520
	2012	0
Other Former KMP		
Aaron Rosenberg	2013	37,223
	2012	0
Andrejs Bunkse	2013	37,223
	2012	0
Sean Nolen	2013	0
	2012	0

Details of shares issued to Mr Davie are described in Section 5 of this remuneration report.

REMUNERATION REPORT (AUDITED) - CONTINUED

9 SUBSEQUENT EVENTS

Change in key management personnel subsequent to year end but prior to the Annual Report.

Appointment of Mr Terence Winters as non-executive director

Mr Terry Winters was appointed to the board on 7 August 2013. Mr Winters' details are included in the Directors' Report.

CEO transition arrangements – Mr Robert DeVincenzi

On 17 July 2013, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. Mr DeVincenzi is continuing as Group CEO whilst the Board conducts a search for a replacement. Following the appointment of a new Group CEO, Mr DeVincenzi will provide ongoing service as a consultant and will continue to serve the board as a non-executive director, subject to the usual shareholder approvals at AGMs. The key terms of Mr DeVincenzi's Executive Transition Agreement are described in Section 5 of the remuneration report.

Appointment of President and Chief Executive Officer of Redflex Traffic Systems Inc – Mr James Saunders

On 17 July 2013, Redflex announced to ASX that after significant restructuring of the RTSI business and the finalisation of the FY2014 operating plan for the business, Mr James Saunders had been appointed President and CEO of RTSI. The terms of his contract are explained in Section 5 of this remuneration report.

CEO of Redflex Traffic Systems Pty Ltd – Mr Ricardo Fiusco

Subsequent to year end, the head of the Australian/International Traffic business, Mr Ricardo Fiusco, was appointed Chief Executive Officer of Redflex Traffic Systems Pty Ltd. The terms of his employment contract are explained in Section 5 of this remuneration report.

Signed in accordance with a resolution of the directors.

Robert DeVincenzi
Director
30 September 2013

CORPORATE GOVERNANCE STATEMENT

The board of directors of Redflex Holdings Limited is responsible for the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. 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 CGC's recommendations:

	Recommendation	Complies Yes / No	Reference
Principle 1 – Lay solid foundations for management and oversight			
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	
1.3	Provide the information indicated in the guide to reporting on Principle 1.	Yes	
Principle 2 – Structure the board to add value			
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 chair and chief executive officer (CEO) 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	Provide information indicated in the guide to reporting on Principle 2.	Yes	
Principle 3 – Promote ethical and responsible decision making			
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: The practices necessary to maintain confidence in the company's integrity; The practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders; The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include 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.	Yes	Website
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.	Yes	
3.4	Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Yes	
3.5	Provide the information indicated in the guide to reporting on Principle 3.	Yes	
Principle 4 - Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee	Yes	
4.2	The audit committee should be structured so that it: consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the board; has at least three members.	Yes	
4.3	The audit committee should have a formal charter	Yes	Website
4.4	Provide the information indicated in the guide to reporting on Principle 4.	Yes	

CORPORATE GOVERNANCE STATEMENT - Continued

	Recommendation	Complies Yes / No	Reference
Principle 5 – Make timely and balanced disclosure			
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
5.2	Provide the information indicated in the guide to reporting on Principle 5.	Yes	
Principle 6 – Respect the rights of shareholders			
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
6.2	Provide the information indicated in the guide to reporting on Principle 6.	Yes	Website
Principle 7 – Recognise and manage risk			
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	
7.4	Provide the information indicated in the guide to reporting on Principle 7.	Yes	
Principle 8 – Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee	Yes	
8.2	The remuneration committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; has at least three members.	Yes	
8.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	
8.4	Provide the information indicated in the Guide to reporting on Principle 8.	Yes	

Redflex Holdings Limited's corporate governance practices were in place throughout the year ended 30 June 2013.

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

CORPORATE GOVERNANCE STATEMENT - Continued

BOARD FUNCTIONS

The board seeks to identify the expectations of shareholders, as well as identifying other regulatory and ethical expectations and obligations. The board is responsible for identifying areas of significant business risk and for 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 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, it makes use of specialist sub-committees that are able to focus on particular responsibilities and provide informed feedback to the board.

To this end the board has established the following committees:

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

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

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:

- Approval of 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 Group and individual director perspective. The determination of materiality requires 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.

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.

CORPORATE GOVERNANCE STATEMENT - Continued

STRUCTURE OF THE BOARD - CONTINUED

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

Name	Position
Michael McConnell	Interim Chairman, Non-executive director
Robin Debernardi	Non-executive director
Albert Moyer	Non-executive director, appointed 10 February 2013
Terence Winters	Non-executive director, appointed 7 August 2013

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

Term in Office

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

Name	Term in Office
Michael McConnell	2 years 1 month
Robert DeVincenzi	11 months
Robin Debernardi	3 years 10 months
Albert Moyer	7 months
Terence Winters	1 month

PERFORMANCE

Performance of the board and key executives is reviewed regularly against both 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 Chair. If performance was considered unsatisfactory the director would be asked to retire.

TRADING POLICY

The company's securities trading policy prohibits an executive or director trading in the company's securities at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, a director must consult with the Chair or the Board and an employee must notify the company secretary within five days of the transaction occurring.

Trading in the company's shares may be prohibited at any time if notified by the CEO or Chair, and in the absence of a specific prohibition, then the general prohibition of July through August and January through February will apply. Only in exceptional circumstances will approval be given to trade within these two, two-month periods.

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, including when necessary, selecting candidates for the position of director. The Nomination Committee currently comprises the full board and any business of the Committee is considered by the board.

For additional details regarding the Nomination Committee and its charter please refer to the company's website.

CORPORATE GOVERNANCE STATEMENT - Continued

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee operates under a charter approved by the board. The Committee's charter is published on the company's website.

It is the board's responsibility to ensure that an effective internal control framework exists within the entity. 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 also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are non-executive directors.

During the year the members were:

- Albert Moyer, Committee Chair, appointed 10 February 2013
- Michael McConnell, resigned from the Committee Chair on 10 February 2013
- Rob Debernardi
- Ian Davis, resigned 6 February 2013
- Max Findlay, resigned 6 February 2013

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

Pursuant to Section 324DAC of the Corporations Act 2001, under a resolution from the board on 27 June 2013, the Company's auditor, Mr Ashley Butler has been re-appointed for an additional two years due to his significant involvement in and knowledge of Redflex in the last five successive financial years.

RISK

The board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk taking, is viewed as an essential part of the company's approach to creating long-term shareholder value.

In recognition of this, 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. In doing so the board has taken the view that it is crucial for all board members to be a part of this process and as such, has not established a separate risk management committee.

The board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness is delegated to management through the CEO, including responsibility for the day to day design and implementation of the company's risk management and internal control system. Management reports to the board on the company's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management is generally an agenda item at board meetings.

Management is required by the board to carry out risk specific management activities in five core areas:- strategic risk, operational risk, reporting risk, compliance risk, and environmental and sustainability risk. It is then required to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of these efforts.

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. These include the following:

- Board approval of a strategic plan which encompasses the company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.
- 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 assessment of the effectiveness of risk management and internal compliance and control.

CORPORATE GOVERNANCE STATEMENT - Continued

RISK - CONTINUED

For the purposes of assisting investors to better understand the nature of the risks faced by Redflex Holdings Limited, the board has prepared a list of operational risks as part of the Principle 7 disclosures. However, the board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events such as fluctuations in exchange rates and demand volumes; political instability/sovereign risk in some operating sites; the occurrence of force majeure events by significant supplies; increasing costs of operations, including labour costs; and changed operating, market or regulatory environments as a result of climate change.

Underpinning the company's risk management efforts is a comprehensive set of policies and procedures directed towards achieving the following objectives in relation to the requirements of Principle 7:

- Effectiveness and efficiency in the use of the company's resources;
- Compliance with applicable laws and regulations; and
- Preparation of reliable published financial information.

GROUP CEO AND CFO CERTIFICATION

In accordance with section 295A of the Corporations Act, the Group CEO and CFO 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,
- The company's risk management and internal compliance and control system is operating effectively in all material respects.

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Group CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

In response to this, internal control questions are required to be completed by the key management personnel of all significant business units, including finance managers, in support of these written statements.

REMUNERATION

The company's objective is to provide maximum stakeholder benefit from the retention of a high-quality board and executive team by remunerating directors, executives and all employees 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.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by key management personnel, please refer to the remuneration report which is within the directors' report.

The board is responsible for determining and reviewing compensation arrangements for the non-executive directors, the Chief Executive Officers and the executive team. There is no scheme to provide retirement benefits to non-executive directors, except for superannuation where it is applicable.

CORPORATE GOVERNANCE STATEMENT - Continued

REMUNERATION - CONTINUED

The remuneration committee comprises three non-executive directors. During the year the members were:
Rob Debernardi, Committee Chair
Michael McConnell
Albert Moyer, appointed 10 February 2013
Ian Davis, resigned 6 February 2013
Max Findlay, resigned 6 February 2013

For details regarding the qualifications of members and the number of committee meetings held and attended, please refer to the Directors' Report. For additional details regarding the remuneration committee, including its charter, please refer to our website www.redflex.com.au.

SHAREHOLDER COMMUNICATION POLICY

Pursuant to Principle 6, Redflex Holdings Limited's objective is to promote effective communication with its shareholders, and is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the Group's activities in a balanced and understandable way;
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act in Australia; and
- Communicating effectively with shareholders and making it easy for shareholders to communicate with Redflex Holdings Limited.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- through the release of information to the market via the ASX;
- through the annual report and notices of general meetings;
- through letters and other forms of communications directly with shareholders; and
- by publishing relevant information on our website.

The company's website www.redflex.com.au has a dedicated investor relations section for the purpose of publishing all important company information and relevant announcements made to the market.

The external auditors are required to attend the annual general meeting and are available to answer any questions shareholders may have concerning the conduct of the audit and preparation of the audit report.

DIVERSITY AT REDFLEX

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. Redflex values diversity at all levels within the Group and recognises that a talented workforce is a key to our business success. Each member of our workforce brings to Redflex their own unique capabilities, experiences and characteristics. Redflex actively values and embraces the diversity of our employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated. While Redflex is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group.

To this end, the Group supports and complies with the recommendations contained in the ASX Corporate Governance Principles and Recommendations. The Group has established a diversity policy outlining the board's measurable objectives for achieving diversity. This is assessed annually to measure the progress towards achieving those objectives. The diversity policy is available in the corporate governance section on the Redflex website.

CORPORATE GOVERNANCE STATEMENT - Continued

DIVERSITY AT REDFLEX - CONTINUED

The following outlines the diversity objectives established by the board, the steps taken during the year to achieve these objectives, and the outcomes:

Objectives	Steps taken / outcome
To effectively communicate and implement the Diversity Policy internally.	The Diversity Policy is published on the company's website and internal intranet.
For the board to receive reports on progress and status of implementation of, and compliance with, the policy.	The board has received reports on implementation and compliance with the policy.
To continue to comply fully with all of our legal requirements and reporting obligations regarding diversity and equal employment opportunity in the jurisdictions in which we operate.	In Australia, Redflex reports to Equal Opportunity for Women in the Workplace Agency. In the USA, Redflex provides equal employment opportunity reports to the Equal Opportunity Employment Commission.
To continue to offer employment based on merit, to ensure that the best possible candidates are selected for employment positions available.	Employment and career development opportunities are equal for all employees at Redflex. Subject to any specific cultural sensitivities and/or legal requirements in countries in which Redflex operates, Redflex: - ensures that equality of opportunity is a principle that is applied consistently to positions throughout the group, including executive and other leadership roles and board positions; - ensures that for every employment opportunity, men and women will have equal opportunity in all aspects of the selection process; - do what is reasonably possible to tailor job requirements to accommodate specific circumstances which would otherwise be a barrier to equal employment; and - in each country in which we operate, continue to comply with all legislation relating to gender diversity.
To ensure, through an internal policy framework and appropriate reporting, that subject to legal requirements and cultural sensitivities, there is no discrimination on the basis of race, colour, religion, sex, pregnancy, national origin, age, disability or genetic information. This will apply as appropriate to all activities of the Redflex group including advertising of employment opportunities, recruitment, job referrals, job assignments, promotion, pay and benefits, discipline, termination, training, reasonable accommodation, reasonable provision of facilities in the workplace, and reasonable flexibility in working conditions.	Redflex: - promotes an environment conducive to the appointment of well qualified employees, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals; - identifies factors that should be taken into account in the selection processes and whether professional intermediaries should be used to identify or assess candidates; - identifies programs that may assist in skill development such as executive mentoring programs or programs relating to career advancement such as those that develop skills and experience that prepare employees for senior management and board positions; and - articulates a corporate culture that not only supports workplace diversity but also recognises that employees at all levels of the company may have domestic responsibilities.
To enforce, where necessary, our strict zero tolerance policy regarding discrimination and harassment in the workplace.	Redflex has a zero tolerance policy against discrimination of employees at all levels. The company also provides avenues for employees to voice their concerns or report any discrimination. No cases of discrimination were reported during the year.

The Group will continue to review and update the measurable objectives to promote diversity for the upcoming year.

At 30 June 2013, throughout the Redflex Group world-wide, the proportion of women employees was 26% and the proportion of women in senior executive positions was 19%.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Revenue from operations			
Sale of goods and services		46,322	57,222
Revenue from fee for service contracts		91,032	89,033
Finance revenue		31	68
Total revenue	7	**137,385**	**146,323**
Cost of goods sold		27,512	33,971
Cost of fee for service contracts		27,728	25,795
Cost of sales		**55,240**	**59,766**
Gross profit		**82,145**	**86,557**
Sales and marketing related expenses		10,658	11,087
Administrative related expenses		28,498	23,488
Amortisation of intangibles		4,024	3,245
Provision for doubtful debts		2,250	77
Depreciation - fee for service contract assets		21,092	21,737
Depreciation - other		504	515
Impairment of plant and equipment		1,823	2,200
Impairment of capitalised development costs		729	689
Reversal of deferred compensation payable		(3,053)	0
Impairment of goodwill		2,135	400
Costs of investigation		3,728	0
		72,388	**63,284**
Profit before tax and financing costs		**9,757**	**23,273**
Finance costs		1,156	1,957
Profit before tax		**8,601**	**21,316**
Income tax expense	10	1,286	6,209
Net profit for the period		**7,315**	**15,107**
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		10,424	2,320
Total comprehensive income for the year		**17,739**	**17,427**
Earnings per share attributable to ordinary equity holders of the parent company	9		
Basic		6.61 cents	13.69 cents
Diluted		6.44 cents	13.37 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

	Note	2013 $'000	2012 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	21,246	22,162
Trade and other receivables	12	25,508	23,424
Inventories	13	20,270	16,022
Deferred cost asset		0	2,340
Other assets		2,193	2,628
Total Current Assets		**69,217**	**66,576**
Non-Current Assets			
Property, plant and equipment	14	72,368	68,337
Deferred tax asset	10	15,221	10,572
Intangible assets and goodwill	15	28,233	27,715
Deferred cost asset		0	1,709
Other financial assets		2,057	2,057
Other non-current assets	16	9,289	6,841
Total Non-Current Assets		**127,168**	**117,231**
TOTAL ASSETS		**196,385**	**183,807**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	17	18,502	19,159
Interest bearing borrowings	18	4	8
Income tax payable		2,006	1,780
Provisions	19	4,737	4,371
Other current liabilities		361	209
Total Current Liabilities		**25,610**	**25,527**
Non-Current Liabilities			
Interest bearing borrowings	18	26,030	24,211
Deferred tax liabilities	10	15,933	13,935
Contingent consideration payable	5	0	2,967
Provisions	20	3,562	3,028
Total Non-Current Liabilities		**45,525**	**44,141**
TOTAL LIABILITIES		**71,135**	**69,668**
NET ASSETS		**125,250**	**114,139**
Equity			
Contributed equity	21	101,765	101,765
Reserves	22	(10,907)	(15,827)
Retained earnings	22	34,392	28,201
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**125,250**	**114,139**
Net tangible assets per share		**87.90 cents**	**78.32 cents**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	Contributed Equity	Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Accumulated Profits / (Losses)	Total Equity
	$'000	$'000	$'000	$'000	$'000
At 30 June 2011	**121,765**	**(26,688)**	**7,218**	**1,922**	**104,217**
Profit for the period	0	0	0	15,107	**15,107**
Currency translation differences	0	2,320	0	0	**2,320**
Total comprehensive income	0	2,320	0	15,107	**17,427**
Dividends paid	0	0	0	(8,828)	**(8,828)**
Cost of share based payment	0	0	1,323	0	**1,323**
Section 285F of the Corporations Act (2001) capital reduction	(20,000)	0	0	20,000	**0**
At 30 June 2012	**101,765**	**(24,368)**	**8,541**	**28,201**	**114,139**
Profit for the period	0	0	0	7,315	**7,315**
Currency translation differences	0	10,424	0	0	**10,424**
Total comprehensive income	**0**	**10,424**	**0**	**7,315**	**17,739**
Dividends paid	0	0	0	(7,733)	**(7,733)**
Transfer of expired equity instruments	0	0	(6,609)	6,609	**0**
Cost of share based payment	0	0	1,105	0	**1,105**
At 30 June 2013	**101,765**	**(13,944)**	**3,037**	**34,392**	**125,250**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Operating activities			
Receipts from customers		129,731	151,394
Payments to suppliers and employees		(97,133)	(91,910)
Interest received		31	67
Interest paid		(979)	(1,281)
Income tax paid		(4,125)	(2,337)
Net cash flows from operating activities	11	27,525	55,933
Investing activities			
Purchase of property, plant and equipment		(15,454)	(17,480)
Capitalised development costs		(6,034)	(5,702)
Acquisition of business	5	0	(4,402)
Net cash flows (used in) investing activities		(21,488)	(27,584)
Financing activities			
Repayment of bank borrowings		(956)	(14,270)
Lease liability (repaid) incurred		(8)	(125)
Dividends paid	8	(7,733)	(8,828)
Net cash flows (used in) financing activities		(8,697)	(23,223)
Net increase/(decrease) in cash held		(2,660)	5,126
Effect of exchange rate changes on cash		1,744	493
Cash and cash equivalents at beginning of financial year		22,162	16,543
Cash and cash equivalents at the end of the financial year	11	21,246	22,162
Reconciliation of Cash			
Cash at the end of the period consists of			
Cash at banks and on hand		21,246	22,162
Cash at banks and on hand	11	21,246	22,162

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

Notes to the consolidated financial statements for the year ended 30 June 2013

NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of Redflex Holdings Limited (a for profit entity) for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of directors on 30 September 2013.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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2.4 Changes in accounting policies and disclosures

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.1 BASIS OF PREPARATION

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

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

2.2 COMPLIANCE WITH IFRS

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

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

Other amendments to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 112 Deferred Tax – Recovery of Underlying Assets
- AASB 1038 Regulatory Capital

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2013 and 30 June 2012 are outlined in the tables below.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidated Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011 7 and amendments to AASB 2002-10.	1 Jan 2013	No material impact expected	1 Jul 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS – CONTINUED

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

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG 113 *Jointly controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7, AASB 2010-10 and amendments to AASB 128.	1 Jan 2013	No material impact expected	1 Jul 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarized information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 Jan 2013	No material impact expected	1 Jul 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011 8.	1 Jan 2013	No material impact expected	1 Jul 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. Consequential amendments were also made to other standards via AASB 2011-10	1 Jan 2013	No material impact expected	1 Jul 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS - CONTINUED

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

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2012-2	Amendments to Australian Accounting Standards – *Disclosures – Offsetting Financial Assets* and Financial Liabilities	AASB 2012-2 principally amends AASB 7 *Financial Instruments*: Disclosures to require disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognised financial assets and liabilities on the entity's financial position, when the offsetting criteria of AASB 132 are not all met.	1 Jan 2013	No material impact expected	1 Jul 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: Repeat application of AASB 1 is permitted (AASB 1) Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 *Presentation of Financial Statements).*	1 Jan 2013	No material impact expected	1 Jul 2013
AASB 2012-9	Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039.	AASB 21012-9 amends AASB 1048 *Interpretation of Standards* to evidence the withdrawal of Australian Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*.	1 Jan 2013	No material impact expected	1 Jul 2013
AASB 2011-4	Amendments to Australian Accounting Standards to *Remove Individual Key Management Personnel Disclosure Requirements* (AASB 124)	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 Jul 2013	No material impact expected	1 Jul 2013
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 Jan 2014	No material impact expected	1 Jul 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS - CONTINUED

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

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition of doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: · The change attributable to changes in credit risk are presented in other comprehensive income (OCI) · The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015, AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 Jan 2015	No material impact expected	1 Jul 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(a) 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.

(b) Business combinations

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of AASB 139 it is measured in accordance with the appropriate accounting standard.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(c) Goodwill

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

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

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

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

- 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 value in use 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(d) Operating segments

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

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

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

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

(e) Foreign currency translation

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

Redflex Traffic Systems Inc, the North American traffic business's functional currency is United States Dollars (US$), the functional currency of the back office operations in Saudi Arabia for Traffic Operating Services (Saudi Arabia) LLC is Saudi Arabian Riyals; and the functional currency of Redflex Traffic Systems Limited operations in United Kingdom is Great British Pounds.

(i) Transactions and balances

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

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

(ii) Group companies

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(f) Revenue recognition

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

Sale of goods

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

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

Fee for service contracts

Revenue is principally derived from fees and traffic citations issued in jurisdictions where the company's equipment is located. Revenue is recognised when a traffic infraction is recorded by the company's equipment in various jurisdictions. The company records an allowance on revenues based on historical collection rates and citation enforceability.

Deferred revenue

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

Interest income

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

(g) Income tax and other taxes

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(g) Income tax and other taxes - continued

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

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

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(g) Income tax and other taxes - continued

Other Taxes

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

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

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

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

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

(h) Property, plant and equipment

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

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

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

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

Derecognition

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the 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.

(j) Borrowing costs

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

(k) Intangible assets

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(k) Intangible assets - 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:

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(l) Derivative financial instruments and hedge accounting

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 USA operations).

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(l) Derivative financial instruments and hedge accounting - continued

(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 reporting 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.

(m) Inventories

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(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) 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.

(p) Provisions and employee leave benefits

Provisions

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(p) Provisions and employee leave benefits - continued

Employee Benefits

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

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

(ii) Long Service Leave

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

(q) Share Based payment transactions

Equity settled transactions

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(q) Share Based payment transactions - continued

The Long Term Incentive Plan for Executives

Performance rights pricing model

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

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

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

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

(r) Trade and other receivables

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(s) Investment and other financial assets

Recognition and derecognition

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

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

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

(t) Trade and other payables

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

(u) Interest-bearing loans and borrowings

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

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

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

(v) Contributed equity

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

(w) Earnings per share

Basic earnings per share is calculated as net profit 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(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.

The initial contract with the City of Chicago has now been extended through to 31 January 2014 (with termination for convenience clauses). Even though the contract was extended, the initial accounting whereby all assets were fully amortised at 31 January 2013 has not been extended.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk Exposures and Responses

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

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

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

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

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

(i) Interest rate risk

The Group's exposure to market interest rates is primarily related to its long-term debt obligations and cash holdings. The Group's debt level is disclosed in Note 18.

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

	Consolidated	
	2013	2012
	$'000	$'000
Financial Assets		
Cash at bank and in hand	14,927	16,136
Cash – restricted lockboxes	6,319	6,026
	21,246	**22,162**
Financial Liabilities		
Obligations under finance leases and hire purchases	4	12
Bank borrowings	26,278	24,609
	26,282	**24,621**
Net exposure	**(5,036)**	**(2,459)**

NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

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

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

At 30 June 2013, 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)	
	2013	2012	2013	2012
Consolidated	$'000	$'000	$'000	$'000
+1% (100 basis points)	(263)	(250)	(263)	(250)
- .5% (50 basis points)	131	125	131	125

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

(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 65% of the Group business occurring within the USA, and the other 35% arising from within Australia, but through servicing other markets. As a result of significant investment in operations in the USA and large purchases of inventory from the USA, the Group's statement of financial position can be affected significantly by movements in the US$/AU$ exchange rates. The USA business incurs all revenue and the vast majority of its expenses in US$, apart from the cost of cameras sourced from the Australian operations in AU$. The USA business operation accounts for the vast majority of the Group's capital expenditure requirements and related borrowings and accordingly, the Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US$.

Translational effects are therefore significant to the Group results with approximately 68.6% (FY2012: 67%) 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 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.

NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

(ii) Foreign currency risk - continued

At 30 June 2013, the Group had no foreign currency hedge transactions in place.

The Group has a US$ denominated borrowing of $26.0 million (US$24.0 million) (FY2012: US$25.0 million) which is a natural hedge of the net investment in the USA operation.

At 30 June 2013, the Group had not hedged foreign currency purchases that are firm commitments, as offsetting natural hedges substantially offset risk. Other than the USA operation, most sales commitments were denominated in AU$, other than single contracts in Hong Kong, Canada, Saudi Arabia and Ireland where natural currency hedges largely offset currency risk.

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

At 30 June 2013, had the Australian dollar moved, as illustrated in the table below with all other variables held constant, post tax profit would have been affected as follows:

The net assets of the USA operation are reflected in the segment results shown in Note 6.

Judgments of reasonable possible movements	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
AU$/US$ +10%	(410)	(371)	(5,091)	(3,919)
AU$/US$ - 5%	205	185	2,546	1,959

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

(iii) Price risk

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

(iv) Credit risk

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

The Group trades only with recognised, credit-worthy third parties and collateral is not requested nor is it the Group's policy to 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 spread. There are no significant concentrations of credit risk within the Group.

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

NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

(v) Liquidity risk

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

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

Consolidated	2013 $'000	2012 $'000
6 months or less	18,502	19,159
6-12 months	4	8
1-5 years	26,030	27,178
Over 5 years	0	0
	44,536	**46,345**

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

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

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

Year ended 30 June 2013

Consolidated	<=6 months $'000	6-12 months $'000	1-5 years $'000	>5 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	21,246	0	0	0	**21,246**
Trade and other receivables	25,508	0	9,289	0	**34,797**
Other financial assets	0	0	2,057	0	**2,057**
	46,754	**0**	**11,346**	**0**	**58,100**
Financial liabilities					
Trade and other payables	18,502	0	0	0	**18,502**
Interest bearing loans and borrowings *	0	4	26,030	0	**26,034**
	18,502	**4**	**26,030**	**0**	**44,536**
Net maturity	**28,252**	**(4)**	**(14,684)**	**0**	**13,564**

* Interest bearing loans and borrowings includes future interest payments of $0.3 million (FY2012: $0.3 million)

At reporting date, the Group has available approximately AU$54.7 million of unused credit facilities available for its immediate use.

NOTE 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

(v) Liquidity risk - continued

Year ended 30 June 2012

Consolidated	<=6 months $'000	6-12 months $'000	1-5 years $'000	>5 years $'000	Total $'000
Financial assets					
Cash and cash equivalents	22,162	0	0	0	**22,162**
Trade and other receivables	23,424	0	6,841	0	**30,265**
Other financial assets	0	0	2,057	0	**2,057**
	45,586	**0**	**8,898**	**0**	**54,484**
Financial liabilities					
Trade and other payables	19,159	0	2,967	0	**22,126**
Interest bearing loans and borrowings *	0	8	24,211	0	**24,219**
	19,159	**8**	**27,178**	**0**	**46,345**
Net maturity	**26,427**	**(8)**	**(18,280)**	**0**	**8,139**

(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.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - CONTINUED

Significant accounting judgments

Depreciation and impairment of property, plant and equipment

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

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

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

The Group assesses impairment of all assets at each reporting date based on each contract and evaluates conditions specific to the Group and to the particular assets that may lead to impairment. These include contract termination date, any cost neutrality issues, legislative and legal challenges combined with economic and political environments. 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 statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of profit or loss.

Uncertainty arising as a result of group tax restructure

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

NOTE 4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - CONTINUED

Recoverability of receivables

During the year the company encountered uncertainties surrounding some contracts in the Middle East and South East Asia. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the company decided to provide against the likelihood of ultimate collectability.

Long service leave provision

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

Citation work in progress

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

Share based payments

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

Asset retirement obligations

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

Warranty provisions

Provisions for warranty-related costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised monthly.

NOTE 5 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

Acquisition in FY2012

On 19 May 2012 the Group acquired 100% of the shares of each of SBL Investments LLC, and Americore Enterprises LLC, leading providers of automated school bus, stop-arm photo enforcement in the USA. SBL and Americore offer the Smart Bus system, a dedicated on-bus photo enforcement system. The acquisition positions Redflex as a leading provider of school bus safety photo enforcement technology at a time when more and more school districts are using the technology to deter reckless drivers who ignore school bus safety laws and put children at risk.

NOTE 5 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS - CONTINUED

Acquisition in FY2012 - continued

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of SBL Investments LLC and Americore Enterprises LLC as at 19 May 2012 being the date of acquisition were:

	$'000
Assets	
Property, plant and equipment	665
Cash and cash equivalents	6
Trade receivables	466
	1,137
Liabilities	
Trade payables	297
	297
Total identifiable tangible net assets at fair value	**840**
Intangibles	
Contracts acquired	1,504
Non-compete compensation	252
Trade names	487
Goodwill arising on acquisition	4,286
	6,529
	7,369
Purchase consideration transferred	4,402
Deferred consideration payable	2,967
Total consideration paid and owing	**7,369**

The transaction involved an initial payment of $4.4 million, with further payments over 4 years subject to financial performance measures being met.

During FY2013, the EBITDA of the operation fell well short of the level required to generate future entitlements as reflected in the Deferred Compensation Payable liability. The shortfall, together with forecasts for FY2014 and beyond, indicate that the EBITDA hurdles required to be achieved over the performance period are unlikely to be met. Accordingly, the Deferred Compensation Payable has been reversed in FY2013.

The goodwill of $4,286,000 arising from the acquisition, comprises the value of expected synergies and an assembled workforce, which is not separately recognised. This goodwill is allocated entirely to the North America business segment. Due to the contractual terms imposed on acquisition, the customer list is not separable and therefore, it does not meet the criteria for recognition as an intangible asset under AASB 138 Intangible Assets. A portion of the goodwill recognised is expected to be deductible for USA income tax purposes.

NOTE 5 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS - CONTINUED

Acquisition in FY2012 - continued

Despite the FY2013 result, expectations for FY2014 and beyond are still positive. However, the result of impairment testing of goodwill reflects the same concerns that led to the reversal of the Deferred Compensation Payable which gave rise to a portion of the goodwill in the first instance.

The Deferred Compensation Payable can only arise in the three year period ending 30 June 2016, whilst the Goodwill will give rise to future benefits beyond that timeframe.

The initial startup losses for FY2013, improved budgets for FY2014, together with uncertainty around citation rates going forward, have been reflected in the discount rate used in the impairment testing. This uncertainty in relation to future citation rates, is offset to a degree by the expected market growth, as Redflex has recently been awarded a contract to install an initial requirement on 300 buses for a school district in Georgia.

Accordingly, the unallocated goodwill arising from the acquisition has been impaired by $2,135,000. Refer to note 15 for further details of assumptions employed for impairment testing purposes.

Other intangibles comprise:

- benefits to be recognised from current contracts, $1,504,000;
- benefits obtained from non-compete clauses with senior management, $252,000; and,
- use of trade names $487,000.

These amounts are being amortised over the 4-5 year periods over which value is expected to be derived.

NOTE 6 SEGMENT INFORMATION

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

The Group operates within two key markets, North America and Australia/International. The Traffic business in the USA is predominantly a Build Own Operate and Maintain (BOOM) business providing fully outsourced traffic enforcement programs. The Australia/International Traffic business involves the sale of traffic enforcement products.

The segmental split segregates the operating units into revenue from recurring fee for service business and revenue related to the sale of goods and services.

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

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the years ended 30 June 2013 and 30 June 2012.

NOTE 6 SEGMENT INFORMATION - CONTINUED

Year ended 30 June 2013	North America $'000	Australia/ International $'000	Total $'000
Revenue			
Revenue from sale of goods and services to external customers *	3,170	43,152	**46,322**
Revenue from fee for service contracts	91,032	0	**91,032**
Finance revenue	1	25	**26**
Inter-segment revenue	0	7,294	**7,294**
Total segment revenue	**94,203**	**50,471**	**144,674**
Inter-segment elimination			**(7,294)**
Head office finance revenue			**5**
Total consolidated revenue			**137,385**
Result			
Earnings before interest, tax, depreciation and amortization	29,432	9,156	**38,588**
Inter-segment royalty	1,333	(1,333)	**0**
Depreciation	(21,092)	(491)	**(21,583)**
Amortisation	(1,416)	(2,608)	**(4,024)**
Segment result	**8,257**	**4,724**	**12,981**
Head office result			**(3,224)**
Profit before tax and finance charges			**9,757**
Finance charges			**(1,156)**
Profit before income tax			**8,601**
Income tax expense			**(1,286)**
Net profit for the year			**7,315**
Assets and liabilities			
Segment assets	92,300	76,134	**168,434**
Head office assets			**27,951**
Total assets			**196,385**
Segment liabilities	56,155	14,683	**70,838**
Head office liabilities			**297**
Total liabilities			**71,135**
Other segment information			
Capital expenditure	14,811	631	**15,442**
Head office capital expenditure			**12**
Total capital expenditure			**15,454**
Cash flow information			
Net cash flow from operating activities	15,851	4,507	**20,358**
Head office operating cash flow			**7,167**
Net cash flow from operating activities			**27,525**
Net cash flow from investing activities	(16,093)	(5,383)	**(21,476)**
Head office investing cash flow			**(12)**
Net cash flow from investing activities			**(21,488)**
Net cash flow from financing activities	(956)	(8)	**(964)**
Head office financing cash flow			**(7,733)**
Net cash flow from financing activities			**(8,697)**

*Sales revenue shown under the North America segment relates predominantly to sales arising in Canada.

NOTE 6 SEGMENT INFORMATION – CONTINUED

Year ended 30 June 2012	North America	Australia/ International	Total
	$'000	$'000	$'000
Revenue			
Revenue from sale of goods and services to external customers *	3,450	53,772	**57,222**
Revenue from fee for service contracts	89,033	0	**89,033**
Finance revenue	10	53	**63**
Inter-segment revenue	0	10,653	**10,653**
Total segment revenue	**92,493**	**64,478**	**156,971**
Inter-segment elimination			**(10,653)**
Head office finance revenue			**5**
Total consolidated revenue			**146,323**
Result			
Earnings before interest, tax, depreciation and amortization	32,249	19,756	**52,005**
Inter-segment royalty	1,977	(1,977)	**0**
Depreciation	(21,762)	(474)	**(22,236)**
Amortisation	(629)	(2,616)	**(3,245)**
Segment result	**11,835**	**14,689**	**26,524**
Head office result			**(3,251)**
Profit before tax and finance charges			**23,273**
Finance charges			**(1,957)**
Profit before income tax			**21,316**
Income tax expense			**(6,209)**
Net profit for the year			**15,107**
Assets and liabilities			
Segment assets	84,030	64,712	**148,742**
Head office assets			**35,605**
Total assets			**183,807**
Segment liabilities	54,836	14,911	**69,747**
Head office liabilities			**(79)**
Total liabilities			**69,668**
Other segment information			
Capital expenditure	16,871	609	**17,480**
Head office capital expenditure			**0**
Total capital expenditure			**17,480**
Cash flow information			
Net cash flow from operating activities	42,880	4,756	**47,636**
Head office operating cash flow			**8,297**
Net cash flow from operating activities			**55,933**
Net cash flow from investing activities	(26,976)	(608)	**(27,584)**
Head office investing cash flow			**0**
Net cash flow from investing activities			**(27,584)**
Net cash flow from financing activities	(32,043)	(8)	**(32,051)**
Head office financing cash flow			**8,828**
Net cash flow from financing activities			**(23,223)**

*Sales revenue shown under the North America segment relates predominantly to sales arising in Canada.

NOTE 6 SEGMENT INFORMATION – 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	
	30 June 2013	30 June 2012
	$'000	$'000
Revenue by geographical location		
North America	94,203	92,493
Australia	21,844	19,503
Other	21,338	34,327
Total Revenue	**137,385**	**146,323**

NOTE 7 REVENUE, OTHER REVENUE, OTHER INCOME AND EXPENSES

	Consolidated	
	30 June 2013	30 June 2012
	$'000	$'000
Revenue and expenses		
Sale of goods and services	46,322	57,222
Revenue from fee for service contracts	91,032	89,033
Finance revenue	31	68
Total Revenue	**137,385**	**146,323**
Depreciation, amortisation and impairment costs included in income statement		
Depreciation on assets in fee for service business	21,092	21,737
Depreciation of other assets	504	515
Amortisation of intangibles	4,024	3,245
Impairment of receivables	2,250	(77)
Impairment of assets	1,823	2,200
Impairment of goodwill	2,135	400
Impairment of capitalised development costs	729	689
Employee benefits expense		
Wages and salaries	40,755	35,168
Payroll benefits	4,884	4,603
Contract labour	2,052	1,851
Superannuation	1,473	1,330
Payroll taxes	2,839	2,443
Share-based payment expense	1,105	1,323
Other payroll related expenses	2,021	2,794
	55,129	**49,512**
Research and development costs		
Expensed in administrative expenses	424	69

*Employee benefits expense includes some costs which are capitalized where appropriate.

NOTE 8 DIVIDENDS PAID AND PROPOSED

Recognised and unrecognized amounts

	Consolidated	
	2013	2012
	$'000	$'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for FY2012: 5.0 cents per share (FY2011: 5.0 cents per share)	5,517	5,517
Interim franked dividend for FY2013: 2.0 cents per share (FY2012: 3.0 cents)	2,216	3,311
	7,733	**8,828**
The directors have declared a final dividend of 3.0 cents per share partially franked in respect of FY2013 (not recognised as a liability as at 30 June 2013)		
Dividends on ordinary shares:		
Final dividend for FY2013: 3.0 cents per share (FY2012: 5 cents per share).	**3,312**	**5,517**
- 2.0 cents fully franked (FY2012: 5.0 cents per share fully franked)	2,216	5,517
- 1.0 cent unfranked	1,096	0

Franking credit balance

	Parent	
	2013	2012
	$'000	$'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance at the end of the financial year at 30% (FY2012: 30%)	26	2,356
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	986	1,293
Franking debits that will arise from the payment of dividends as at the end of the financial year	0	0
Franking credits that will arise from the receipt of dividends recognized as receivables at the reporting date	0	0
Franking credits that the entity may be prevented from distributing in the subsequent financial year	0	0
	1,012	**3,649**
The amount of 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 during the period	(946)	(2,364)
	66	**1,285**

NOTE 9 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 performance rights 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:

	2013 $'000	2012 $'000
Net profit for the period for basic and diluted earnings per share	**7,315**	**15,107**

	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share	110,650	110,345
Effect of dilution –performance rights not yet converted to shares	2,809	2,611
Adjusted weighted average number of ordinary shares for diluted earnings per share	**113,459**	**112,956**
Weighted average number of converted, lapsed, forfeited or cancelled potential ordinary shares included in diluted earnings per share.	40	446

Under the terms of his employment agreement dated September 2012, the Group CEO Mr DeVincenzi was entitled to a long term incentive of 60% of his base pay in accordance with the Rules of the Redflex Long Term Incentive Plan (LTIP). Mr DeVincenzi received an initial grant of 129,323 performance rights. The actual number of shares that were to be granted in due course was to be determined by the performance conditions of the performance rights over the 3 year performance period in accordance with the LTIP Rules.

Mr DeVincenzi was granted 3 million options to subscribe for Redflex shares. The exercise price was to be based on the 90 day volume based weighted average price prior to the relevant pricing date, namely 10 September 2012, 1 July 2013, 1 July 2014 and 1 July 2015, being 750,000 options on each occasion. Each tranche generally was to vest on a one third basis on the date which was one year, two years and three years after the relevant pricing date, with one half subject to the satisfaction of time based criteria namely continuing to be the Chief Executive Officer, and one half subject to the satisfaction of performance criteria set by the Redflex Board. Each option expired 7 years after vesting if they hadn't expired earlier.

On 17 July 2013 Mr DeVincenzi's employment contract was terminated by virtue of an Executive Transition Agreement, the key terms of which included that Mr DeVincenzi waive his entitlement to the 129,323 Performance Rights and to the 3 million options that were issued on 10 September 2012 and which Mr DeVincenzi has forfeited.

None of Mr DeVincenzi's options or performance rights have been recognised in determining the weighted average number of converted, lapsed, forfeited or cancelled potential ordinary shares included in diluted earnings per share.

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

NOTE 10 INCOME TAX

The major components of income tax expense for the years ended 30 June 2013 and 30 June 2012 are:

Consolidated income statement

	2013 $'000	2012 $'000
Current income tax		
Current income tax charge	3,035	4,085
Adjustments in respect of current income tax of previous years	(1,654)	(585)
Adjustments in respect of deferred income tax of previous years	2,556	0
Deferred tax		
Relating to origination and reversal of temporary differences	(2,651)	2,709
Income tax expense reported in the consolidated statement of comprehensive income	**1,286**	**6,209**

A reconciliation between tax expense and the product of accounting profit multiplied by Australia's domestic tax rate for the years ended 30 June 2013 and 30 June 2012 is as follows:

	2013 $'000	2012 $'000
Accounting profit before income tax	**8,601**	**21,316**
At the statutory income tax rate of 30% (FY2012: 30%)	2,580	6,395
Adjustments in respect of current income tax of previous years	(1,654)	(585)
Impact of tax rate differential on foreign operations	320	938
Research and development concessions	(481)	(501)
Other	521	(38)
At effective income tax rate of 15.0% (FY2012: 29.1%)	**1,286**	**6,209**
Income tax expense reported in the consolidated statement of comprehensive income	**1,286**	**6,209**

NOTE 10 INCOME TAX – CONTINUED

Deferred Tax

Deferred tax relates to the following:

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(i) Deferred tax liabilities				
Accelerated depreciation for tax purposes	10,326	8,951	1,375	3,187
Capitalised development costs	5,607	4,984	623	743
Gross deferred tax liabilities	**15,933**	**13,935**		
(ii) Deferred tax assets				
Employee Entitlements	2,418	1,754	(664)	(449)
Provisions	7,767	4,090	(3,677)	(379)
Deferred tax asset on foreign tax credits	3,485	2,423	(1,062)	(2,423)
Deferred tax asset on net operating losses	1,551	2,305	754	2,030
Gross deferred tax assets	**15,221**	**10,572**		
Deferred tax charge			**(2,651)**	**2,709**

The consolidated entity has USA net operating losses of $1.55 million (FY2012: $2.31 million) available for offset against future taxable profits in the USA. In addition, the company has unutilised foreign tax credits with a tax value of $3.6 million (FY2012: $2.42 million) available to offset against future USA tax liabilities where non-USA income is included in USA tax returns.

At 30 June 2013 there was no recognised or unrecognised deferred income tax liability (FY2012: $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.

The adjustments in respect of current income tax of previous years include an amount arising from a realignment of the accounting and tax balance differentials, predominantly in relation to the USA-based assets.

The current and deferred tax account balances differ from those disclosed in the Preliminary Final Report by a net $143,000. The current provision for tax increased by $3,849,000, Deferred Tax Liabilities decreased by $3,706,000 and Deferred Tax Assets decreased by $143,000. The adjustments arise from reclassifications relating to USA income tax.

NOTE 10 INCOME TAX – CONTINUED

Tax Consolidation

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

NOTE 11 CASH AND CASH EQUIVALENTS

	2013 $'000	2012 $'000
Cash at banks and on hand	14,927	16,136
Restricted cash	6,319	6,026
	21,246	**22,162**

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

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

The fair value of cash and cash equivalents, inclusive of restricted cash, is $21,245,737 (FY2012: $22,162,067).

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 municipality and to Redflex is determined and made subsequent to each month's end.

NOTE 11 CASH AND CASH EQUIVALENTS - CONTINUED

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

	Consolidated	
	2013	2012
	$'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	14,927	16,136
Restricted cash	6,319	6,026
	21,246	**22,162**
Reconciliation of net profit after tax to net cash flows from operations		
Net profit after income tax	**7,315**	**15,107**
Non cash flow items		
Depreciation expense	21,257	21,679
Asset retirement obligation depreciation	339	573
Amortisation of intangibles	4,024	3,245
Provision for employee entitlements	11	57
Impairment and write-down of property, plant and equipment	1,823	2,200
Impairment of capitalized development costs	729	689
Deferred financing costs amortisation	177	676
Share based payments	1,105	1,323
Impairment of contingent consideration payable	(3,155)	2,967
Impairment of intangibles	2,136	400
Provision for doubtful debts	2,250	(77)
Change in operating assets and liabilities		
Decrease/(increase) in prepayments	687	629
Decrease/(increase) in receivables	(1,838)	5,976
Decrease/(increase) in inventories	(3,194)	2,328
Increase/(decrease) in taxation provisions	4,017	1,424
Decrease/(increase) in deferred tax asset	(6,618)	(3,009)
Increase/(decrease) in deferred tax liability	(1,113)	5,458
Increase/(decrease) in deferred revenue	(424)	(749)
Increase/(decrease) in payables	(3,345)	(8,983)
Decrease/(increase) in deferred costs asset	2,762	4,020
Net cash from operating activities	**27,525**	**55,933**

Disclosure of financing facilities is shown in Note 18.

NOTE 12 TRADE AND OTHER RECEIVABLES (CURRENT)

	2013 $'000	2012 $'000
Trade receivables	27,933	23,599
Allowance for impairment losses	(2,425)	(175)
	25,508	**23,424**

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

Movements in the provision for impairment loss were as follows:

	2013 $'000	2012 $'000
At 1 July	**175**	**252**
Charged (utilised) for the year	2,250	(77)
At 30 June	**2,425**	**175**

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

	Total	0-30 days	31-60 days	61-90 days PDNI*	61-90 days CI*	+ 91 days PDNI*	+ 91 days CI*
2013	27,933	14,925	5,107	2,057	0	3,419	2,425
2012	23,599	17,432	2,188	3,380	0	424	175

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

NOTE 13 INVENTORIES (CURRENT)

	2013 $'000	2012 $'000
Work in progress – at cost	7,413	3,710
Raw materials and camera components – at cost	12,857	12,312
	20,270	**16,022**

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

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2013

	Plant and equipment	Furniture and other	Computer equipment	Asset Retirement Obligation *	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2012 net of accumulated depreciation and impairment	**62,968**	**1,354**	**2,297**	**1,718**	**68,337**
Additions	14,466	186	802	565	**16,019**
Reclassification	726	(761)	36	0	**0**
Impairment	(1,823)	0	0	0	**(1,823)**
Disposals	0	(30)	(36)	0	**(66)**
Depreciation for the year	(19,188)	(365)	(1,532)	(573)	**(21,658)**
Exchange adjustment	11,199	26	147	187	**11,559**
At 30 June 2013 net of accumulated depreciation and impairment	**68,348**	**410**	**1,713**	**1,897**	**72,368**
At 1 July 2012					
Cost	155,403	4,667	13,131	3,828	**177,029**
Accumulated depreciation and Impairment	(92,435)	(3,313)	(10,834)	(2,110)	**(108,692)**
Net carrying amount	**62,968**	**1,354**	**2,297**	**1,718**	**68,337**
At 30 June 2013					
Cost	186,012	3,929	15,432	4,711	**210,084**
Accumulated depreciation and Impairment	(117,664)	(3,519)	(13,719)	(2,814)	**(137,716)**
Net carrying amount	**68,348**	**410**	**1,713**	**1,897**	**72,368**

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

NOTE 14 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Year ended 30 June 2012

	Plant and equipment	Furniture and other	Computer equipment	Asset Retirement Obligation *	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2011 net of accumulated depreciation and impairment	**63,588**	**798**	**3,552**	**1,913**	**69,851**
Additions	16,953	188	339	415	**17,895**
Acquired	665	0	0	0	**665**
Impairment	(2,200)	0	0	0	**(2,200)**
Disposals	(3)	(4)	(2)	0	**(9)**
Transfer to inventory	0	0	0	0	**0**
Depreciation for the year	(18,211)	(875)	(2,404)	(687)	**(22,177)**
Exchange adjustment	2,176	1,247	812	77	**4,312**
At 30 June 2012 net of accumulated depreciation and impairment	**62,968**	**1,354**	**2,297**	**1,718**	**68,337**
At 1 July 2011					
Cost	138,872	3,218	11,661	3,406	**157,157**
Accumulated depreciation and Impairment	(75,284)	(2,420)	(8,109)	(1,493)	**(87,306)**
Net carrying amount	**63,588**	**798**	**3,552**	**1,913**	**69,851**
At 30 June 2012					
Cost	155,403	4,667	13,131	3,828	**177,029**
Accumulated depreciation and Impairment	(92,435)	(3,313)	(10,834)	(2,110)	**(108,692)**
Net carrying amount	**62,968**	**1,354**	**2,297**	**1,718**	**68,337**

LEASED ASSETS

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2013 is $nil (FY2012: $nil).

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 23.

NOTE 15 INTANGIBLES AND GOODWILL

Year ended 30 June 2013

	Development Costs	Goodwill	Other	Total
	$'000	$'000	$'000	$'000
At 1 July 2012 net of accumulated amortisation and impairment	**21,244**	**4,286**	**2,185**	**27,715**
Additions	6,561	0	0	**6,561**
Acquired	0	0	0	**0**
Impairment	(729)	(2,135)	0	**(2,864)**
Transfer to deferred cost asset	0	0	0	**0**
Amortisation for the year	(3,571)	0	(453)	**(4,024)**
Exchange adjustment	479	320	46	**845**
At 30 June 2013 net of accumulated amortisation and impairment	**23,984**	**2,471**	**1,778**	**28,233**
At 1 July 2012				
Cost	32,870	4,286	2,243	**39,399**
Accumulated amortisation and impairment	(11,626)	0	(58)	**(11,684)**
Net carrying amount	**21,244**	**4,286**	**2,185**	**27,715**
At 30 June 2013				
Cost	39,317	4,606	2,439	**44,227**
Accumulated amortisation and impairment	(15,333)	(2,135)	(661)	**(15,994)**
Net carrying amount	**23,984**	**2,471**	**1,778**	**28,233**

Year ended 30 June 2012

	Development Costs	Goodwill	Other	Total
	$'000	$'000	$'000	$'000
At 1 July 2011, net of accumulated amortisation and impairment	**17,422**	**400**	**330**	**18,152**
Additions	5,702	0	0	**5,702**
Acquired	0	4,286	2,243	**6,529**
Impairment	(689)	(400)	0	**(1,089)**
Transfer to deferred cost asset	0	0	(330)	**(330)**
Amortisation for the year	(3,187)	0	(58)	**(3,245)**
Exchange adjustment	1,996	0	0	**1,996**
At 30 June 2012, net of accumulated amortisation and impairment	**21,244**	**4,286**	**2,185**	**27,715**
At 1 July 2011				
Cost	26,506	400	330	**27,236**
Accumulated amortisation and impairment	(9,084)	0	0	**(9,084)**
Net carrying amount	**17,422**	**400**	**330**	**18,152**
At 30 June 2012				
Cost	32,870	4,286	2,243	**39,399**
Accumulated amortisation and impairment	(11,626)	0	(58)	**(11,684)**
Net carrying amount	**21,244**	**4,286**	**2,185**	**27,715**

NOTE 15 INTANGIBLES AND GOODWILL - CONTINUED

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 was acquired upon the acquisition of the business and business assets of Smart Bus in FY2012 (Note 5) and will be impairment tested on an annual basis. The recoverable amount of the Redflex Guardian cash generating unit within the North American reporting 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.

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, and improved revenue yields;
- Citation rates per bus, per USA school district where product is employed;
- Board approved financial budgets for FY2014;
- The yield on a ten year USA based Government Bond rate consistent with external informational sources is utilised;
- Projected cash flows have been discounted using an after-tax discount rate of 15.8% (FY2012: 13.0%); and,
- Revenue growth has been forecast based on anticipated recurring revenues for the forecast period of five years. An extrapolated growth rate of 2% in the installed base has been used beyond the forecast period.

OTHER

Other Intangible Assets consist of amounts paid for trade names, contracts acquired and non-compete compensation arising from the acquisition of Smartbus. These amounts are amortised over their estimated useful lives ranging between 3 and 5 years.

Year ended 30 June 2013

	Contracts Acquired	Non-compete compensation	Trademarks	Total
	$'000	$'000	$'000	$'000
At 1 July 2012, net of accumulated amortisation and impairment	**1,464**	**246**	**475**	**2,185**
Amortisation for the year	(370)	(112)	(50)	**(532)**
Exchange adjustment	82	1	43	**125**
At 30 June 2013, net of accumulated amortisation and impairment	**1,175**	**135**	**468**	**1,778**
At 1 July 2012				
Cost	1,504	252	487	**2,243**
Accumulated amortisation and impairment	(40)	(6)	(12)	**(58)**
Net carrying amount	**1,464**	**246**	**475**	**2,185**
At 30 June 2013				
Cost	1,635	274	530	**2,439**
Accumulated amortisation and impairment	(460)	(139)	(62)	**(661)**
Net carrying amount	**1,175**	**135**	**468**	**1,778**

NOTE 16 OTHER NON CURRENT ASSETS

	2013 $'000	2012 $'000
Trade receivables	8,933	6,524
Other non-current assets	357	317
	9,289	**6,841**

Trade receivables are non-interest bearing.

Movements in the provision for impairment loss were as follows:

	2013 $'000	2012 $'000
At 1 July	**0**	**190**
Charged (utilised) for the year	0	(190)
At 30 June	**0**	**0**

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

	Total	0-30 days	31-60 days	61-90 days PDNI*	61-90 days CI*	+ 91 days PDNI*	+ 91 days CI*
2013	8,933	0	0	0	0	8,933	0
2012	6,524	0	0	0	0	6,524	0

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

NOTE 17 TRADE AND OTHER PAYABLES (CURRENT)

	2013 $'000	2012 $'000
Trade payables	18,435	18,121
Deferred revenue	67	1,038
Trade and other payables	**18,502**	**19,159**

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 18 INTEREST-BEARING LOANS AND BORROWINGS

	2013 $'000	2012 $'000
Current		
Obligations under finance leases and hire purchase contracts	4	8
	4	**8**
Non-Current		
Obligations under finance leases and hire purchase contracts	0	4
Bank borrowings	26,278	24,609
Deferred financing costs	(248)	(402)
	26,030	**24,211**

Bank indemnity guarantees

The Group's bankers have issued to certain customers indemnity guarantees in respect of letters of credit, bid bonds, and performance bonds for $3,913,415 (30 June 2012: $3,055,105).

Financing facilities available

	2013 $'000	2012 $'000
Total facilities		
Bank borrowings	76,645	68,904
AU$ working capital facility	8,000	8,000
	84,645	**76,904**
Facilities used at reporting date		
Bank borrowings	26,278	24,609
Deferred financing costs	(248)	(402)
Security for letters of credit issued to customers	3,913	3,055
	29,943	**27,262**
Facilities unused at reporting date	**54,702**	**49,642**

At 30 June 2013, the Group had a US$70 million (AU$76.6 million) secured revolving credit facility, together with an AU$8 million working capital facility to address international and local business opportunities. This facility expires on 10 August 2014.

In conjunction with two other Australian banks, the Commonwealth Bank of Australia has been 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.

(a) Fair value

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

(b) Interest rate, foreign exchange and liquidity risk

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

NOTE 19 CURRENT LIABILITIES – PROVISIONS

	2013 $'000	2012 $'000
Employee entitlements	2,999	2,888
Provision for warranties	55	172
Asset retirement obligation – liability	1,683	1,311
	4,737	**4,371**

(a) Movements in provisions

Please refer to Note 20 for details.

(b) Nature and timing of provisions

Please refer to Note 20 for details.

NOTE 20 NON CURRENT LIABILITIES – PROVISIONS

	2013 $'000	2012 $'000
Employee entitlements	489	356
Asset retirement obligation – liability	3,073	2,672
	3,562	**3,028**

(a) Movements in provisions

	Maintenance Warranties $'000	Employee Entitlements $'000	Asset Retirement Obligation $'000	Total $'000
At 1 July 2012	**172**	**3,244**	**3,983**	**7,399**
Arising during the year	110	1,091	668	**1,869**
Utilised during the year	(11)	(1,125)	(379)	**(1,515)**
Unused amounts reversed	(216)	0	0	**(216)**
Exchange adjustment	0	278	484	**762**
At 30 June 2013	**55**	**3,488**	**4,756**	**8,299**
Current 2013	55	2,999	1,683	**4,737**
Non Current 2013	0	489	3,073	**3,562**
At 30 June 2013	**55**	**3,488**	**4,756**	**8,299**
Current 2012	172	2,888	1,311	**4,371**
Non Current 2012	0	356	2,672	**3,028**
At 30 June 2012	**172**	**3,244**	**3,983**	**7,399**

Superannuation

During the year ended 30 June 2013 the Group was obligated to contribute 9% of the Australian employees' salaries up to the maximum contributions base into a superannuation fund of the employee's choice. All of the economic entities' responsibilities in respect to superannuation commitments relating to the year ended 30 June 2013 have been discharged.

NOTE 20 NON CURRENT LIABILITIES – PROVISIONS - CONTINUED

(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 reporting 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 North American traffic division is based on individual contracts with municipalities, for Redflex to install and operate red light and/or speed enforcement equipment, generally for 5 years or less. Certain of these contracts require that, upon termination, Redflex remove the equipment and restore the municipality's site to its original condition.

NOTE 21 CONTINGENCIES

City of Chicago – possible outcomes

The company has previously announced to the ASX, the issues in regard to its USA subsidiary's historical dealings with the City of Chicago, and the outcome of the company's internal investigation. Further details on this matter are covered in the Operating and Financial Review section of this Report.

The Chicago Board of Ethics has authority to issue a variety of penalties ranging from monetary penalties to debarment. To date no monetary penalties have been presented to the company.

On 11 April 2013 Redflex advised that it had ended the independent internal investigation launched in October 2012, arising from concerns relating to the City of Chicago contract, save for follow-up items.

The investigation by Sidley Austin identified potential issues involving Redflex Traffic Systems Inc and certain former employees in two additional geographies in the United States. Redflex expects to continue to cooperate with authorities in the future as circumstances dictate.

The Chicago city administration has authority to issue a variety of penalties ranging from monetary penalties to debarment. To date no monetary penalties have been presented to the company.

All previous deferred cost assets relating to the City of Chicago contracts have been fully amortised. The total costs of the investigation activity from October 2012 through to 30 June 2013 are approximately $3.7 million. As a result of Redflex's continuing cooperation with relevant authorities, we expect to incur additional modest costs going forward.

There has been no other changes in contingent assets or liabilities since 30 June 2013.

NOTE 21 CONTRIBUTED EQUITY

	2013 $'000	2012 $'000
Ordinary shares:		
Issued and fully paid	101,765	101,765

Movements in ordinary shares on issue

	Number of shares Thousands	$'000
At 30 June 2011	**110,345**	**121,765**
Issued during FY2012 as a result of:		
Vesting of performance rights under LTI Plan	0	0
Section 285F of the Corporations Act (2001) capital reduction	0	(20,000)
At 30 June 2012	**110,345**	**101,765**
Issued during FY2013 as a result of:		
Vesting of performance rights under LTI Plan	417	0
At 30 June 2013	**110,762**	**101,765**

Terms and Conditions of Contributed Equity

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

NOTE 22 RETAINED EARNINGS AND RESERVES

Movements in retained earnings were as follows:

	2013 $'000	2012 $'000
Balance 1 July	**28,201**	**1,922**
Net profit	7,315	15,107
Dividends paid	(7,733)	(8,828)
Transfer of expired equity instruments	6,609	0
Section 285F of the Corporations Act (2001) capital reduction	0	20,000
Balance 30 June	**34,392**	**28,201**

NATURE AND PURPOSE OF RESERVES

Foreign currency translation reserve

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

Employee equity benefits reserve

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

Movements in reserves were as follows:

	Foreign currency translation $'000	Employee equity benefits reserve $'000	Total $'000
At 30 June 2011	**(26,688)**	**7,218**	**(19,470)**
Cost of share based payments	0	1,323	1,323
Effect of exchange rate movement	2,320	0	2,320
At 30 June 2012	**(24,368)**	**8,541**	**(15,827)**
Cost of share based payments	0	1,105	1,105
Transfer of expired equity instruments	0	(6,609)	(6,609)
Effect of exchange rate movement	10,424	0	10,424
At 30 June 2013	**(13,944)**	**3,037**	**(10,907)**

NOTE 23 COMMITMENTS AND CONTINGENCIES

(a) Bank Indemnity Guarantees

The Group's bankers have issued to certain customers indemnity guarantees in respect of letters of credit, bid bonds, and performance bonds for $3,913,415 (30 June 2012: $3,055,105).

(b) Operating lease commitments – Group as lessee

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

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

	Consolidated	
	2013	2012
	$'000	$'000
Within 1 year	3,967	3,484
After 1 year but not more than 5 years	6,019	5,488
More than 5 years	0	0
	9,986	**8,972**

(c) Capital commitments

At 30 June 2013 the Group has commitments of $2,060,135 (30 June 2012: $3,378,502). These commitments principally relate to the installation of camera systems by the North American business. Contracts generally specify that Redflex may install a number of cameras up to a specified limit provided that Redflex and the customer agree on the location and suitability of the proposed installations. Accordingly, the company has obligations to install further camera systems but it is not possible to determine how many will ultimately be installed. The commitments shown, therefore, represent only those commitments supported by firm orders that have been placed for installations.

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

	2013	2012
	$'000	$'000
Within one year	2,060	3,379
After one year but not more than five years	0	0
Longer than five years	0	0
	2,060	**3,379**

NOTE 24 RELATED PARTY DISCLOSURES

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

	Country of Incorporation	Equity interest 2013 %	Equity interest 2012 %	Investment 2013 $'000	Investment 2012 $'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 (L)	Australia	0	100	0	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	48,821	48,038
Traffic Operating Systems (Saudi Arabia) LLC *	Saudi Arabia	100	100	14	14
Transtoll Pty Ltd	Australia	100	100	0	0
Redflex Irish Investments Pty Ltd	Australia	100	100	0	0
Redflex Traffic Systems Malaysia Sdn Bhd (formerly My High Integration Sdn Bhd)	Malaysia	100	100	0	0
				52,292	**51,509**
Controlled entities of Redflex Pty Ltd					
Redflex Traffic Systems Australia Pty Ltd (L)	Australia	0	100		
Controlled entities of Redflex Traffic Systems Inc					
Redflex Traffic Systems Pty Ltd	Australia	100	100		
Redflex Traffic Systems (California) Inc	USA	100	100		
Redflex Guardian, Inc	USA	100	100		
Controlled entities of Redflex Traffic Systems Pty Ltd					
Redflex Traffic Pty Ltd	Australia	100	100		
Controlled entities of Redflex Guardian Inc					
SBL Investments LLC	USA	100	100		
Americore Enterprises LLC	USA	100	100		

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

The ultimate parent

Redflex Holdings Limited is the ultimate parent of the Group.

Associate

Redflex Holdings Limited owns a 16% non-voting equity interest in Road Safety Operations Holdings T/A Go Safe Ireland, via its subsidiary Redflex Irish Investments Pty Ltd.

Voluntary Liquidations

(L) - Aerospace Systems Pty Ltd and Redflex Traffic Systems Australia Pty Ltd were voluntarily liquidated during the year.

NOTE 24 RELATED PARTY DISCLOSURES - CONTINUED

Terms and conditions of transactions with related parties

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

During the year Redflex contracted Minter Ellison to perform legal work. Mr Ian Davis, who was a non-executive director of the company until his resignation on 6 February 2013, is a partner with Minter Ellison. In FY2013 the total fees paid to Minter Ellison were $68,000 (FY2012: $20,000). All services were performed and billed on an arm's length basis.

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

	2013 $'000	2012 $'000
Short term employee benefits	3,369	3,397
Post-employment benefits	611	134
Long-term employment benefits	13	18
Share based payments	62	767
	4,055	**4,316**

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

Options held by key management personnel

At 30 June 2013 there were 3 million options held by key management personnel (30 June 2012: nil).

On 10 September 2012, Mr Robert DeVincenzi was granted 3 million unlisted options as part of his employment contract entitlements as the incoming Group CEO. Pursuant to the transition arrangements for Mr DeVincenzi, as noted in the remuneration report within the directors' report, Mr DeVincenzi waived his entitlement to these options which were forfeited on 17 July 2013.

The expense for the options was both expensed and reversed in FY2013.

NOTE 24 RELATED PARTY DISCLOSURES - CONTINUED

Shareholdings of key management personnel

	Shares held at 1 July 2012	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2013
Directors - non executive				
Michael McConnell	0	0	50,000	**50,000**
Robin Debernardi	3,171,783	0	0	**3,171,783**
Albert Moyer	0	0	0	**0**
Director - executive				
Robert DeVincenzi	0	0	0	**0**
	3,171,783	**0**	**50,000**	**3,221,783**
KMP				
Ronald Johnson	180,967	20,115	(81,342)	**119,740**
Ricardo Fiusco	299,077	20,677	(80,000)	**239,754**
Simon Pickup	50,298	10,858	0	**61,156**
Marilyn Stephens	140,389	11,695	0	**152,084**
	670,731	**63,345**	**(161,342)**	**572,734**

	Shares held at 1 July 2011	Vested Performance Rights	Bought (Sold) on market	Shares held at 30 June 2012
Directors - non executive				
Michael McConnell	0	0	0	**0**
Robin Debernardi	3,171,783	0	0	**3,171,783**
Former NEDs				
Ian Davis	45,000	0	0	**45,000**
Max Findlay	0	0	0	**0**
Former executive directors				
Graham Davie	1,840,809	0	0	**1,840,809**
Karen Finley	323,674	0	0	**323,674**
	5,381,266	**0**	**0**	**5,381,266**
KMP				
Ronald Johnson	180,967	0	0	**180,967**
Ricardo Fiusco	319,077	0	(20,000)	**299,077**
Simon Pickup	50,298	0	0	**50,298**
Marilyn Stephens	140,389	0	0	**140,389**
Former KMP				
Aaron Rosenberg	103,509	0	0	**103,509**
Andrejs Bunkse	0	0	0	**0**
Sean Nolen	0	0	0	**0**
	794,240	**0**	**(20,000)**	**774,240**

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

NOTE 24 RELATED PARTY DISCLOSURES - CONTINUED

Performance rights held by key management personnel and former key management personnel

	Number held at 1 July 2012	Transactions during the year				Number held at 30 June 2013
		Awarded as remuneration	Forfeited	Vested	Lapsed	
Executive director						
Robert DeVincenzi	0	129,323	0	0	0	**129,323***
Other KMP						
Ronald Johnson	162,010	75,735	0	(20,115)	(19,173)	**198,457**
Ricardo Fiusco	133,326	75,735	0	(20,677)	(19,708)	**168,676**
Simon Pickup	71,100	26,245	0	(10,858)	(10,349)	**76,138**
Marilyn Stephens	75,410	27,341	0	(11,695)	(11,147)	**79,909**
Former executive directors						
Graham Davie	271,479	0	0	(82,231)	0	**189,248**
Karen Finley	283,910	92,933	(284,031)	(47,520)	(45,292)	**0**
Former KMP						
Aaron Rosenberg	222,396	72,799	(222,493)	(37,223)	(35,479)	**0**
Andrejs Bunkse	222,396	72,799	(222,493)	(37,223)	(35,479)	**0**
Sean Nolen	93,426	45,435	(138,861)	0	0	**0**
Total	**1,535,453**	**618,345**	**(867,878)**	**(267,542)**	**(176,627)**	**841,751**

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

Mr Aaron Rosenberg was dismissed on 20 February 2013 and, as noted in Section 1 of the remuneration report, the Sidley Austin investigation uncovered numerous violations of company policy and company code of conduct by Mr Rosenberg. The company has filed suit against Mr Rosenberg to recover certain damages. Under the terms of the LTI Plan, the company has retained a holding lock on 122,482 shares that had been issued in Mr Rosenberg's name as a result of performance rights vesting; this number includes the 37,223 shares issued during FY2013.

NOTE 24 RELATED PARTY DISCLOSURES - CONTINUED

Performance rights held by key management personnel and former key management personnel - continued

	Number held at 1 July 2011	Transactions during the year				Number held at 30 June 2012
		Awarded as remuneration	Forfeited	Vested	Lapsed	
Executive director						
Robert DeVincenzi	0	0	0	0	0	**0**
KMP						
Ronald Johnson	111,210	85,227	0	0	(34,427)	**162,010**
Ricardo Fiusco	114,314	54,400	0	0	(35,388)	**133,326**
Simon Pickup	60,074	29,250	0	0	(18,224)	**71,100**
Marilyn Stephens	64,657	30,769	0	0	(20,016)	**75,410**
Former executive directors						
Graham Davie	232,766	110,770	0	0	(72,057)	**271,479**
Karen Finley	262,584	111,397	0	0	(90,071)	**283,910**
Former KMP						
Aaron Rosenberg	205,691	87,261	0	0	(70,556)	**222,396**
Andrejs Bunkse	135,135	87,261	0	0	0	**222,396**
Sean Nolen	38,965	54,461	0	0	0	**93,426**
Total	**1,225,396**	**650,796**	**0**	**0**	**(340,739)**	**1,535,453**

NOTE 25 SHARE-BASED PAYMENT PLANS

Option holdings of key management personnel

	Options held 1 July 2012	Transactions during the year		Options held 30 June 2013
		Granted	Forfeited	
Directors				
Robert DeVincenzi	0	3,000,000	0	3,000,000*
Michael McConnell	0	0	0	0
Robin Debernardi	0	0	0	0
Albert Moyer	0	0	0	0
	0	3,000,000	0	3,000,000
Executives				
Ronald Johnson	0	0	0	0
Ricardo Fiusco	0	0	0	0
Simon Pickup	0	0	0	0
Marilyn Stephens	0	0	0	0
	0	0	0	0

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

Long Term Incentive Plan

Redflex established a Long Term Incentive Plan (LTIP) for executives in 2006. The LTIP Rules for Australian and United States executives are published on Redflex's website. The LTIP is based on grants of Performance Rights which vest into shares on a 1 for 1 basis at no cost to the employee subject to satisfaction of performance hurdles. 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 which up to 30 September 2012 consisted of companies in the S&P/ASX 300 at grant date over the same period. For performance rights issued in FY2013 and ongoing, the comparator group for TSR performance consists of companies in the S&P/ASX 300 excluding companies in the Resources sector and the Financials sector as the company believes this modification was most appropriate to the Redflex Group on the basis that: it broadly reflected the market; it is a reasonably large group that would prevent volatility effects causing short-term anomalies; it would be acceptable to the market as a reference; and, it acknowledges that Redflex has no direct peers in the Australian market. 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.

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.

Executive Share Plan

No shares were issued under the Executive Share Plan (ESP) in the financial year ended 30 June 2013 (FY2012: Nil).

NOTE 26 SHARE-BASED PAYMENT PLANS - CONTINUED

Employee Option Plan

Under the Employee Option Plan Redflex may grant non-transferable options over ordinary shares to executives and certain members of staff. 3 million unlisted options were issued under this plan in the financial year ended 30 June 2013 (FY2012: Nil).

*On 17 July 2013, Redflex announced to ASX a transition of the leadership of the Redflex Group and that Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. The terms of Mr DeVincenzi's Agreement include that Mr DeVincenzi has waived his entitlement to 129,323 performance rights and 3 million unlisted options that were issued on 10 September 2012 and these were forfeited on 17 July 2013. Full details of Mr DeVincenzi's transition arrangements are included in the remuneration report within the directors' report.

MOVEMENTS IN THE YEAR

Performance rights

The following table illustrates the movements in the performance rights during the year ended 30 June 2013.

	2013		2012	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	2,769,177	0	2,164,515	0
Granted during the year	1,280,649	0	1,301,256	0
Forfeited during the year	(971,267)	0	(180,884)	0
Vested during the year	(416,711)	0	0	0
Lapsed during the year	(318,801)	0	(515,710)	0
Outstanding at the end of the year	**2,343,047**	**0**	**2,769,177**	**0**

Options

The following table illustrates the movements in the options during the year ended 30 June 2013.

	2013		2012	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	0	0	0	0
Granted during the year	3,000,000	0	0	0
Forfeited during the year	0	0	0	0
Vested during the year	0	0	0	0
Lapsed during the year	0	0	0	0
Outstanding at the end of the year	**3,000,000**	**0**	**0**	**0**

WAEP: Weighted average exercise price

NOTE 26 SHARE-BASED PAYMENT PLANS - CONTINUED

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 a pre-selected ASX peer group. . For LTI awards up to and including FY2012, the peer group chosen for comparison is the ASX 300 constituents at the start of the performance period. The peer group for FY2013 and future awards is the comparator group which comprises the S&P/ASX 300 index companies but excludes companies that are in the Financial and Metals and Mining GICS (Global Industry Classification Standard) sector, at grant date as those industry groups were considered inappropriate comparators.

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 following table lists the inputs to the model used for the LTIP for the years ended 30 June 2013 and 30 June 2012.

Performance rights formula

Year ended 30 June 2013	1 October 2012
Share price at valuation date	$2.01
Expected volatility	43%
Risk-free interest rate	2.42%
Expected life of performance right	3 years
Dividend yield	4.2%

Year ended 30 June 2012	1 October 2011
Share price at valuation date	$1.75
Expected volatility	50%
Risk-free interest rate	3.66%
Expected life of performance right	3 years
Dividend yield	2.3%

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 (FY2012: 3 years).

NOTE 27 PARENT ENTITY INFORMATION

Information relating to the parent entity, Redflex Holdings Limited

	2013 $'000	2012 $'000
Current assets	4,730	3,778
Non-current assets	78,959	87,084
Total assets	**83,689**	**90,862**
Current liabilities	1,593	1,718
Non-current liabilities	0	0
Total liabilities	**1,593**	**1,718**
Net assets	**82,096**	**89,144**
Contributed equity	101,765	101,765
Retained earnings	(29,317)	(21,164)
Reserves	9,648	8,543
Total shareholders' equity	**82,096**	**89,144**
Profit /(loss) of the parent entity	(420)	(110)
Total comprehensive income/(loss) of the parent entity	(420)	(110)

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, other than the following:

Changes to key management personnel

Appointment of independent director

Mr Terence (Terry) Winters was appointed an independent, non-executive director to the board of Redflex Holdings Limited on 7 August 2013.

Appointment of CEO of North America traffic business

Mr James (Jim) Saunders was appointed President and CEO of Redflex Traffic Systems Inc on 17 July 2013.

Appointment of CEO of Australian/International traffic business

Mr Ricardo Fiusco was appointed CEO of Redflex Traffic Systems Pty Ltd on 31 July 2013, having held the title of General Manager for the previous ten years.

NOTE 28 EVENTS AFTER BALANCE SHEET DATE

Transition arrangements for the Group CEO

Mr Robert DeVincenzi and the company entered into arrangements in relation to his transition from Group CEO and President and CEO of Redflex Traffic Systems Inc to a non-executive director role with Redflex Holdings Limited. On 17 July 2013, Mr DeVincenzi's employment contract dated 17 September 2012 was terminated by virtue of an Executive Transition Agreement. Mr DeVincenzi continues as Group CEO whilst the Board conducts a search for a replacement. Following the appointment of a new Group CEO Mr DeVincenzi will provide ongoing service as a consultant and will continue to serve the board as a non-executive director, subject to the usual shareholder approval at AGMs.

The key terms of Mr DeVincenzi's Executive Transition Agreement which was unanimously agreed by the Board (Mr DeVincenzi abstained) are:

- Mr DeVincenzi has: (a) waived his entitlement to a short term incentive; (b) waived his entitlement to 129,323 performance rights issued on 10 September 2012 which have been cancelled; (c) waived his rights to any future issue of performance rights; and, (d) waived his entitlement to 3 million options which were issued on 10 September 2012 and which have been cancelled.
  In accordance with the accounting treatment required under AASB2 - Share Based Payments, the cost of LTIs and Options in relation to Mr DeVincenzi's employment contract have been expensed and credited in the FY2013 year. As at 30 June 2013, on the basis of the probability of an understanding of the negotiated arrangements existing between the company and Mr DeVincenzi and that the associated legal documentation would be finalized within a short period of time, the option costs have been expensed and credited within the year then ended.
- Mr DeVincenzi is entitled to a bonus of US$540,000 (AU$589,134) for FY2013 year performance, based primarily on performance objectives determined in early 2013. This amount was accrued at 30 June 2013 and was paid in August 2013.
- Mr DeVincenzi continues to be employed in the position of Group CEO for the transition period ending 17 January 2014 or earlier if a new Group CEO is hired. He is entitled to a base annual salary of US$450,000 (AU$438,212) with no entitlement to participate in incentive or option plans. On the last day of the transition period, he is entitled to receive a completion bonus of US$310,000 (AU$339,428). This amount will be expensed in FY2014.
- For a 12 month period following the end of the transition period, Mr DeVincenzi shall provide consulting services as reasonably requested of up to 20 hours per week in California with reasonable travel as mutually agreed. Over this period he may perform services for or be employed by other companies other than a competitor. Over this period he is entitled to a consulting fee of US$25,000 (AU$27,373) per month and is entitled to be reimbursed for family health insurance premiums. The consulting fees will be expensed as they are incurred.

Settlement of class action suit relating to New Jersey

Eight putative class actions have been served against Redflex and five Redflex New Jersey customer cities. The Plaintiffs are classes of individuals who were charged with running a red light, had paid the fine and who were challenging the validity of the charged offence and the voluntary payment of the fine.

Redflex had intended to defend these actions as the certification process being challenged was not a Redflex responsibility. To prove our case we would have had to express a claim against our customers, as Redflex's defence of the case on merits may diverge from the cities'.

After court ordered mediation, Redflex determined it was best for the Group to settle the action, with no admission of liability, by way of making payment of approximately US$750,000 (AU$821,198), rather than incur non-recoverable legal costs estimated to be significantly in excess of this amount, or alternatively, seek legal cost reimbursement by likely legal action against customers of the cities.

Under the accounting Standard AASB 137: Provisions, Contingent Liabilities and Contingent Assets, the decision to settle this matter in August 2013 gave rise to a constructive obligation at that date, which did not exist prior to that time. Accordingly this amount will be expensed in FY2014.

NOTE 29 AUDITOR'S REMUNERATION

	2013 $'000	2012 $'000
Amount received or due and receivable by Ernst & Young (Australia) for:		
An audit or review of the financial report of the consolidated entity	293,500	285,000
Amount received or due and receivable by Ernst & Young (Australia) for other services in relation to the consolidated entity for:		
Assurance related matters	45,650	0
Remuneration study	0	36,485
Amount received or due and receivable by related practices of Ernst & Young (Australia) for:		
Audits or reviews of subsidiaries	250,755	259,115
	589,905	**580,600**

DIRECTOR'S DECLARATION

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

1. In the opinion of the directors:

   (a) The financial statements and notes of Redflex Holdings Limited for the financial year ended 30 June 2013 are in accordance with the Corporations Act 2001, including:

      (i) Giving a true and fair view of its financial position as at 30 June 2013 and of its performance;

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

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

   (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2013.

On behalf of the board

Robert DeVincenzi
Director

30 September 2013

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Page for Ernst & Young's Auditor's Opinion

ASX ADDITIONAL INFORMATION

Additional information required by ASX and not shown elsewhere in this report is as follows. This information is current as at 31 August 2013

Distribution of equity securities

There were 2,166 holders of 110,762,310 fully paid ordinary shares quoted on the ASX. These shares carry one vote per share and carry the rights to dividends.

	Number of Holders	Ordinary shares	% of Issued Capital
1 – 1,000	480	230,862	0.21
1,001 – 5,000	789	2,076,539	1.87
5,001 – 10,000	340	2,562,179	2.31
10,001 – 100,000	481	13,297,260	12.01
100,001 – over	76	92,595,470	83.60
	2,166	**110,762,310**	**100.00%**
Holding less than a marketable parcel of 404 shares @ $500	230	31,447	

Substantial holders

Name	Ordinary Shares	% of Issued Capital
Coliseum Capital	15,645,781	14.13%
Macquarie Group Limited	13,281,905	11.99%
Mrs Elizabeth Cooper	10,932,914	9.87%
Investaco Pty Ltd	8,755,642	7.90%
Thorney Holdings	8,377,019	7.56%
Ms Cheng Man Oy	5,783,244	5.22%

Twenty largest holders of quoted equity securities

Name	Shares Held	% of Issued Capital
HSBC Custody Nominees (Australia) Limited-GSCO ECA	16,453,151	14.85
Thorney Holdings Pty Ltd	7,558,439	6.82
Mrs Elizabeth Geraldine Cooper	7,383,211	6.67
Macquarie Special Situations Master Fund Limited	6,637,952	5.99
Ms Cheng Man Oy	6,182,252	5.58
Investaco Pty Ltd	6,039,823	5.45
Blue Jade Pty Ltd	4,065,541	3.67
Macquarie Radar Holdings Pty Limited	3,318,977	3.00
Macquarie Bank Limited <CAF Lending A/C>	3,318,976	3.00
Investaco Pty Ltd <Ho Family A/C>	2,879,229	2.60
Portfolio Services Pty Ltd	2,726,810	2.46
Citicorp Nominees Pty Limited	2,540,176	2.29
Vertex Bianca Nominees Pty Ltd <Superannuation Fund A/C>	2,149,944	1.94
Mr Graham William Davie	1,788,701	1.61
O'Connor Holdings Pty Ltd	1,571,215	1.42
HSBC Custody Nominees (Australia) Limited	1,469,983	1.33
Mr Christopher Austin Cooper	1,208,576	1.09
Coningsby Nominees Pty Ltd <Super Fund A/C>	1,132,335	1.02
Vertex Bianca Nominees Pty Ltd	980,957	0.89
B R Jackson Holdings Pty Ltd	947,242	0.86
Top 20 Holders of ordinary fully paid shares	**80,353,490**	**72.55**

REDFLEX
HOLDINGS

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