



REFLEX HOLDINGS LIMITED

ACN: 069 306 216
ABN: 96 069 306 216
ASX CODE: RDF

APPENDIX 4D

AND REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting period	Half-year ended 31 December 2016 "H1 FY17"
Previous corresponding period	Half-year ended 31 December 2015 "H1 FY16"

APPENDIX 4D
HALF-YEAR REPORT
SIX MONTHS ENDED 31 DECEMBER 2016

<u>RESULTS FROM OPERATIONS</u>				<u>H1 FY17</u>	<u>H1 FY16</u>
				<u>(\$'000)</u>	<u>(\$'000)</u>
Revenue from operations	Down	5.0%	to	61,947	65,213
Profit before depreciation, amortisation, finance costs and tax (PBITDA)	Down	38.3%	to	6,988	11,325
Loss before tax	Up	>100%	to	(31,961)	(2,767)
Loss after tax	Up	>100%	to	(26,262)	(1,731)
				<u>H1 FY17</u>	<u>H1 FY16</u>
				<u>Cents</u>	<u>Cents</u>
Basic / diluted loss per share	Down	>100%	to	(23.70)	(1.56)
Net tangible asset backing per ordinary security	Down	29.3%	to	53.12	75.13
<u>DIVIDENDS (DISTRIBUTIONS)</u>					
No dividends have been declared in respect of H1 FY17 or H1 FY16					

A review of the results for Redflex Holdings Limited (“Redflex” or “the Company”) and its consolidated entities (collectively, “the Group” or “we” or “our”) is included in the attached Directors’ Report.

It is recommended that this Interim Financial Report for the half-year ended 31 December 2016 (“Half-Year Report”) be read in conjunction with the Annual Report for the year ended 30 June 2016 and be considered together with any public announcements made by Redflex up to 28 February 2017 in accordance with the Redflex’s continuous disclosure obligations (a copy of which is available on the Company’s website (www.redflex.com/index.php/en/home-investor)).

This Half-Year Report is prepared in accordance with International Financial Reporting Standards (“IFRS”). This Half-Year Report has been reviewed by the Group’s auditors, PricewaterhouseCoopers (“PwC”), and PwC’s conclusion is attached.

Unless otherwise stated, all currencies are denominated in Australian dollars.

Note regarding non-IFRS financial information

1. Throughout this Half-Year Report, Redflex has included certain non-IFRS financial information, including PBITDA, net debt and free cash flow.
2. This information is presented to assist readers in making appropriate comparisons with prior periods and to assess the performance of the Group. PBITDA or EBITDA as it is sometimes called, is a measure frequently quoted in the industry and forms the basis upon which many investors, financiers and analysts are briefed.
3. Non-IFRS information is not reviewed by PwC.

INTERIM FINANCIAL REPORT. FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2016.

Directors

The following persons were Directors of Redflex during the half-year and up to the date of this Half-Year Report. All directors held their position as Director throughout the entire half-year

Adam Gray	Chairman
Paul Clark	Chief Executive Officer
Robert DeVincenzi	Non-Executive Director
Herman Schwarz	Non-Executive Director
Clark Davey	Non-Executive Director
David McIntyre	Non-Executive Director
Terry Winters	Non-Executive Director

Company Secretary

Craig Durham has held the position of Group General Counsel and Company Secretary for the half year up to the date of this Half-Year Report.

OPERATING AND FINANCIAL REVIEW

Redflex Group Overview

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

Since then, the Group has established itself as a world leader in the automated traffic enforcement products and services market, a segment of the much larger Intelligent Traffic Systems ("ITS") market. The ITS market is expected to grow at a CAGR of 12% between 2016 and 2020, and reach \$34 Billion by 2020 (with the automated traffic enforcement products and services segment to contribute a CAGR of 9.3% between 2016 and 2021 and reach USD\$4 Billion by 2021).*

Through placement of key resources and targeted investment in product development and service delivery the company is well positioned to take advantage of the expected growth in the ITS market. Redflex develops and manufactures a wide range of high-performing digital photo enforcement solutions including red light, speed, automatic number plate recognition ("ANPR") and school bus stop arm systems, using advanced sensor and image capture technologies. The Group also owns and operates, through specific customer contracts, one of the largest networks of digital speed and red-light enforcement systems in the world.

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

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

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

*MarketsandMarkets – Road Safety Market – Global Forecast To 2021 (November 2016 Report)

Resolution of Substantial US Legal Matters

U.S. Department of Justice ends criminal inquiry into RTSI

On 23 December 2016 the Company reached an agreement with the U. S. Department of Justice (“U.S. DOJ”) in relation to the prior misconduct of former employees, memorialised by a non-prosecution agreement (“NPA”) with the U.S. DOJ for a term of two years. Under the NPA (previously disclosed to the market) the Company;

- Will not pay any fine or penalty to the U.S. DOJ relating to the misconduct;
- Agreed to pay restitution to the City of Columbus, Ohio in the total amount of US\$100,000; and
- Agreed to pay an undefined amount of restitution to the City of Chicago, which was subsequently determined on 4 February 2017 as noted below.

Legal settlement reached with the City of Chicago

On 4 February 2017 RTSI signed a release and settlement agreement resolving the qui tam civil litigation brought by the City of Chicago. Under the terms of the agreement the Company will pay to the City of Chicago US\$20.0 million (with a total of US\$10.0 million payable by December 31 2017 and the balance payable in various annual instalments by December 31, 2023, unless this date is extended under the terms of the agreement). The financial impact of these matters has been reflected in the result for the half-year.

With these two substantial legal matters resolved the company can exclusively focus on serving its extensive customer base, growing organic revenue streams, developing new products and services to stay at the forefront of the market, invest in options to deliver significant process improvement efficiencies and consider inorganic growth and diversification opportunities.

Consolidated Result

For the half-year ended 31 December 2016 revenue from operations was \$61.9 million which is down 5.0% as compared to the first half of the previous financial year (H1 FY16: \$65.2 million).

The decrease in revenue was primarily attributable to:

- A number of contract terminations in the USA. Our contract renewal rates remain strong and the terminations are generally the result of the cessation of the photo enforcement program in a particular locality, not losses to our competitors.
- A decrease in the number of new systems required in the USA due to the very low level of new contracts currently in that market and customer driven slower implementation rates.
- The wind down of the Highways England Digital Enforcement Camera (HADECS) implementation program as the installation of contracted systems is close to finalised, equipment sales are completed and the contract moves to a maintenance and support based project.
- The temporary reduction in the number of car parks being converted to ticketless parking requiring Redflex’s ANPR solutions.
- Unanticipated delays in decisions on government contracts in Asia and the Middle East.

The Group PBITDA was \$7.0 million compared to \$11.3 million in the previous corresponding period. The matters discussed above were the primary reasons for this PBITDA outcome. Additionally, the FY17 H1 results were adversely impacted by:

- Lower labour utilisation rates and margins due to lower international revenue.
- An increased initial investment in service delivery and support for current domestic contracts.
- Meaningful investment in International sales resources in order to build the sales pipeline in the European, Middle Eastern and Asian markets.

The above was partially offset by:

- Lower USA operating costs, as a result of a lower number of employees, reduced legal expenditure and lower occupancy costs.

Net loss before tax for the Group was \$32.0 million in H1 FY17 compared to a loss of \$2.8 million in the previous corresponding period. This result was primarily driven by the recognition of the discounted value of the full settlement amount relating to the City of Chicago legal matters which have been discussed above and the provisioning of long standing trade receivables in Saudi Arabia.

Net loss after tax for the Group was \$26.3 million in H1 FY17 compared to a loss of \$1.7 million in the previous corresponding period. The tax benefit arising from the accounting loss before tax was reduced by a tax expense arising from a Group restructure which took place during the period (see Note 4 to the Financial Statements).

Balance Sheet

The major balance sheet movements related to the Group restructure (deferred tax asset) and the liability relating to the City of Chicago release and settlement agreement (current trade and other payables and non-current trade and other payables).

The Group's cash balance during the six-month period increased by \$5.1 million despite lower earnings, reflecting the improved working capital management practices in place.

The overall working capital balances across the organisation further decreased over the past six months due predominantly to a lower trade debtor balance and increased supplier creditors.

The Groups non-current assets have remained constant with the carrying values shown as at 30 June 2016. This is due to the value of new capital expenditure offsetting the depreciation charge for the period. Furthermore, the exchange rate movement between the Australian Dollar and the United States Dollar have been minimal period on period.

YEAR ON YEAR COMPARISON

A comparison of the Group's performance for H1 FY17 and H1 FY16 is as follows.

	H1 FY17 \$'000	H1 FY16 \$'000
Profit before interest, tax, depreciation, and amortisation (PBITDA)	6,988	11,325
Less:		
Legal settlement with the City of Chicago	25,294	-
Impairment of trade receivables	3,672	-
Net write-down of inventory	271	1,379
Depreciation	7,644	9,216
Amortisation	2,013	3,101
Net finance costs	55	396
Loss before tax	(31,961)	(2,767)

	H1 FY17 \$'000	H1 FY16 \$'000	% Change
Segment revenue			
The America's Traffic business	34,915	38,349	(8.9%)
Australian/International Traffic business	27,032	26,864	0.6%
Total Consolidated Revenue	61,947	65,213	(5.0%)
Profit before interest, tax, depreciation, and amortisation			
PBITDA from combined Traffic business	7,973	13,158	(39.4%)
Head Office costs	(985)	(1,833)	(46.2%)
PBITDA	6,988	11,325	(38.3%)
Pre-tax loss			
Pre-tax loss from combined Traffic business	(30,967)	(927)	(>100%)
Head Office costs	(994)	(1,840)	46.0%
Pre-tax loss from operations	(31,961)	(2,767)	>100%
Net loss after tax	(26,262)	(1,731)	>100%

Review of the America's Operations

Revenue for the six months ended 31 December 2016 decreased by 8.9% to \$34.9 million, from \$38.3 million in H1 FY16. The predominant reason for the decrease is the non-renewal or cancellation of a number of photo enforcement contracts in the USA and a challenging legislative environment leading to limited growth opportunities in this traditional market. Additionally, the reduction when compared to the prior period, was also impacted by large Canadian equipment sales in H1 FY16.

The Americas business has commenced developing new revenue streams in new markets (Mexico and Latin America) and new products (hand-held speed cameras). Additionally, opportunities to further expand in the Canadian photo enforcement market continue to be pursued and delivered.

A number of traditional photo enforcement contracts remain in the pipeline (for red light, speed and stop arm) and RTSI is well positioned to win a share of these. Over the past six months America's operations have installed 10 new systems and have a further 67 contracted for installation.

With a relatively flat revenue profile there has been a strong focus to continue to invest in support of our existing customers and to optimise the balance of the Americas related cost base. As a result, H1 FY17 operating costs were 6.6% lower than H1 FY16. Lower employee related costs, occupancy charges (new premises) and legal expenditure have been the major drivers of this result. These initiatives were partially offset by the write-down of the assets relating to the Rochester contract which was terminated during the period.

The lower revenue result for H1 FY17 has led to PBITDA decreasing by 17.2%.

Redflex International

Revenue for the six months ended 31 December 2016 increased 0.6% to \$27.0 million, from \$26.9 million in H1 FY16. The business's revenue profile has continued to remain stable during the period despite the completion of the major Highways England project in the United Kingdom

Over the past 12 months the International business has focused on lifting its service performance levels for existing customers and building its pipeline of new opportunities in targeted markets. This focus has led to both a marked improvement in domestic revenues (from the current customer base) and an improved pipeline of opportunities across both emerging and mature markets including the extension of key contracts that secure significant revenue streams into FY18.

During the period the International business has also won significant contracts in Belgium (mobile units) and Ireland (new contract via GoSafe supplying the equipment and software to support the mobile speed program).

The impact of investing in a higher performing service delivery and engineering team and a global sales and business development team has been the predominant reason for costs increasing by 12.1% compared to H1 FY16 and contributed to the 58.4% decrease in PBITDA.

Given the protracted nature of the ongoing recovery of the debt owing by Etihad Alafandi (EAA) it was considered appropriate to fully provide against the remaining balance, negatively impacting the segment's pre-tax loss by \$3.7 million. The Company continues to vigorously pursue the claim.

Financial Resources

As at 31 December 2016 the Company does not hold any third-party (bank or financial institution) debt and has increased its cash balance to \$17.5 million which is an increase of \$5.1 million from 30 June 2016.

The Company has also continued to generate strong cashflows from operations during the period of \$13.0 million (H1 FY16: \$14.9 million).

On 6 February 2017 the Company received a credit approved commitment letter, and is current finalising legal documentation, for a \$10 million bilateral working capital facility with the Commonwealth Bank of Australia ("CBA"). The CBA facility was secured to provide the company with additional financial resources given a substantial portion of the existing cash balances will be applied to the satisfaction of short term commitments under the City of Chicago settlement.

The Company may seek to re-visit, supplement or replace the CBA facility as the Company manages its financial needs.

Outlook for the remainder of the 2017 financial year

With the resolution of all criminal and major civil matters in the US, the Company is strongly positioned with technology and servicing capabilities to help our customers around the globe to improve road and pedestrian safety, to profitably grow our business and to create value for our investors and shareholders.

The Company is making important investments to improve support to our existing customers, refine our front and back-end technology and to continue to build a pipeline of opportunity, all of which will take some time.

Outlook for the remainder of the 2017 financial year (cont.)

Whilst the H1 FY17 results have been lower than H1 FY16 our strategy remains as outlined in our FY16 Annual Report. The focus remains on our strategic initiatives that have steadied our Americas position, increased our domestic revenue base, increased our future sales pipeline in emerging markets, enabled us to start introducing new products to market, reduced our underlying operating cost base and improved the organisation's performance culture.

Targeted investment in resources in H1 FY17 is expected to lead to improved operating results toward the end of FY17 and leading into FY18 as detailed below:

Growth in developed markets:

Significant investment in improving service standards for Australian based customers has led to several contract extensions and enquiry into additional products, upgrades and services. As a result, Australian based income has substantially increased in H1 FY17 compared to H1 FY16. This increase is expected to continue as improved service standards are consistently achieved.

The investment in a sales and support hub in London has also started to lead to new business opportunities being finalised and the development of a significant pipeline, some of which is expected to materialise in FY18.

The Americas business continues to focus heavily on monitoring its installed systems operating data as it looks to further improve the overall performance of its installed base. Continual improvements have led to strong renewal rates from current customers as the effectiveness of their systems can be clearly shown.

Additional systems were sold into the Canadian market during the period and opportunities are currently being pursued to finalise further sales and potentially offer back-office processing services.

Entering Emerging Markets:

The investment in growing a high performing sales team has led to a significantly increased pipeline in targeted emerging markets (particularly Asia and the Middle East). Developing a pipeline through to a signed contract in these markets is a long process and the investment in FY17 is expected to lead to contracted revenue in FY18.

The Americas team's entry into Mexico has started to generate increasing levels of revenue and expansion options continue to be assessed. Additionally, the option of entering the Latin American market remains a targeted strategy.

Continuing Product Expansion:

Redflex's development team has continued its focus on the Company's new product, 'Halo'. Halo is a multi-functional solution within one system, giving the option of speed and red light enforcement, ANPR capability and traffic management. In addition the infrastructure costs of civil works have been dramatically reduced due to the non-intrusive nature of the system (i.e. Halo relies on radar rather than road installed loops).

Halo has installed test units in a number of jurisdictions globally with results proving to be extremely positive. Interest in Halo globally is increasing with sales and shipments having already commenced in the US.

The development of our new simplified back-office service offering is progressing well and is expected to be completed in Q4 of FY17. The outcome will enable the Company to offer enhanced back-office processing services for our customers in a simple, economical and standardised way. The ability for the Company to offer more service orientated solutions will enable an increase in its level of recurring type income.

Reducing Cost, Complexity and Risk:

During the period the Company has commenced implementing a new Customer Relationship Management (CRM) system in conjunction with finalising its end-to-end Enterprise Resource Planning (ERP) system. These enhancements will lead to increased efficiencies through improved procurement, lower inventory requirements, efficient materials and resource planning and lower cost solutions for our customers.

The Company's risk management system is imbedded across the organisation globally ensuring all identified risks are effectively managed with appropriate risk mitigation steps in place.

Creating a High-Performance Culture:

Following a period of significant change over the past 48 months several new key positions are now in place. The focus moving forward is to ensure the alignment of deliverables and incentives to continue to lift the organisation's performance culture.

Subsequent events

Other than the matters disclosed within this Directors' Report in respect of the litigation settlement and the new bilateral working capital facility there has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect the operations of the Group.

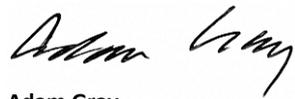
Rounding

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

Auditor's Independence

The Group has received the Auditor's Independence Declaration dated 28 February 2017.

Signed in accordance with a resolution of the directors.



Adam Gray

Chairman
Melbourne
28 February 2017



Auditor's Independence Declaration

As lead auditor for the review of Redflex Holdings Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

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

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



Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
28 February 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Note	31-Dec-16 \$'000	31-Dec-15 \$'000
Revenue from operations		61,947	65,213
Total revenue		61,947	65,213
Cost of goods sold		30,301	29,476
Cost of sales		30,301	29,476
Gross profit		31,646	35,737
Sales and marketing related expenses		3,423	4,650
Administrative related expenses		21,235	19,762
Profit before depreciation, amortisation, finance costs and tax		6,988	11,325
Legal settlement with the City of Chicago	7	25,294	-
Impairment of trade receivables		3,672	-
Amortisation of intangibles		2,013	3,101
Depreciation of plant and equipment		7,644	9,216
Net write down of inventory		271	1,379
Loss before tax and financing costs		(31,906)	(2,371)
Net finance costs		55	396
Loss before tax		(31,961)	(2,767)
Income tax benefit	4	(5,699)	(1,036)
Net loss for the period		(26,262)	(1,731)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		1,788	3,461
Total comprehensive income for the period		(24,474)	1,730
Earnings per share ("EPS") attributable to ordinary equity holders			
- basic / diluted EPS for the half-year ended		(23.70) cents	(1.56) cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31-Dec-16 \$'000	30-Jun-16 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		17,544	12,442
Trade and other receivables		17,443	27,506
Inventories		5,526	5,205
Income tax receivable		500	-
Other current assets		12,184	8,766
Total Current Assets		53,197	53,919
Non-Current Assets			
Plant and equipment		46,956	46,417
Deferred tax asset	4	22,311	17,328
Intangible assets and goodwill		21,284	21,518
Other financial assets		441	441
Other non-current assets		111	122
Total non-current assets		91,103	85,826
TOTAL ASSETS		144,300	139,745
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	5	31,219	13,691
Income tax payable		-	1,132
Provisions		9,940	8,588
Total Current Liabilities		41,159	23,411
Non-Current Liabilities			
Trade and other payables	5	11,399	-
Deferred tax liabilities	4	6,140	6,137
Provisions		5,003	5,776
Other Non-Current Liabilities		454	459
Total Non-Current Liabilities		22,996	12,372
TOTAL LIABILITIES		64,155	35,783
NET ASSETS		80,145	103,962
Equity			
Contributed equity	6	101,765	101,765
Reserves		8,432	5,987
Accumulated losses		(30,052)	(3,790)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		80,145	103,962

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Contributed Equity	Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Retained earnings / (accumulated losses)	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2015	101,765	2,424	1,233	897	106,319
Loss for the half-year	-	-	-	(1,731)	(1,731)
Currency translation differences	-	3,461	-	-	3,461
Total comprehensive income for the period	-	3,461	-	(1,731)	1,730
Cost of share based payments	-	-	682	-	682
Transfer of expired equity instruments	-	-	(567)	567	-
At 31 December 2015	101,765	5,885	1,348	(267)	108,731
At 1 July 2016	101,765	3,646	2,341	(3,790)	103,962
Loss for the half-year	-	-	-	(26,262)	(26,262)
Currency translation differences	-	1,788	-	-	1,788
Total comprehensive income for the period	-	1,788	-	(26,262)	(24,474)
Cost of share based payments	-	-	657	-	657
At 31 December 2016	101,765	5,434	2,998	(30,052)	80,145

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2016

	31-Dec-16 \$'000	31-Dec-15 \$'000
Operating activities		
Receipts from customers	64,715	71,170
Payments to suppliers and employees	(51,689)	(55,074)
Interest received	3	4
Interest paid	(1)	(334)
Income tax paid	-	(851)
Net cash flows from operating activities	13,028	14,915
Investing activities		
Purchase of property, plant and equipment	(6,177)	(6,081)
Capitalised development costs paid	(2,022)	(1,489)
Net cash used in investing activities	(8,199)	(7,570)
Financing activities		
Repayment of bank borrowings	-	(14,387)
Net cash used in financing activities	-	(14,387)
Net increase / (decrease) in cash held	4,829	(7,042)
Effect of exchange rate changes on cash	273	586
Cash and cash equivalents at beginning of period	12,442	17,035
Cash and cash equivalents at end of the period	17,544	10,579

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Redflex Holdings Limited (“Redflex” or “the Company”) and its subsidiaries (collectively, “the Group”) is an Australian incorporated company limited by shares that are publicly traded on the Australian Securities Exchange (ASX) with the code RDF.

The nature of the operations and principal activities of the Group are described in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and new accounting standards

Basis of preparation

This consolidated financial report for the half-year ended 31 December 2016 (“the Half-Year Report”) has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

The Half-Year Report does not include all notes of the type normally included within the annual general purpose financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the Group’s Annual Report.

It is recommended that the Half-Year Report be read in conjunction with the Annual Report for the year ended 30 June 2016 and considered together with any public announcements made by the Company in accordance with the Group’s continuous disclosure obligations under ASX listing rules (a copy of which is available on the Company’s website (www.redflex.com.au)).

The Half-Year Report has been prepared on a going concern basis, which assumes the normal continuity of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Attention is drawn to the matters detailed in Note 7 below.

(b) Changes in accounting policies

There have been no changes in accounting policies during the half-year ended 31 December 2016.

(c) Change in accounting estimates

There were no significant changes in accounting estimates for the half-year ended 31 December 2016.

(d) Significant accounting judgments, estimates and assumptions

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

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made at 31 December 2016. 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.

Impairment of goodwill, plant and equipment and capitalised development costs

At each reporting date the Group assesses whether there is an indicator that assets contained within one of the Group’s Cash Generating Unit’s (“CGU’s”) may be impaired. When an indicator of impairment exists, the Group makes a formal assessment of the recoverable amount generated by the relevant CGU. Where the carrying amount of assets contained within the CGU exceeds its recoverable amount the assets contained within the CGU are considered impaired and written down to their recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

(d) Significant accounting judgments, estimates and assumptions (continued)

Recoverable amounts are calculated in line with each CGU's valuation methodology which, is based on a value in use model. Impairment losses are recognised immediately in the income statement.

As at 31 December 2016 management has assessed the carrying value of assets in each CGU. Management concluded that an indicator of impairment existed in all CGU's and performed an impairment test for each individual CGU. Based on the results of the tests impairment charges were not required in the current period. The assumptions used in this modelling were consistent with the approach disclosed in the 30 June 2016 Annual Report. In determining the calculation management has applied significant judgment, including forward estimates or revenue, expenses, cash flows, liabilities and broader operating outcomes.

The key estimates and assumptions used to determine the recoverable amount of a CGU are based on management's current expectation after considering past experience and external information, and are considered to be reasonably achievable. However significant changes in any of these key assumptions may result in a CGU's carrying value exceeding its recoverable amount requiring an impairment charge to be recognised at a future date.

Depreciation of property, plant and equipment

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

The Group depreciates these assets over a seven to ten 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 Group expects the infrastructure to last for decades once installed, whilst the camera and detection equipment is expected to last for a period approximating seven years.

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

Amortisation of capitalised development costs

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

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

Taxation

During the period the Company performed a Group tax restructure, for which the full details in relation to this have been disclosed in Note 4.

Recoverability of receivables

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

Long service leave provision

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

Asset retirement obligations

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

NOTES TO THE FINANCIAL STATEMENTS

3 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 identifies and reports on this basis to the chief operating decision maker (which for Redflex is the Group Chief Executive Officer).

The Group operates within two key markets, The Americas (incorporating Canada, the USA and South America) and Australia/International (which comprises all other businesses outside of the Americas). The Americas business is predominantly a Build Own Operate and Maintain ("**BOOM**") business providing fully outsourced traffic enforcement programs. The Australia/International business involves the sale of traffic enforcement products.

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 of the Group's financial results

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the half-years ended 31 December 2016 and 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2016

	Operating segments		
	The Americas	Australian /International	Total
	\$'000	\$'000	\$'000
Revenue			
Revenue from operations	34,915	27,032	61,947
Inter-segment revenue	-	496	496
Total segment revenue	34,915	27,528	62,443
Inter-segment elimination			(496)
Total consolidated revenue			61,947
Result			
Profit before interest tax, depreciation and amortisation	5,024	2,949	7,973
Write-down of inventory	(271)	-	(271)
Legal settlement with the City of Chicago	(25,294)	-	(25,294)
Impairment of trade receivables	-	(3,672)	(3,672)
Depreciation	(6,677)	(958)	(7,635)
Amortisation	-	(2,013)	(2,013)
Inter-segment royalty	796	(796)	-
Segment result	(26,422)	(4,490)	(30,912)
Head office result			(994)*
Loss before tax and finance charges			(31,906)
Finance charges			55
Loss before income tax			(31,961)
Income tax benefit			5,699
Net loss for the half			(26,262)
Assets and liabilities			
Segment assets	80,863	54,813	135,676
Head office assets			8,624
Total assets			144,300
Segment liabilities	47,031	15,060	62,091
Head office liabilities			2,064
Total liabilities			64,155

*Includes corporate depreciation of \$9,000

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2015

	Operating segments		Total \$'000
	The Americas \$'000	Australian /International \$'000	
Revenue			
Revenue from operations	38,349	26,864	65,213
Inter-segment revenue	-	2,149	2,149
Total segment revenue	38,349	29,013	67,362
Inter-segment elimination			(2,149)
Total consolidated revenue			65,213
Result			
Profit before interest tax, depreciation and amortisation	6,070	7,088	13,158
(Write-down) / Write back of inventory	(2,057)	678	(1,379)
Depreciation	(8,270)	(939)	(9,209)
Amortisation	(414)	(2,687)	(3,101)
Inter-segment royalty	1,034	(1,034)	-
Segment result	(3,637)	3,106	(531)
Head office result			(1,840)*
Loss before tax and finance charges			(2,371)
Finance charges			396
Loss before income tax			(2,767)
Income tax benefit			1,036
Net loss for the half			(1,731)
Assets and liabilities			
Segment assets	55,677	77,516	133,193
Head office assets			21,982
Total assets			155,175
Segment liabilities	31,893	13,224	45,117
Head office liabilities			1,327
Total liabilities			46,444

*Includes corporate depreciation of \$7,000

NOTES TO THE FINANCIAL STATEMENTS

4 INCOME TAX

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

Consolidated income statement

	31-Dec-16 \$'000	31-Dec-15 \$'000
Current income tax		
Current income tax benefit	(10,679)	(177)
Deferred tax		
Relating to origination and reversal of temporary differences	4,980	(859)
Income tax benefit reported in the consolidated statement of comprehensive income	(5,699)	(1,036)

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

	31-Dec-16 \$'000	31-Dec-15 \$'000
Accounting loss before income tax	(31,961)	(2,767)
At the statutory income tax rate of 30% (H1 FY16: 30%)	(9,588)	(830)
Adjustments of current income tax in previous years	75	198
Impact of tax rate differential on foreign operations	(932)	(91)
Research and development tax incentives	(77)	(83)
Tax effect of Group re-structure*	4,580	-
Under / (Over) provision in prior years	243	(230)
Income tax benefit reported in the consolidated statement of comprehensive income	(5,699)	(1,036)

*Historically, a 100% owned subsidiary, Redflex Traffic Systems Pty Ltd, an Australian incorporated company has been a subsidiary of Redflex Traffic Systems Inc. (a United States incorporated company) and a dual tax resident of both Australia and the United States.

During the half year, the ownership of Redflex Traffic Systems Pty Ltd was transferred from Redflex Traffic Systems Inc to Redflex Holdings Limited, resulting in it becoming a wholly owned Australian subsidiary. Redflex Traffic Systems Pty Ltd was also domiciled for tax purposes to Australia resulting in it ceasing its United States tax residence, such that it became solely an Australian tax resident.

A tax expense of \$4.6 million was recognised in the 31 December results, reflecting the United States Federal income tax expense from the above transactions. There is no cash tax payable on the domestication as the tax payable was absorbed by previously recognised historical net operating losses of \$4.5 million.

NOTES TO THE FINANCIAL STATEMENTS

4 INCOME TAX - CONTINUED

Deferred Tax

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	31-Dec-16 \$'000	30-Jun-16 \$'000	31-Dec-16 \$'000	30-Jun-16 \$'000
(i) Deferred tax liabilities				
Capitalised development costs	6,076	6,073	(3)	(1,102)
Other	64	64	-	(73)
Gross deferred tax liabilities	6,140	6,137		
(ii) Deferred tax assets				
Employee Entitlements	1,265	1,192	73	1,471
Provisions	3,218	3,116	102	752
Deferred tax asset on fixed assets	6,950	6,950	-	(1,743)
Deferred tax asset on Legal settlement with the City of Chicago	8,853	-	8,853	-
Deferred tax asset on impairment of trade receivables	734	-	734	-
Deferred tax asset on net operating losses	-	4,296	(4,296)	(338)
Carry forward research & development tax offset	2,212	2,212	-	144
Other	(921)	(438)	(483)	(150)
Gross deferred tax assets	22,311	17,328		
Deferred tax charge			4,980	(1,039)

At 31 December 2016 there is no recognised nor unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of the consolidated entity's subsidiaries, as the consolidated entity has no liability for additional taxation should such amounts be remitted.

5 TRADE AND OTHER PAYABLES

	31-Dec-16 \$'000	30-Jun-16 \$'000
Current		
Trade payables and accruals	17,224	13,555
Payable in respect of the Legal settlement with the City of Chicago	13,894	-
Deferred revenue	101	136
Trade and other payables	31,219	13,691
Non-Current		
Payable in respect of the Legal settlement with the City of Chicago	11,399	-
Trade and other payables	11,399	-

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.

Refer to note 7 for specific details in relation to the amount payable in respect of the legal settlement with the City of Chicago.

NOTES TO THE FINANCIAL STATEMENTS

6 ISSUED AND QUOTED SECURITIES

Ordinary Securities	<u>Total number</u>	<u>Date</u>
Issued at 1 July 2016	110,762,310	
Vesting of performance rights	147,455	3 Nov 2016
On issue at 31 December 2016	110,909,765	

6A ISSUED AND UNQUOTED PERFORMANCE RIGHTS

Unquoted performance rights	<u>Total Number</u>	<u>Date</u>
Issued at 1 July 2016	3,825,055	
Changes during the current half-year period		
Vested – performance to 3 December 2015	(147,455)	3 Nov 2016
Lapsed – performance to 3 December 2015	(2,025,017)	3 Nov 2016
Lapsed – performance to 14 June 2016	(190,652)	3 Nov 2016
Granted – performance to 21 December 2016	1,347,311	21 Dec 2016
Outstanding at 31 December 2016	2,809,242	

*Under the terms of the Group's established LTI plan key management personnel receive an annual grant of performance rights which vest if performance hurdles are met.

7 CONTINGENCIES

As previously disclosed to the ASX:

- The Company's subsidiary in the United States, Redflex Traffic Systems, Inc. (RTSI), signed a Non-Prosecution Agreement (NPA) with the United States Department of Justice (U.S. DOJ) on 23 December 2016 to resolve the criminal matters relating to the Company's previously disclosed Chicago and Ohio misconduct. Under the NPA, RTSI is not required to pay any fine or penalty to the U.S. Government. However, RTSI was required to pay restitution to the City of Columbus, Ohio in the amount of US\$100,000 (which has been paid) and an undefined amount of restitution to the City of Chicago (being such amount (if any) of either any final judgment that may be issued in favour of the City of Chicago by the Court, or any settlement agreement that the Company and the City of Chicago may agree to that resolves the case – see below for further details). Further the Company must comply with the NPA for a period of two years from 23 December 2016. A copy of the NPA is attached to the Company's ASX announcement dated 24 December 2016.
- The Company and RTSI signed a Release and Settlement Agreement with the City of Chicago (City) on 4 February 2017 to settle and dismiss the qui tam civil litigation in the Court (see ASX announcements dated 31 August 2015, 15 December 2015 and 4 February 2017, respectively). Under the terms of the Release and Settlement Agreement Redflex will pay to the City an amount of US\$20 million (with a total of US\$10 million payable to the City by 31 December 2017 and the balance payable, in various annual instalments, by 31 December 2023, unless this date is extended under the terms of the agreement).

Apart from the settled qui tam civil litigation (referred to above), RTSI is also currently a party to various legal actions in the United States that have arisen in the ordinary course of its business of operating photo enforcement equipment or from participating in the photo enforcement industry. Provisions are not required in respect of these matters as at the date of this report, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement. Further, any liabilities arising from such actions, are uncertain and indeterminate as at the date of this report. The Company and its legal advisors closely monitor these actions and the Company and RTSI continue to assert their rights and defend claims as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

8 SUBSEQUENT EVENTS

On 6 February 2017 the Company received a credit approved commitment letter, and is current finalising legal documentation, for a \$10 million bilateral working capital facility with the Commonwealth Bank of Australia ("CBA"). The CBA facility was secured to provide the company with additional financial resources given a substantial portion of the existing cash balances will be applied to the satisfaction of short term commitments under the City of Chicago settlement.

The Company may seek to re-visit, supplement or replace the CBA facility as the Company manages its financial needs.

On 25 February 2017 the Company received a response (which contains initial details of its defence and counterclaims) from Etihad Alafandi LLC (EAA) regarding a long-standing debt for violation processing services provided in Saudi Arabia. Given the ongoing nature of the claim and the likely legal proceedings ahead the Company has increased the provision against the claim to 100% (an additional \$3.7 million).

While an additional provision has been recorded the Company will continue to vigorously pursue the outstanding debt through appropriate legal channels.

Other than the matters disclosed above and within Note 7 there has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect the operations of the Group.

DIRECTORS' DECLARATION

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

In the opinion of the directors,

- (a) The half-year financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2016 and of its performance;
 - (ii) complying with Accounting Standards AASB 134 Interim Financial reporting and Corporations Regulations 2001;
and
- (b) As detailed in Note 2(a) of the half-year financial report, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Adam Gray

Chairman
Redflex Holdings Limited
Melbourne
28 February 2017



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Redflex Holdings Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Redflex Holdings Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Redflex Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Redflex Holdings Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers
PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'JP', written over a faint circular watermark.

Jason Perry
Partner

Melbourne
28 February 2017

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