



REDFLEX 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 2013

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting period
Previous corresponding period

Half-year ended 31 December 2013
Half-year ended 31 December 2012

APPENDIX 4D
HALF-YEAR REPORT
SIX MONTHS ENDED 31 DECEMBER 2013

<u>RESULTS FROM OPERATIONS</u>				<u>\$'000</u>
Revenue and other income	Down	0.2%	to	69,019
Earnings before interest, tax, depreciation and amortisation (EBITDA)*	Up	6.1%	to	19,783
Profit before tax attributable to members of the parent entity	Down	8.4%	to	5,042
Profit after tax attributable to members of the parent entity	Down	14.3%	to	3,089
<u>EARNINGS PER SHARE</u>				<u>Cents</u>
Basic earnings per share	Down	14.3%	to	2.79
Diluted earnings per share	Down	13.3%	to	2.74
<u>NET TANGIBLE ASSETS PER SECURITY</u>				
Net tangible asset backing per ordinary security	Up	18.3%	to	88.2
<u>DIVIDENDS (DISTRIBUTIONS)</u>				
		<u>Amount per security</u>		<u>Franked amount per security</u>
Final dividend in respect of FY2013 (paid 2 nd December 2013)		3.0 cents		2.0 cents
Interim dividend on corresponding prior period (paid 28 th June 2013)		2.0 cents		2.0 cents
The Directors have not yet decided whether to declare an interim dividend on the first half year results of FY2014 (the period covered by this report)				

	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>	<u>Decrease</u>
Six-month average AU\$/US\$ exchange rate	AU\$ = US\$0.9214	AU\$ = US\$1.039	(11.3%)

A review of the results is included in the Directors' Report.

It is recommended that this half-year financial report be read in conjunction with the annual report for the year ended 30 June 2013 and be considered together with any public announcements made by Redflex Holdings Limited up to 28 February 2014 in accordance with the Company's continuous disclosure obligations of the ASX listing rules.

The financial report on pages 8 to 20 is prepared in accordance with IFRS. This release including the financial report has been reviewed and the independent auditors' review report is attached.

*** 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. 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.
3. Non-IFRS information is not audited.

INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Directors' Report

Your directors submit their report for the half-year ended 31 December 2013.

Directors

The following persons were directors of Redflex Holdings Limited during the half-year and up to the date of this report. All directors held their position as Director throughout the entire half-year except for Mr Gray and Mr Winters who were appointed during the half-year.

Adam Gray	Chairman, Non-executive, appointed 19 December 2013, appointed Chairman on 6 February 2014
Michael McConnell	Non-executive. Mr McConnell was Interim Non-executive Chairman until 6 February 2014
Robert DeVincenzi	Mr DeVincenzi was an Executive Director Group CEO throughout the half-year until he transitioned to a Non-executive Director role on 16 January 2014
Rob Debernardi	Non-executive
Albert Moyer	Non-executive
Terry Winters	Non-executive, appointed 7 August 2013

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.

OPERATING AND FINANCIAL REVIEW

Principal Activities

Redflex focuses on enhancing public safety through the use of innovative technologies, such as red-light and speed photo enforcement solutions.

The Group comprises two main subsidiaries:

- Redflex Traffic Systems Inc, based in the USA, focuses on the North American market. A Build Own Operate and Maintain (BOOM) model prevails in the USA, where Redflex provides camera systems and a comprehensive range of services on a fully outsourced basis. BOOM contract terms are typically three to five years with optional extension periods.
- Redflex Traffic Systems Pty Ltd, primarily based in Australia, focuses on the Australian and International markets. The international business comprises a mix of product and service sales, and BOOM type contracts.

Financial Resources

The Group has a \$78.9 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. The cash flow from operations is expected to be sufficient to fund the Group's capital requirements over the next 12 month period.

The total drawn amount at 31 December 2013 was \$23.7 million (US\$21.0 million). The net debt position of the Group at 31 December 2013 was \$2.8 million (including restricted cash). Against this \$6.7 million (US\$6.0 million) was repaid in January 2014.

The net cash flow from operations for H1 FY2014 was \$18.1 million compared to \$3.7 million in the prior corresponding period, when delays in the collection of outstanding receivables from the Middle East and Chicago contracts were experienced.

Consolidated Result

For the half-year ended 31 December 2013, revenue from operations was \$69.0 million which is down 0.2% on the first half of the previous financial year (H1 FY2013: \$69.2 million).

The reduced revenue was primarily attributable to:

- The USA Build Own Operate and Maintain business, excluding North America product sales, revenue was down approximately 10.5% in USD terms on the previous corresponding period. This was offset by favourable AUD/USD exchange rate movements of a similar amount, which resulted in \$47.0 million of revenue, the same as in the prior corresponding period.
- Sales during the half year to our international customers totaled \$13.3 million compared to the prior corresponding period of \$12.5 million.
- The Group revenue was affected by movements in the average AU\$/US\$ exchange rate between the comparative periods. The average AU\$/US\$ exchange rate for the half was \$0.9214 compared to \$1.039 in the corresponding first half of FY2013.

Net profit before tax was \$5.04 million compared to \$5.50 million in the previous corresponding period. Major factors contributing to the result were:

- Recognition of revenue associated with the sale of software licences – net \$3.15 million
- Revenue of \$9.8 million (US\$9.0 million) related to the Chicago contract
- Costs relating to the settlement of a class action law suit in New Jersey - \$0.814 million
- Costs relating to state regulations in a prevailing wage dispute settlement in California - \$0.705 million
- Legal and associated costs related to the ongoing internal investigation into the City of Chicago contract and related matters (approximately \$1.1 million);
- Losses on the Redflex Guardian bus stop-arm operation (approximately \$2.15 million).

	Half year FY2014 \$'000	Half year FY2013 \$'000	Increase/ (Decrease) %
Segment revenue			
North American Traffic business	47,818	47,507	0.6
Australian/International Traffic business	21,201	21,661	(2.1)
Head Office interest income	0	5	
Revenue from operations	69,019	69,173	(2.2)
Earnings before interest, tax, depreciation and amortisation (EBITDA)			
EBITDA from combined Traffic business	21,786	20,746	5.0
Head Office costs	(2,003)	(2,110)	5.0
EBITDA	19,783	18,636	6.1
Pre-tax profit			
Pre-tax profit from combined Traffic business	7,050	7,621	(7.5)
Head Office costs	(2,008)	(2,118)	5.2
Pre-tax profit from operations	5,042	5,503	(8.4)
Net profit after tax	3,089	3,603	(14.3)

Review of North American Operations

Revenue for the six months ended 31 December 2013 decreased 10.5% to US\$43.0 million (\$46.6 million), from US\$48.0 million (\$46.2 million) in H1 FY2013 and profit before tax decreased 33.8% to US\$2.28 million (\$2.52 million) from US\$3.4 million (\$3.31 million) in H1 FY2013.

EBITDA margins for the six months ended 31 December 2013 were consistent with the corresponding period in the prior year at 32%. Operating expenses as a percent of revenue were also consistent at 68.0% for the six months ended 31 December 2013 from 68.3% for the corresponding period in the prior year.

For the six months ended 31 December 2013 we installed 24 new cameras and removed 195 from operation, including 141 from Chicago. The majority of write-downs for non-renewals were anticipated and accounted for in the FY2013 results. No terminating contracts in H1 were lost to competitors.

For the six months ended 31 December 2013, 21 contracts with 230 approaches were renewed, representing a renewal rate commensurate with the corresponding period in the prior year of 76% excluding Chicago. Slightly more than half of the 54 terminating approaches were from 4 California contracts, all of which elected to discontinue their photo enforcement programs.

Redflex Guardian

REDFLEX Guardian™ addresses the safety needs of children on school buses and incorporates the operations of Redflex's product for school bus-arm photo enforcement as well as the operations of Smart Bus acquired in FY2012. Video tracking is used to capture offences by vehicles passing a bus stopped for children with its safety lights flashing.

At 31 December 2013 Redflex Guardian had a total of 309 buses deployed of which 244 are revenue producing from 40 contracts in six states. A further 65 cameras relate to pilot programs from 42 contracts in ten states.

One of Redflex Guardian's notable recent contracts wins is in Gwinnett County, GA, the sixth largest school district in the US with 1,800 buses. The contract provides opportunity to install up to 300 buses in Gwinnett over the next two years.

In the six months ended 31 December 2013 Redflex Guardian generated revenue of US\$0.3 million (\$0.3 million) and an operating loss of US\$2.0 million (\$2.1 million). The company experienced a number of challenges in turning violations detected into paid fines, and continues to work with our customers to ensure that the enforcement criteria are a deterrent and encourage drivers to modify their driving behavior over the longer term.

Chicago Contract and related disclosures

Redflex has previously held contracts with the City of Chicago since 2003, to provide automated traffic enforcement products. Under the current contracts, entered into in 2008, Redflex installed and managed 384 automated enforcement systems in the City of Chicago.

As previously reported an internal investigation by Sidley Austin identified potential issues involving Redflex Traffic Systems Inc and certain former employees in Chicago and two additional geographies in the United States. Redflex has made a number of disclosures resulting from its internal investigation of the misconduct of certain employees related to the Chicago contracts and related matters. Redflex continues to cooperate with the authorities in related investigations, and remains committed to honest and transparent communication with its employees, vendors and customers.

The Chicago City administration has authority to issue a variety of penalties ranging from monetary penalties to debarment. To date no monetary penalty has been presented to the company. The company continues to cooperate fully with the City of Chicago Inspector General's Office in its investigation which is not yet complete.

Redflex has now obtained a final amendment to its Chicago contracts providing for an extension through to 30 April 2014 on substantially the same terms and conditions as its previous contracts.

Redflex has been working with the City of Chicago on the transition of its photo enforcement program to its new vendor and expects the transition to be completed prior to the end of the current contract extensions.

The total costs of the ongoing investigation activity in H1 FY2014 is approximately US\$1.0 million (\$1.1 million) and additional modest costs going forward.

Redflex International

New South Wales

Redflex achieved the significant award of four of the six regions of the NSW Roads and Maritime Services (RMS) expanded Mobile Camera Program. Redflex will operate mobile camera vehicles in the Greater Sydney Metropolitan Region; the Southern Region which encompasses the Southern Highlands, the Illawarra, the South Coast and the Snowy Mountains; the South-West Region which includes South-Central NSW to the South Australian and Victorian borders; and the Western Region which includes the Blue Mountains and Central Ranges plus Central, North-Central and Far-West NSW. The company will run a network operations centre and a pre-verification processing service in Sydney, which will become a centre of excellence for Redflex's service offerings in the region. The contract is valued at over \$9 million per annum, and has an initial term of two and a half years, with two additional option periods of one year each.

Malaysia

The Automated Enforcement System (AES) program was launched in Malaysia in September 2012. Under the AES program, Redflex is 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.

Redflex has a supply contract with Beta Tegap Sdn Bhd, a private concessionaire, and the contract has an estimated worth to Redflex of \$50 million over a five year period.

Initially, the implementation of the project was subcontracted to two concessionaires, one of who represented Redflex technology. There has been significant debate regarding the use of a concession model for an enforcement program. To overcome negative public opinion, the Malaysian Government decided to hand the operations and enforcement of the program to a new Government-owned company, AES Solutions. Negotiations regarding compensation to the private concession holders has caused further impediment to the implementation of the program.

Given the changes to the program, it is expected that the orders originally anticipated for FY2014 will be further delayed and that the expansion of the project may now extend over a number of years.

Research and Development

Research and development continues to deliver competitive advantage for the business. Redflex has launched a freeway speed radar system to enable enforcement of busy freeways from bridges and gantries and continues to devote significant resources on radar detection technology for red light intersections and for both mobile and fixed speed enforcement.

Outlook for the remainder of the 2014 financial year

The second half of FY2014 is likely to be influenced by a number of factors, including:

- Revenue from the Chicago contracts will permanently cease from February 2014 and the remaining costs pertaining to that contract will be removed from the business.
- Uncertainty regarding conversion of detected violations into paid fines in Redflex Guardian within the contract base. Accordingly, further losses are predicted for Redflex Guardian into H2.
- Discussions with the Malaysian Government remain positive but it is not possible to accurately predict when the supply contracts will recommence.
- The board has commissioned a third party strategic review. The retain and sustain strategy in the USA, established whilst we handled the effects of the Chicago and related disclosures, will change as the company moves forward.

Whilst it is difficult to reliably forecast the effects of the above, the board expects that the Group will likely break-even at best in H2 FY2014.

Events subsequent to 31 December 2013

There were no significant events subsequent to 31 December 2013 and prior to the date of this report, except for those disclosed in Note 8.

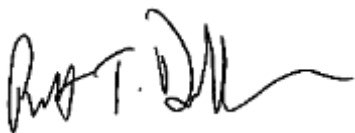
Rounding

The amounts contained in the half-year 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 98/0100. The company is an entity to which the Class Order applies.

Auditor's Independence

The company has received the Auditor's Independence Declaration dated 28 February 2014.

Signed in accordance with a resolution of the directors.



Robert DeVincenzi

Director
Melbourne
28 February 2014

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

In relation to our review of the financial report of Redflex Holdings Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Ashley Butler
Partner
Melbourne
28 February 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**for the half-year ended 31 December 2013**

	Note	31-Dec-13 \$'000	31-Dec-12 \$'000
Revenue from operations			
Sale of goods and services		22,021	23,215
Revenue from fee for service contracts		46,989	45,930
Finance revenue		9	28
Total revenue		69,019	69,173
Cost of goods sold		10,556	14,364
Cost of fee for service contracts		15,980	13,536
Cost of sales		26,536	27,900
Gross profit		42,483	41,273
Sales and marketing related expenses		6,529	5,176
Administrative related expenses		14,807	15,633
Amortisation of intangibles		2,299	1,928
Depreciation – fee for service contract assets		11,458	10,426
Depreciation – other		316	248
Impairment of plant and equipment		288	679
Costs of investigation		1,076	1,150
		36,773	35,240
Profit before tax and financing costs		5,710	6,033
Finance costs		668	530
Profit before tax		5,042	5,503
Income tax expense		1,953	1,900
Net profit for the period		3,089	3,603
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		2,911	(2,153)
Total comprehensive income for the period		6,000	1,450
Earnings per share attributable to ordinary equity holders of the parent company			
- basic for profit for half-year		2.79 cents	3.26 cents
- diluted for profit for half-year		2.74 cents	3.16 cents
- dividends per share		nil	nil

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**As at 31 December 2013**

	Note	31-Dec-13 \$'000	30-Jun-13 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	20,707	21,246
Trade and other receivables		22,520	25,508
Inventories		22,905	20,270
Income tax receivable		1,239	0
Other current assets		2,141	2,193
Total Current Assets		69,512	69,217
Non-Current Assets			
Property plant and equipment		70,702	72,368
Deferred tax asset		12,191	15,221
Intangible assets and goodwill		30,494	28,233
Other financial assets		2,201	2,057
Other non-current assets		9,822	9,289
Total Non-Current Assets		125,410	127,168
TOTAL ASSETS		194,922	196,385
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables		18,890	18,502
Interest bearing borrowings	4	23,488	4
Income tax payable		0	2,006
Provisions		5,252	4,737
Other current liabilities		229	361
Total Current Liabilities		47,859	25,610
Non-Current Liabilities			
Interest bearing borrowings	4	0	26,030
Deferred tax liabilities		15,194	15,933
Provisions		3,692	3,562
Total Non-Current Liabilities		18,886	45,525
TOTAL LIABILITIES		66,745	71,135
NET ASSETS		128,177	125,250
Equity			
Contributed equity		101,765	101,765
Reserves		(9,044)	(10,907)
Retained earnings		35,456	34,392
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		128,177	125,250
Net tangible assets per share		88.19 cents	87.90 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 half-year ended 31 December 2013**

	Contributed Equity	Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Retained earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2012	101,765	(24,368)	8,541	28,201	114,139
Profit for the half-year	0	0	0	3,603	3,603
Currency translation differences	0	(2,153)	0	0	(2,153)
Total comprehensive income for the period	0	(2,153)	0	3,603	1,450
Share based payments	0	0	1,008	0	1,008
Dividends paid	0	0	0	(5,517)	(5,517)
At 31 December 2012	101,765	(26,521)	9,549	26,287	111,080
At 1 July 2013	101,765	(13,944)	3,037	34,392	125,250
Profit for the half-year	0	0	0	3,089	3,089
Currency translation differences	0	2,911	0	0	2,911
Total comprehensive income for the period	0	2,911	0	3,089	6,000
Share based payments	0	0	250	0	250
Dividends paid	0	0	0	(3,323)	(3,323)
Transfer of expired equity instruments	0	0	(1,298)	1,298	0
At 31 December 2013	101,765	(11,033)	1,989	35,456	128,177

CONSOLIDATED STATEMENT OF CASH FLOWS**For the half-year ended 31 December 2013**

	Note	31-Dec-13 \$'000	31-Dec-12 \$'000
Operating activities			
Receipts from customers		69,907	61,258
Payments to suppliers and employees		(48,820)	(52,441)
Interest received		10	28
Interest paid		(516)	(440)
Income tax paid		(2,494)	(4,680)
Net cash flows from operating activities	6	18,087	3,725
Investing activities			
Purchase of property, plant and equipment		(8,243)	(6,457)
Capitalised development costs paid		(4,327)	(3,105)
Net cash flows (used in) investing activities		(12,570)	(9,562)
Financing activities			
Repayment of bank borrowings		(3,255)	(956)
Lease liability (repaid) incurred		(4)	(4)
Dividends paid		(3,323)	(5,517)
Net cash flows (used in) financing activities		(6,582)	(6,477)
Net (decrease) / increase in cash held		(1,065)	(12,314)
Effect of exchange rate changes on cash		526	(313)
Cash and cash equivalents at beginning of period		21,246	22,162
Cash and cash equivalents at end of the period	6	20,707	9,535
Reconciliation of cash			
Cash at the end of the period consists of:			
Cash at banks and on hand		20,707	9,535
Cash at banks and on hand		20,707	9,535

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

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Redflex Holdings Limited 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 2013 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial 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 consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2013 and considered together with any public announcements made by Redflex Holdings Limited during the half-year ended 31 December 2013 in accordance with the company's continuous disclosure obligations under ASX listing rules.

New accounting standards

With regard to the amendments to AASB that have been adopted since 30 June 2013, there has not been an impact on the accounting policies of the Group. The Group has elected to not early adopt any new Australian Accounting Standards that have been issued but are not yet effective.

(b) Changes in accounting policies

There have been no changes in accounting policies during the half-year ended 31 December 2013.

(c) Change in accounting estimate

There were no significant changes in accounting estimates for the half-year ended 31 December 2013.

(d) Significant accounting judgments, estimates and assumptions

(i) Uncertainty arising as a result of Group tax restructure

During the year ended 30 June 2009 the Group restructured its global tax affairs in order to provide for a more efficient flow of funds around the Group. The outcome of the restructure involves a significant degree of uncertainty, and as such the company commissioned independent advice from its professional legal and tax advisors. The outcome of the restructure at the time 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 was not considered probable.

(ii) Impairment

The Group assesses impairment of all assets (including Goodwill) at each reporting date and evaluates conditions specific to the Group and to the particular assets that may lead to impairment. If impairment indicators exist then further investigation is undertaken and the recoverable amount of the asset is determined.

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 Interim Chief Operating Officer).

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 half-years ended 31 December 2013 and 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS**3 SEGMENT INFORMATION – Continued****Half-year ended 31 December 2013**

	North America	Operating segments Australian /International	Total
	\$'000	\$'000	\$'000
Revenue			
Revenue from the sale of goods and services to external customers *	829	21,192	22,021
Revenue from fee for service contracts	46,989	0	46,989
Finance revenue	0	9	9
Inter-segment revenue	0	1,781	1,781
Total segment revenue	47,818	22,982	70,800
Inter-segment elimination			(1,781)
Head office finance revenue			0
Total consolidated revenue			69,019
Result			
Earnings before interest tax, depreciation and amortisation	14,815	6,971	21,786
Inter-segment royalty	868	(868)	0
Depreciation	(11,458)	(311)	(11,769)
Amortisation	(773)	(1,526)	(2,299)
Segment result	3,452	4,266	7,718
			7,718
Head office result			(2,008)
Profit before tax and finance charges			5,710
Finance charges			(668)
Profit before income tax			5,042
Income tax expense			(1,953)
Net profit for the half			3,089
Assets and liabilities (31 December 2013)			
Segment assets	96,655	82,465	179,120
Head office assets			15,802
Total assets			194,922
Segment liabilities	57,578	14,898	72,476
Head office liabilities			(5,731)
Total liabilities			66,745

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

NOTES TO THE FINANCIAL STATEMENTS**3 SEGMENT INFORMATION – Continued****Half-year ended 31 December 2012**

	North America	Operating segments Australian /International	Total
	\$'000	\$'000	\$'000
Revenue			
Revenue from the sale of goods and services to external customers *	1,577	21,638	23,215
Revenue from fee for service contracts	45,930	0	45,930
Finance revenue	0	23	23
Inter-segment revenue	0	3,668	3,668
Total segment revenue	47,507	25,329	72,836
Inter-segment elimination			(3,668)
Head office finance revenue			5
Total consolidated revenue			69,173
Result			
Earnings before interest tax, depreciation and amortisation	15,045	5,701	20,746
Inter-segment royalty	658	(658)	0
Depreciation	(10,426)	(241)	(10,667)
Amortisation	(705)	(1,223)	(1,928)
Segment result	4,572	3,579	8,151
Head office result			(2,118)
Profit before tax and finance charges			6,033
Finance charges			(530)
Profit before income tax			5,503
Income tax expense			(1,900)
Net profit for the half			3,603
Assets and liabilities (31 Dec 2012)			
Segment assets	76,018	73,359	149,377
Head office assets			24,501
Total assets			173,878
Segment liabilities	53,122	14,177	67,299
Head office liabilities			(4,501)
Total liabilities			62,798

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

NOTES TO THE FINANCIAL STATEMENTS**4 INTEREST-BEARING BORROWINGS**

	31-Dec-13 \$'000	30-Jun-13 \$'000
Current		
Obligations under finance leases and hire purchase contracts	0	4
Bank borrowings	23,667	0
Deferred financing costs	(179)	0
	23,488	4
Non-Current		
Obligations under finance leases and hire purchase contracts	0	0
Bank borrowings	0	26,278
Deferred financing costs	0	(248)
	0	26,030

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 \$2.643 million (30 June 2013: \$3.913 million).

Financing Facilities Available

	31-Dec-13 \$'000	30-Jun-13 \$'000
Total facilities		
Bank borrowings	78,891	76,645
AU\$ working capital facility	8,000	8,000
	86,891	84,645
Facilities used at reporting date		
Bank borrowings	23,667	26,278
Deferred financing costs	(179)	(248)
Security for letters of credit issued to customers	2,643	3,913
	26,131	29,943
Facilities unused at reporting date	60,760	54,702

At 31 December 2013, the Group had a US\$70.0 million (AU\$78.9 million) secured revolving credit facility, and an AU\$8.0 million working capital facility to address international and local business opportunities. This facility expires on 10 August 2014 and accordingly bank debt is classified as a current liability pending renewal of the facility.

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. There is no requirement to repay the loan principal during the life of the facility and any repaid amount of the loan principal is available to be redrawn.

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

Fair Value

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

NOTES TO THE FINANCIAL STATEMENTS**5 ISSUED AND QUOTED SECURITIES**

Ordinary Securities	Total number	Number quoted	Issue price per security	Amount paid up per security
Issued at 1 July 2013	110,762,310	110,762,310		
Changes during current half-year period				
Increases through issues				
Dividend Reinvestment Plan	0	0	0	0
From Performance Rights	0	0	0	0
From Share issues	0	0	0	0
From Rights issues	0	0	0	0
On issue at 31 December 2013	110,762,310	110,762,310		

5A ISSUED AND UNQUOTED PERFORMANCE RIGHTS

Unquoted performance rights	Total Number
Issued at 1 July 2013	2,343,047
Changes during the current half-year period	
Issued	0 *
Vested – performance to 1 October 2013	0
Cancelled – Outgoing CEO transition arrangements	(129,323)
Lapsed - performance to 1 October 2013	(536,164)
Forfeited - performance to 1 October 2014	(17,290)
- performance to 1 October 2015	(51,263)
Outstanding at 31 December 2013	1,609,007

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

The annual grant of performance rights that was to have been made on 1 October 2013, has been deferred whilst the board reassesses the performance hurdles.

As no entitlements nor hurdles have been established, it is not possible to perform a valuation or valuation estimate on the tranche of performance rights that are likely to be issued, and it is also not possible to determine the expense at 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS**6 STATEMENT OF CASH FLOWS RECONCILIATION**

	Consolidated	
	31-Dec-13	31-Dec-12
	\$'000	\$'000
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	17,000	2,960
Restricted cash	3,707	6,575
	20,707	9,535
Reconciliation of net profit after tax to net cash flows from operations		
Net profit after income tax	3,089	3,603
Non cash flow items		
Depreciation expense	11,022	10,475
Asset retirement obligation depreciation	752	199
Amortisation of intangibles	2,299	1,928
Provision for employee entitlements	261	(1,048)
Impairment and write down of property, plant and equipment	288	679
Deferred financing costs amortization	153	90
Share based payments	250	1,008
Change in operating assets and liabilities		
Decrease/(Increase) in prepayments	(55)	(125)
Decrease/(Increase) in receivables	3,320	(7,415)
Decrease/(Increase) in inventories	(2,278)	(3,619)
Increase/(Decrease) in taxation provisions	(3,107)	(2,077)
Decrease/(Increase) in deferred tax asset	3,238	(459)
Increase/(Decrease) in deferred tax liability	(1,237)	(348)
Increase/(Decrease) in deferred revenue	17	(333)
Increase/(Decrease) in payables	75	(806)
Decrease/(Increase) in deferred costs assets*	0	1,973
Net cash from operating activities	18,087	3,725

* The movement in deferred cost assets arises upon the installation of cameras under the City of Chicago contract. Whilst most camera installations are recorded as Plant and Equipment and are depreciated over their estimated useful lives, with the Chicago contract, title to the assets passes to the City upon installation and the assets are amortised over the remaining contract term. Cash expended on these installations is reported as operating activity rather than as an investment activity.

NOTES TO THE FINANCIAL STATEMENTS

7 CONTINGENCIES

There has been no change in contingent assets or liabilities since 30 June 2013 other than those arising from our contracts with the City of Chicago.

City of Chicago – possible actions and outcomes

The Company has previously announced the issues existing with its USA subsidiary's historical dealings with the City of Chicago, the resulting investigations, and the Group's exclusion from bidding for current and immediate forthcoming speed and red light contracts in Chicago following completion of the current contract extension on 30 April 2014.

It is possible that fines and other penalties may result from the investigations but as these are unknown, no financial outcomes from any possible fines, penalties, or similar dealings have been recognised in the financial results for the half year ended 31 December 2013.

8 EVENTS AFTER BALANCE SHEET DATE

The following significant events subsequent to 31 December 2013 and prior to the date of this report are:

- Appointment of Adam Gray as Chairman on 6 February 2014.
- Repayment of \$6.7 million (US\$6.0 million) of bank borrowings in January 2014.


Directors' Declaration for the half-year ended 31 December 2013

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

In the opinion of the directors,

- (a) The 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 2013 and of its performance;
 - (ii) complying with Accounting Standards AASB 134 Interim Financial reporting and Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Robert DeVincenzi

Director
Redflex Holdings Limited
Melbourne
28 February 2014

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, which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the 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 controls as the directors determine are 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 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 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 2013 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 and the entities it controlled during the half-year, 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Ashley C Butler
Partner
Melbourne

28 February 2014