



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 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting period

Previous corresponding period

Half-year ended 31 December 2019 "H1 FY20"

Half-year ended 31 December 2018 "H1 FY19"

APPENDIX 4D
HALF-YEAR REPORT
HALF-YEAR ENDED 31 DECEMBER 2019

<u>RESULTS FROM OPERATIONS</u>				<u>H1 FY20</u>	<u>H1 FY19</u>
				<u>(\$'000)</u>	<u>(\$'000)</u>
Revenue from operations	Down	14%	to	49,106	56,977
Earnings before depreciation, amortisation, finance costs and tax (EBITDA) non-IFRS	Down	36%	to	5,826	9,070
Loss before tax	Increased	>100%	to	(4,728)	(1,014)
Loss after tax	Increased	>100%	to	(3,482)	(945)
				<u>H1 FY20</u>	<u>H1 FY19</u>
				<u>Cents</u>	<u>Cents</u>
Basic / diluted loss per share	Declined	>100%	to	(3.14)	(0.63)
Net tangible asset backing per ordinary security	Declined	8%	to	37.74	41.04
<u>DIVIDENDS (DISTRIBUTIONS)</u>					
No dividends have been declared in respect of H1 FY20 or H1 FY19					

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 2019 ("**Half-Year Report**") be read in conjunction with the Annual Report for the year ended 30 June 2019 and be considered together with any public announcements made by Redflex up to 24 February 2020 in accordance with Redflex's continuous disclosure obligations (and a copy of the Company's Continuous Disclosure Policy is available on the Company's website (<https://redflex.com/int/wp-content/uploads/sites/4/2019/03/Continuous-Disclosure-Policy.pdf>)).

This Half-Year Report is prepared in accordance with Australian Accounting Standards Board (**AASB**) and has been reviewed by the Group's auditors, PricewaterhouseCoopers ("**PwC**"), and PwC's conclusion is attached.

The Group has adopted Accounting Standard AASB 16 "Leases" for the half year ended 31 December 2019, using the modified retrospective approach and as such the comparatives have not been restated.

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 earnings before interest, tax, depreciation and amortisation ("**EBITDA**"), 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. 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 2019

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2019.

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 unless otherwise stated;

Adam Gray	Chairman
Mark Talbot	Group Chief Executive Officer
Robert DeVincenzi	Non-Executive Director
Herman Schwarz	Non-Executive Director (retired 9 September 2019)
Clark Davey	Non-Executive Director
David McIntyre	Non-Executive Director
Terry Winters	Non-Executive Director
John Worthington	Non-Executive Director (appointed 9 September 2019)

Company Secretary

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

OPERATING AND FINANCIAL REVIEW

- More than \$140m of new revenue (total contract value ("TCV")) has been contracted during H1 FY20 representing a 570% increase on the prior year reporting period;
- 87% of the TCV represents new multi-year engagements which require time to be implemented before they reach their expected annual recurring revenue ("ARR");
- When fully implemented in FY21 the contracted new programs are expected to generate around \$17 million in ARR which will more than offset the loss of Texas revenue.

As previously advised, the Company's financial performance during H1 FY20 was impacted by the cessation of Texas contracts in May 2019. These contracts represented 13% of Group revenue in H1 FY19 and their loss has resulted in the decline in revenue and EBITDA during H1 FY20. Excluding the loss of Texas contracts, underlying revenue is in line with the prior comparative period and EBITDA has improved slightly reflecting the Company's continued focus on operating efficiency within our existing operations while investing considerable resources into implementing newly awarded programs.

The success the Company has had in the market during the period is validation of the strategy put in place focusing on enhanced business development and sales capability, investing in innovative solutions to meet customer demand and pushing further into broader Intelligent Transportation Solutions (ITS) marketplace.

As a result, during H1 FY20, the Company has been very successful in continuing to grow its business in Europe, United Kingdom and Australia, as well as winning large new annual recurring revenue business opportunities in North America. Included in the \$140m of TCV that has been contracted during the period are a number of key contract wins:

- Pennsylvania Department of Transportation – work zone speed enforcement: US\$50 million TCV over seven years, including option periods;
- Los Angeles County Metropolitan Transit Authority – rail crossing enforcement: US\$25 million over eight years;
- Ontario Traffic Council in Canada – speed enforcement: C\$21 million over ten years, including option periods;
- Highways England additional equipment and installation: A\$5.7 million to be delivered and installed over the next 18 months.

There was no revenue or earnings contribution from these programs in H1 FY20. Significant operational focus and investment has been made implementing the programs requiring increased capital expenditure and working capital in H1 FY20.

Implementation is on schedule and these programs are expected to commence operating during H2 FY20 contributing additional revenue and earnings.

The sales opportunity pipeline remains robust and we continue to compete vigorously in each of our key jurisdictions. Our focus remains on pipeline conversion and timely implementation of contracted programs to grow both revenue and earnings.

YEAR ON YEAR COMPARISON

A comparison of the Group's performance for H1 FY20 and H1 FY19 is as follows.

	H1 FY20 \$'000	H1 FY19 \$'000
Earnings before interest, tax, depreciation, and amortisation (EBITDA)*	5,826	9,070
Less:		
Depreciation	7,015	6,353
Amortisation	2,736	3,217
Net finance costs	803	514
Loss before tax	(4,728)	(1,014)

	H1 FY20 \$'000	H1 FY19 \$'000	% Change
Segment revenue			
The America's Traffic business	21,468	30,254	(29%)
Australian/International Traffic business	27,638	26,723	(3%)
Total Consolidated Revenue	49,106	56,977	(14%)
Earnings before interest, tax, depreciation, and amortisation Non-IFRS*			
EBITDA from combined Traffic business	6,410	9,941	(36%)
Head Office costs	(584)	(871)	33%
EBITDA	5,826	9,070	(36%)
Pre-tax loss			
Pre-tax loss from combined Traffic business	(4,144)	(143)	(>100%)
Head Office profit (loss)	(584)	(871)	>100%
Pre-tax loss from operations	(4,728)	(1,014)	(>100%)
Net loss after tax	(3,482)	(945)	>100%

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

1. Throughout this Half-Year Report, Redflex has included certain non-IFRS financial information, including earnings before interest, tax, depreciation and amortisation ("EBITDA"), 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. 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.

Review of Redflex International

The focus of the international business has been on continued sales opportunity pipeline conversion and delivery of projects. We continue to build strong long term relationships with our key customers. During H1 FY20 we contracted \$13.1 million of new projects for delivery over the remainder of FY20 and FY21, including new projects in our key geographies in the U.K. and Australia. These projects include important contract awards for the supply and installation of additional digital enforcement camera systems for Highways England, as well as digital camera upgrades for the Dorset Police Safety Camera Team in the U.K.

Revenue for the International segment for H1 FY20 grew by 3% reflecting growth in project based orders particularly in the U.K. Recurring revenue in the International segment remains strong at almost 70% of total revenue as we provide long term services on implemented projects. EBITDA for the segment of \$4.5 million represented an increase of 17% on the prior comparative period (H1 FY19: \$3.8 million). The improved performance is driven by higher revenue and successful implementations of programs in U.K. and Australia.

Review of the America's Operations

The benefit of the investment we have made in our business development and sales capability has resulted in significant contract awards in North America. During H1 FY20 we finalized new annual recurring revenue contracts with a total value of more than \$125 million including with the Pennsylvania Department of Transportation, Los Angeles County Metropolitan Transit Authority, and the Ontario Traffic Council in Canada. These contracts represent the most significant wins in our North American business for many years and are strategically important in the overall market. This reflects the quality of our competitiveness as well as the quality of our technologically advanced solutions to meet our customer's needs.

The focus in our Americas business has been on implementation of the new programs (as detailed above). Once fully implemented, these new programs are expected to generate annual recurring revenue of A\$17 million, more than offsetting the revenue loss from Texas based contracts. The programs are currently being implemented and are expected to commence generating revenue in H2 FY20, becoming fully operational during FY21.

Financial performance for the Americas segment during H1 FY20 was impacted by the immediate loss of revenue from the terminated Texas based contracts. At the same time, we have maintained our operational capability to implement newly awarded programs. Revenue for the segment for H1 FY20 declined by 29% to \$21.5 million primarily due to the lost Texas revenue. EBITDA for the segment of \$2.0 million is down on the prior comparative period (H1 FY19: \$6.1 million) driven by lower revenue.

Financial Resources

Through its U.S. subsidiary, Redflex Traffic Systems Inc, the Company currently has a US\$10 million credit facility agreement with Western Alliance Bank consisting of a US\$5 million non-revolving line of credit and a US\$5 million three-year term loan.

The term loan has a maturity of 14 December 2020. At 31 December 2019, US\$3.8 million remained outstanding against the term loan.

The non-revolving line of credit was established to support capital requirements for new U.S. based customer programs. At 31 December 2019, this facility was fully drawn. The drawdowns during the period were used to support investment in the new Americas programs and have repayment schedules aligned to those programs.

The Company has a cash balance A\$14.6 million which includes restricted cash of A\$3.9 million. Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a A\$4.0 million facility with the Commonwealth Bank of Australia for bank guarantees and bonds required to support bids and contracts with certain customers.

Outlook for the remainder of the 2020 financial year

The Company expects improved financial performance through H2 FY20. Performance through the first half of the year was hindered by the termination of Texas based contracts while simultaneously investing in the implementation of new programs, particularly in North America. Nevertheless, we are pleased with the continued growth in new orders, revenue and EBITDA from our international markets and expect programs in Pennsylvania, Los Angeles and Ontario, Canada will contribute in both revenue and earnings during the H2 FY20. It is expected that revenue and EBITDA will increase in both the Americas and International segments during the second half of FY20 as a result.

Operationally our focus remains on delivering new programs efficiently and in line with customer expectations. We continue to carry a sales opportunity pipeline that is targeted in our core geographies and balanced between annual recurring revenue and project revenue. We will continue to drive the conversion of sales pipeline opportunities to awarded contracts and remain optimistic about the quality of the opportunities in our key geographies. We expect the second half FY20 will provide the platform for growth and profitability into FY21.

Subsequent events

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 24 February 2020.

Signed in accordance with a resolution of the directors.



Adam Gray

Chairman
Melbourne
24 February 2020



Auditor's Independence Declaration

As lead auditor for the review of Redflex Holdings Limited for the half-year ended 31 December 2019, 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.

A handwritten signature in black ink, appearing to read 'JP', with a long horizontal stroke extending to the right.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
24 February 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	31-Dec-19 \$'000	31-Dec-18 \$'000
Revenue from operations	49,106	56,977
Total revenue	49,106	56,977
Cost of goods sold	28,513	30,732
Cost of sales	28,513	30,732
Gross profit	20,593	26,245
Sales and marketing related expenses	2,457	2,098
Administrative related expenses	12,310	15,077
Amortisation of intangibles	2,736	3,217
Depreciation of plant and equipment	7,015	6,353
Loss before tax and financing costs	(3,925)	(500)
Net finance costs	803	514
Loss before tax	(4,728)	(1,014)
Income tax expense (benefit)	(1,246)	(69)
Net loss for the period	(3,482)	(945)
Other Comprehensive Income		
Items that may be reclassified subsequently to profit and loss		
Foreign currency translation	(202)	1,907
Total comprehensive income for the period	(3,684)	962
Losses per share ("LPS") attributable to ordinary equity holders		
- basic / diluted EPS for the half-year ended	(3.14) cents	(0.63) 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 2019

	Note	31-Dec-19 \$'000	30-Jun-19 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		14,596	21,204
Trade and other receivables		23,214	25,587
Inventories		6,032	6,405
Other current assets		2,642	1,952
Total Current Assets		46,484	55,148
Non-Current Assets			
Plant and equipment		33,447	32,013
Right of use asset	5	9,997	-
Deferred tax asset		22,143	20,261
Intangible assets		12,294	14,159
Other financial assets		441	441
Other non-current assets		2,553	130
Total non-current assets		80,875	67,004
TOTAL ASSETS		127,359	122,152
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables		12,361	16,620
Lease liabilities	5	3,948	-
Interest bearing liabilities		1,977	853
Deferred revenue		620	1,174
Income tax payable		318	371
Provisions		8,725	8,673
Total Current Liabilities		27,949	27,691
Non-Current Liabilities			
Trade and other payables		8,113	10,020
Lease liabilities	5	6,944	-
Interest bearing liabilities		10,606	5,029
Deferred tax liabilities		2,074	2,165
Provisions		2,373	3,650
Total Non-Current Liabilities		30,110	20,864
TOTAL LIABILITIES		58,059	48,555
NET ASSETS		69,300	73,597
Equity			
Contributed equity	4	117,387	117,387
Reserves		9,333	9,216
Accumulated losses		(57,420)	(53,006)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		69,300	73,597

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 2019

	Contributed Equity	Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Accumulated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2018	117,387	3,534	2,822	(47,402)	76,341
Loss for the half-year	-	-	-	(945)	(945)
Currency translation differences	-	1,907	-	-	1,907
Total comprehensive income for the period	-	1,907	-	(945)	962
Cost of share-based payments and options	-	-	852	-	852
At 31 December 2018	117,387	5,441	3,674	(48,347)	78,155
At 1 July 2019	117,387	5,909	3,307	(53,006)	73,597
Adjustment for change in accounting policy (Note 5)	-	-	-	(730)	(730)
Balance at 1 July 2019 - restated	117,387	5,909	3,307	(53,736)	72,867
Loss for the half-year	-	-	-	(3,482)	(3,482)
Currency translation differences	-	(202)	-	-	(202)
Total comprehensive income for the period	-	(202)	-	(3,482)	(3,684)
Cost of share-based payments and options	-	-	117	-	117
At 31 December 2019	117,387	5,707	3,424	(57,218)	69,300

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2019

	31-Dec-19 \$'000	31-Dec-18 \$'000
Operating activities		
Receipts from customers	50,838	57,253
Payments to suppliers and employees	(52,303)	(50,940)
Chicago settlement payment	(1,427)	(1,418)
Interest paid	(541)	(212)
Income tax paid	(538)	(164)
Net cash (outflow) / inflows from operating activities	(3,971)	4,519
Investing activities		
Purchase of plant and equipment	(6,117)	(2,496)
Capitalised development costs paid	(1,357)	(1,071)
Net cash outflow from investing activities	(7,474)	(3,567)
Financing activities		
Proceeds from borrowings	7,130	-
Repayment of borrowings	(431)	(396)
Repayment of lease liability principal	(1,880)	-
Net cash inflow from financing activities	4,819	(396)
Net (decrease) / increase in cash held	(6,626)	556
Effect of exchange rate changes on cash	18	635
Cash and cash equivalents at beginning of period	21,204	18,864
Cash and cash equivalents at end of the period	14,596	20,054

The above consolidated statement of cash flow should be read in conjunction with the accompanying notes.

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

This consolidated financial report for the half-year ended 31 December 2019 (“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 2019 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)).

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.

From 1 July 2019 the Group adopted AASB16 – Leases. The impact of this standard has been described in Note 5. The Groups’ accounting policy has been updated as described below

(b) Changes in accounting policies

Other than the policies described below there have been no changes in accounting policies during the half-year ended 31 December 2019

Lease Accounting

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year ended June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases (except for low values assets) are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS

(b) Changes in accounting policies (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(c) Change in accounting estimates

There were no significant changes in accounting estimates for the half-year ended 31 December 2019.

(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 2019. 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 plant and equipment and capitalised development costs

At each reporting date the Group makes a formal assessment of the recoverable amount generated by each Cash Generating Unit ("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.

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.

For segment reporting purposes the Chief Operating Decision Maker ("CODM") reviews the Company's results based on geographical positioning. On this basis two segments have been identified by the Company being Traffic Operations in "The Americas" and "Australia and International". The CGU's identified by the Company are therefore as follows: -

- The Americas traffic operations; and
- Australian and International traffic operations.

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

Impairment Assessment

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019 an impairment test was performed for both CGU's. The Company continued to apply a value in use methodology to the test. Based on the results of this test the recoverable amount was above the carrying value of the CGU's assets and it was determined that an impairment charge was not required. Should the judgments and estimates applied by management differ from future actual results the outcome of the impairment test may yield a different outcome.

The Company also considers its relationship between its market capitalisation and book value of equity, among other factors, when reviewing for indicators of impairment. As at 31 December 2019 the market capitalisation of the Company was comparable with the book value of equity.

Value in use

The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from managements' FY20 forecast and forecasts for subsequent years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the assets performance of the CGU being tested.

The Americas traffic operations

The carrying value of assets has been tested using cash flow projections from financial forecasts covering a five year period. The post-tax discount rate applied to the projections is 12.6% (FY19: 12.6%), which is the assumed weighted cost of capital. Cash flows beyond year five and into perpetuity are extrapolated using a growth rate of 2% (FY19: 2%), which is our estimate of long term inflation. Based on the results of this test the recoverable amount was US\$6.4 million above the carrying value of the CGU's assets and it was determined that an impairment charge was not required.

Sensitivity analysis

The recoverable amount of the America's CGU would equal its carrying amount if the key assumptions were to change as follows:

- Sales growth rate decreased by 2% compared to the current modelling;
- The long-term growth rate decreased to -1% as compared to the current modelling of 2%; and
- Post-tax discount rate increased to 14.6% as compared to the current modelling.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any other instances that could cause the carrying amount of the America's CGU to exceed its recoverable amount.

Australian and International traffic operations

The carrying value of assets has been tested using cash flow projections from financial forecasts covering a five year period. The post-tax discount rate applied to the projections is 14.0% (FY19: 12.6%), which is the assumed weighted cost of capital. Cash flows beyond year four and into perpetuity are extrapolated using a growth rate of 2.0% (FY19: 2.0%), which is our estimate of long term inflation. Based on the results of this test the recoverable amount was \$1.6 million above the carrying value of the CGU's assets and it was determined that an impairment charge was not required.

Sensitivity Analysis

The recoverable amount of the Australian and International CGU would equal its carrying amount if the key assumptions were to change as follows:

- Sales growth rate decreased by 0.8% compared to the current modelling;
- The long-term growth rate decreased to 1.5% as compared to the current modelling of 2%; and
- Post-tax discount rate increased to 14.5% as compared to the current modelling.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any other instances that could cause the carrying amount of the America's CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

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

Depreciation of property, plant and equipment

Plant and equipment mainly consist of red light and speed camera detection equipment. These assets are mainly installed in various cities throughout North America. 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 five to seven 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 up to seven 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.

Recoverability of receivables

The Group continues to encounter uncertainties surrounding some contracts in certain countries including in the Middle East and Mexico. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Group continues to provide against the likelihood of ultimate collectability. In the prior year provisions of \$3.6 million and \$3 million were recorded in respect of overdue balances in the Middle East and Mexico representing 100% of the amounts receivable.

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.

Taxation

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

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

The Group has concluded that the deferred tax assets will be recoverable using estimated future taxable income based on the board approved forecasts in the relevant tax jurisdictions. Evidence supporting the recognition and recoverability of the deferred tax balances includes confirmed long term contracts signed during the first half of the year. Judgements and assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These assumptions are consistent with the modelling used to support the carrying value of non-

NOTES TO THE FINANCIAL STATEMENTS

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

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

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 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 like 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 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2019

	Operating segments		Total
	The Americas	Australian /International	
	\$'000	\$'000	\$'000
Revenue			
Revenue from operations	21,468	27,638	49,106
Inter-segment revenue	-	2,561	2,561
Total segment revenue	21,468	30,199	51,667
Inter-segment elimination			(2,561)
Total consolidated revenue			49,106
Result			
Earnings before interest tax, depreciation and amortisation	1,959	4,451	6,410
Depreciation	(4,428)	(2,587)	(7,015)
Amortisation	-	(2,736)	(2,736)
Inter-segment royalty	876	(876)	-
Segment result	(1,593)	(1,748)	(3,341)
Head office result			(584)
Loss before tax and finance charges			(3,925)
Finance charges			803
Loss before income tax			(4,728)
Income tax expense			(1,246)
Net loss for the period			(3,482)
Assets and liabilities			
Segment assets	64,857	56,882	121,739
Head office assets			5,620
Total assets			127,359
Segment liabilities	42,642	14,590	57,232
Head office liabilities			827
Total liabilities			58,059

AASB 16 Leases was adopted using the modified retrospective approach and as such the comparatives have not been restated. Therefore, the current and comparative EBITDA are not directly comparable.

The impact of AASB 16 Leases on the segment reported assets and liabilities above is as follows:

	Operating segments		Total
	The Americas	Australian /International	
	\$'000	\$'000	\$'000
Leased assets	4,253	5,744	9,997
Lease liabilities	4,675	6,218	10,893

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2018

	Operating segments		
	The Americas	Australian /International	Total
	\$'000	\$'000	\$'000
Revenue			
Revenue from operations	30,254	26,723	56,977
Inter-segment revenue	-	1,078	1,078
Total segment revenue	30,254	27,801	58,055
Inter-segment elimination			(1,078)
Total consolidated revenue			56,977
Result			
Earnings before interest tax, depreciation and amortisation	6,136	3,805	9,941
Depreciation	(4,320)	(2,033)	(6,353)
Amortisation	(42)	(3,175)	(3,217)
Inter-segment royalty	829	(829)	-
Segment result	2,603	(2,232)	371
Head office result			(871)
Loss before tax and finance charges			(500)
Finance charges			514
Loss before income tax			(1,014)
Income tax expense			(69)
Net loss for the period			(945)
Assets and liabilities			
Segment assets	66,187	56,776	122,963
Head office assets			5,677
Total assets			128,640
Segment liabilities	36,898	12,435	49,333
Head office liabilities			1,152
Total liabilities			50,485

NOTES TO THE FINANCIAL STATEMENTS

4 ISSUED AND QUOTED SECURITIES

Ordinary Securities	<u>Total number</u>	<u>Date</u>
On issue at 1 July 2019	150,218,432	
Vesting of performance rights	531,975	21 Aug 19
Vesting of performance rights	292,209	1 Oct 19
On issue at 31 December 2019	<u>151,042,616</u>	

4A ISSUED AND UNQUOTED PERFORMANCE RIGHTS

Unquoted performance rights	<u>Total Number</u>	<u>Date</u>
Issued at 1 July 2019	2,837,131	
Changes during the current half-year period		
Vesting of performance rights	(531,975)	21 Aug 19
Issue of performance rights	1,540,823	1 Oct 19
Vesting of performance rights	(292,209)	1 Oct 19
Lapse of performance rights	(851,984)	1 Oct 19
Outstanding at 31 December 2019	<u>2,701,786</u>	

4B ISSUED AND UNQUOTED OPTIONS

Unquoted options	<u>Total Number</u>	<u>Date</u>
Issued at 1 July 2019	2,218,195	
Issue of options	786,174	31 Oct
Outstanding at 31 December 2019	<u>3,004,369</u>	

5 LEASE ACCOUNTING

This note explains the impact of the adoption of *AASB 16 Leases* on the Group's financial statements.

The Group has adopted AASB 16 using the modified retrospective method from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 7%.

NOTES TO THE FINANCIAL STATEMENTS

5 LEASE ACCOUNTING (CONTINUED)

	1-Jul-19
	\$'000s
Operating lease commitments disclosed as at 30 June 2019	<u>13,719</u>
Discounted using the lessee's incremental borrowing rate of at the date of initial application	12,821
Less adjustments as a result of accumulated depreciation, different treatment of extension and termination options	(1,459)
Lease liability recognised as at 1 July 2019	<u>11,362</u>
Of which are:	
Current lease liabilities	3,622
Non-current lease liabilities	7,740

The associated right-of-use assets for property leases were measured as if the lease commenced on 1 July 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31-Dec-19	1 Jul-19
	\$'000s	\$'000s
Properties	5,697	6,577
Equipment	4,300	3,814
Total right-of-use assets	<u>9,997</u>	<u>10,391</u>

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets - increase by \$10,391,000;
- deferred tax assets – increase by \$241,000;
- borrowings – no impact;
- lease liabilities - increase by \$11,362,000; and
- Accumulated losses increase by \$730,000.

6 CONTINGENCIES

The Company and its legal advisors closely monitor any legal actions that may have arisen during the course of its business. The Company asserts its rights and defends claims as appropriate. Provisions are not required in respect of these matters as at the date of this report, as it is not probable that a future sacrifice of economic benefits will be required.

7 SUBSEQUENT EVENTS

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.

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 2019 and of its performance;
 - (ii) complying with Accounting Standards AASB 134 Interim Financial reporting and Corporations Regulations 2001; and

NOTES TO THE FINANCIAL STATEMENTS

- (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
24 February 2020



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) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 other explanatory notes and the directors' declaration.

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 gives a true and fair view and 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 Group's financial position as at 31 December 2019 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 Group's financial position as at 31 December 2019 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*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'JP'.

Jason Perry
Partner

Melbourne
24 February 2020