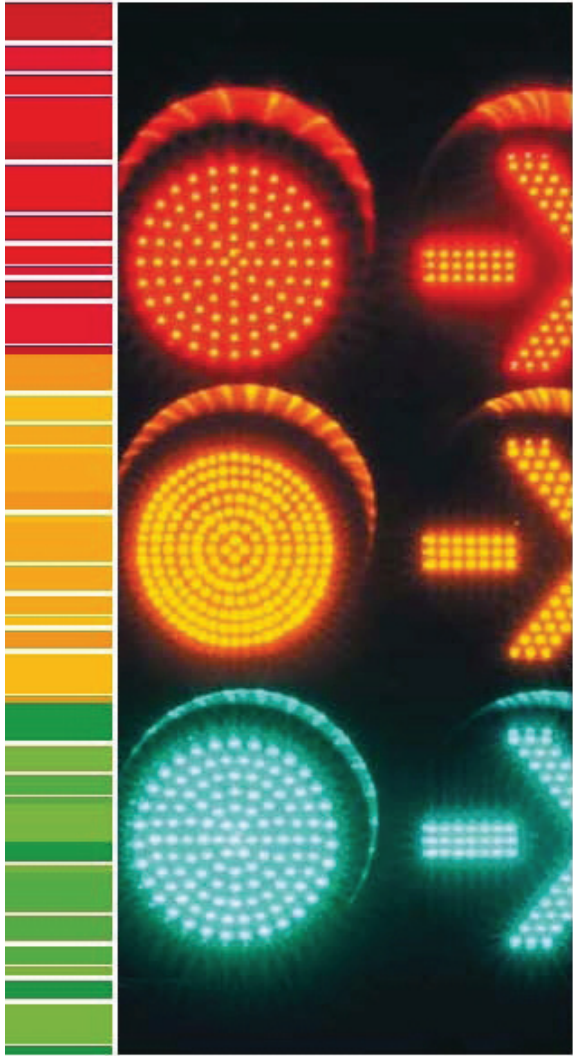


annual report 2010



traffic
technologies





**traffic
technologies**

ABN 21 080 415 407
Traffic Technologies Ltd.
address. 31 Brisbane Street, Eltham Victoria 3095 Australia
PO Box 828, Eltham Victoria 3095 Australia
phone. + 61 3 9430 0222 **facsimile.** + 61 3 9430 0244
web. www.traffictld.com.au

**Traffic Technologies Ltd and Controlled Entities
Chairman's Letter**

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Ltd for the year ended 30 June 2010.

The past year has continued to be challenging for the Company and its shareholders. However the significantly improved earnings performance has been encouraging and reflective of management's continued commitment to reduce costs and improve operating efficiencies and the improved trading conditions in which the Group operates.

The Company has recently taken steps to reduce significantly its level of debt. The sale of the Traffic Management business, which was completed in August 2010, will enable debt to be reduced by approximately \$14-\$15m. The sale also enables management to focus on the Technical Products business and to expand the Group's activities in the Intelligent Transport Systems ("ITS") sector. "ITS" is the deployment of technology to improve the safety, access, mobility and environmental performance of the road system and represents a significant opportunity for the Group.

The Group achieved a significant improvement in operating result for the financial year ended 30 June 2010 compared to the previous financial year with EBITDA, before non-recurring items, increasing by 67% to \$8.1m (\$4.2m from continuing operations and \$3.9m from disposal group held for sale) before adjusting for disposal group held for sale. Accounting standards require the results of the Traffic Management business to be classified as "disposal group held for sale" in the Annual Report and the previous year's results to be restated. The results have therefore been restated to exclude the results of the Traffic Management business from continuing operations. Accordingly, revenue for the financial year from continuing operations was \$47.8m compared to \$49.5m in the previous financial year. EBITDA from continuing operations before non-recurring items was \$4.2m, compared to \$2.3m in the previous year.

The Technical Products Division has continued to perform well. The Technical Products Division provides a significant opportunity for the Group through its dominant position in the Australian and New Zealand markets for LED traffic signals and has a strategic program to develop export markets in Europe and Asia. The Technical Products Division includes the development of products such as electronic signage and the Clearsonics emergency telephone.

A priority for the Group is to improve shareholder value and to reduce gearing and associated finance costs. The Board and management are continuing to investigate ways in which shareholder value can be enhanced and debt reduced through further cost reduction and the restructure of non-core parts of the business.

The Group maintains a strong position in the traffic signals market, bolstered by an innovative track record of developing new products such as electronic signage. The Group is well positioned to take advantage of the opportunities presented by the Federal and State Government road infrastructure spending programs, together with the general improvement in the Australian economy.

Along with my fellow directors, thank you for your continued support. We look forward to the restoration of shareholder value in the year ahead.

Ray Horsburgh
Chairman



traffic
technologies

ABN 21 080 415 407

Traffic Technologies Ltd.

address. 31 Brisbane Street, Eltham Victoria 3095 Australia

PO Box 828, Eltham Victoria 3095 Australia

phone. + 61 3 9430 0222

facsimile. + 61 3 9430 0244

web. www.traffictld.com.au

Traffic Technologies Ltd and Controlled Entities Managing Directors' Report

Dear Shareholder,

The 2010 financial year has seen significant improvement in profitability for Traffic Technologies. The results for the financial year reflect an improvement in trading conditions in which the Group operates and significantly improved profitability reflecting from management's continued focus on cost control and operating efficiencies.

The Group achieved a significant improvement in its operating result for the financial year ended 30 June 2010 with EBITDA before non-recurring items increasing by 67% to \$8.1m (\$4.2m from continuing operations and \$3.9m from disposal group held for sale) before adjusting for disposal group held for sale. Accounting standards require the results of the Traffic Management business to be classified as "disposal group held for sale" in the Annual Report and the previous year's results to be restated following the sale of the business in August 2010.

The Group achieved revenues from continuing operations of \$47.8 million and EBITDA from continuing operations of \$4.2 million before non-recurring items in the 2010 financial year, compared to revenues from continuing operations of \$49.5 million and EBITDA from continuing operations of \$2.3 million before non-recurring items in the previous financial year.

During the year Traffic Technologies consolidated its position as a premium supplier of market leading products and services to the road maintenance and construction industry and is well placed to benefit from Federal and State Government road infrastructure programs and the general improvement in the Australian economy.

Review of Operations

Technical Products

The Technical Products Division has continued to deliver upon expectations and continues to be the dominant supplier of LED traffic signals throughout the Australian and New Zealand markets. The Group has continued to develop its export program to various countries which include Europe and Asia. The Technical Products Division is using its research and development capabilities to develop new portable roadside technology products such as arrow boards, electronic signage and portable traffic signals.

The Group plans to expand its business in the Intelligent Transport Systems ("ITS") sector, which incorporates the deployment of technology to improve the safety, access, mobility and environmental performance of the road system and represents a significant opportunity for the Group.

Technical Products Division also encompasses the state-of-the-art Clearsonics emergency telephone system, which has continued to achieve export sales during the year.

The Signage Division has continued to face strong competition in the financial year, where revenue has been affected by a reduction in the amount of work available, spending cutbacks by local councils and competition. There is however a continued focus on margin improvement, cost control, factory efficiency and systems development and other improvements which have led to a positive contribution in the financial year.

Traffic Services

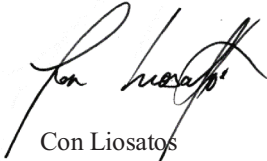
The Traffic Services Division now comprises the Group's Traffic Hire business, which includes the hire of temporary steel barrier and portable roadside technology such as arrow boards and variable message signs. Traffic Hire has continued to trade profitably, with an increase in revenue and EBITDA.

In August 2010 the Group completed the sale of its Traffic Management business, which previously formed part of the Traffic Services Division. The Traffic Management business traded strongly in the financial year. The results of the Traffic Management business have been presented as "disposal group held for sale" in the Financial Report.

Outlook

The divestment of the Traffic Management business will enable management to focus on improving the earnings quality of the Group, while also significantly reducing Group debt. Management is conducting a further review of the Group's costs and is investigating the restructure of non-core parts of the Group's business.

As the leading provider of products and services to the industry, Traffic Technologies is well positioned to benefit from opportunities presented by Federal and State government spending on road infrastructure projects and the general improvement in the Australian economy, along with export opportunities. The Group plans to build on the success of the Technical Products Division and take advantage of opportunities in the Intelligent Transport Systems space. With a professional and experienced management team, the Group is well positioned for solid earnings in a demanding industry in the coming years.



Con Liosatos
Managing Director

Corporate Information

This annual report covers both Traffic Technologies Ltd (ABN 21 080 415 407) and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report.

Directors

Mr. Raymond Horsburgh

Mr. Constantinos Liosatos

Mr. Alan Brown

Mr. Ken Jarrett (appointed 27 January 2010)

Mr. Rajeev Dhawan (resigned 3 December 2009)

Mr. Garry Sladden (resigned 3 December 2009)

Company Secretary & Chief Financial Officer

Mr. Peter Crafter

Registered Office & Principal Place of Business

Traffic Technologies Ltd

31 Brisbane Street

Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnson Street

Abbotsford VIC 3067

Tel: 1300 787 272

Traffic Technologies Ltd shares are listed on the Australian Stock Exchange (stock code: "TTI").

Lawyers

Middletons

Level 25

525 Collins Street

Melbourne VIC 3000

Bankers

Westpac

Level 10, 360 Collins Street

Melbourne VIC 3000

Auditors

Ernst & Young

Ernst & Young Building

8 Exhibition Street

Melbourne VIC 3000

Traffic Technologies Ltd and Controlled Entities
Financial Report for the year ended 30 June 2010
Contents

	Page No.
Directors' Report	1
Auditor's Independence Declaration	19
Corporate Governance Statement	20
Statement of Comprehensive Income	28
Statement of Financial Position	29
Statement of Changes in Equity	30
Statement of Cash Flows	31
Notes to the Financial Statements	32
Directors' Declaration	112
Independent Audit Report	113
ASX Additional Information	115

Traffic Technologies Ltd
Directors' Report

Your directors submit their report for the year ended 30 June 2010.

Directors

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

Name	Qualifications, Experience and Special Responsibilities
Mr. Raymond K Horsburgh AM B.Eng (Chem.) FAICD (Hon D Univ) FIEAust	<p>(Age 67) Non-Executive Chairman. Appointed November 2006.</p> <p>Mr. Horsburgh held various positions with Australian Consolidated Industries from 1963 to 1994 including the position of Chief Executive Officer of ACI Glass which he held from 1991 to 1994. In 1994 he was appointed Chief Executive Officer of Smorgon Steel Group Limited and held the position of Group Managing Director and Chief Executive Officer until he retired from the position on 30 June 2007. He is a former Director of the Business Council of Australia, ANI Limited, Email Limited, Metalcorp Limited and a former President of Williamstown Rotary Club. He is currently Chairman of Toll Holdings Limited, a Director of the Essendon Football Club, a Non Executive Director of CSR Limited and National Can Industries Limited. Mr. Horsburgh was awarded an Order of Australia on Australia Day 2006 for Service to the Steel Industry and Service to Disadvantaged Youth. He was appointed to the Board of Traffic Technologies Ltd in November 2006 and as Chairman in November 2007. Mr. Horsburgh has also served as a director and remains a director of the following listed companies during the last three years.</p> <ul style="list-style-type: none">• CSR Limited*▪ Toll Holdings Limited*▪ National Can Industries Limited* <p>* denotes current Directorship</p> <p>Mr. Horsburgh is Chairman of the Nomination & Remuneration and Corporate Governance committees and a member of the Audit & Risk Committee.</p>
Mr. Constantinos L Liosatos	<p>(Age 48) Managing Director. Appointed April 2003.</p> <p>Mr. Liosatos has over 20 years experience in the construction industry. Mr. Liosatos has qualifications in Mechanical Design and Lighting Engineering. Mr. Liosatos is the Managing Director of Traffic Technologies Ltd. Mr. Liosatos was appointed as a Director of Traffic Technologies Ltd in April 2003. Mr. Liosatos has not served as a Director of any other listed companies during the three years prior to June 2010.</p> <p>Mr Liosatos is a member of the Nomination & Remuneration and Corporate Governance committees.</p>

Traffic Technologies Ltd
Directors' Report (Continued)

Name	Qualifications, Experience and Special Responsibilities
Mr. Alan J Brown FAICD	<p>(Age 64) Non-Executive Director. Appointed January 2004.</p> <p>Mr. Brown has extensive experience in both the private and public sectors. He is a Director of a range of private companies and has established several over a thirty-year period. He has wide ranging public sector involvement including state and local government, co-operative societies and statutory authorities. He was a Member of the Victorian Parliament from 1979-97 and is a former Leader of the Victorian Liberal Party. As Minister for Transport he implemented major reforms to Victoria's transport infrastructure. He has international business experience and as Agent General for Victoria in London from 1997-2000 had key responsibility for identification, negotiation and attraction of overseas investment to Victoria. Mr. Brown also had responsibility for facilitation of exports for Victorian goods and services to overseas markets. He is Chairman of Apprenticeships Plus, Bass Coast Community Foundation and Inner North Community Foundation Ltd. He is also Chairman of Tasmanian Company Work & Training Limited. Mr. Brown was appointed a non-executive Director of Traffic Technologies Ltd in January 2004. Mr. Brown has not served as a Director of any other listed companies during the three years prior to June 2010.</p> <p>Mr. Brown is Chairman of the Audit & Risk committee and a member of the Nomination & Remuneration and Corporate Governance committees.</p>
Mr. Ken Jarrett MBA	<p>(Age 66) Non-Executive Director. Appointed January 2010.</p> <p>Mr. Jarrett was born in New Zealand. He completed a commerce degree at Auckland University and came to Australia in 1969 to work for Alcoa Australia. He held several positions in the finance area at their Geelong plant and Melbourne head office. In 1972 he completed an MBA degree at Melbourne University and won the Finance Prize.</p> <p>Mr. Jarrett joined Henry Jones, which later became Elders IXL and the Fosters Group, in 1972 and remained there until 1990. During that time he held senior positions in Treasury, Finance and Accounting and ran their Investment Banking and Rural Banking arms. During that time the investment bank established a presence in the US, UK, India and six countries in SE Asia. The Rural Banking arm was active in all parts of Australia and NZ. He was Finance Director of the parent, Elders IXL. He was awarded "Treasurer of the year for the Asia Pacific Region" by Euro Money magazine, for his work in raising equity in European markets.</p> <p>Mr. Jarrett has been involved in the acquisition and restructuring of several private businesses including Allans Music from the Brash administrator. He has agricultural and water interests in Southern NSW.</p> <p>Mr. Jarrett has been a director of several listed companies including Santos, Bridge Oil and Elders IXL. He worked with Toll Holdings in their early listed years, in the development of their strategy. Mr. Jarrett has not served as a director of any listed company during the last three years.</p> <p>Mr. Jarrett is a member of the Audit & Risk, Nomination & Remuneration and Corporate Governance committees.</p>

Traffic Technologies Ltd
Directors' Report (Continued)

Name	Qualifications, Experience and Special Responsibilities
Company Secretary	
Mr. Peter K Crafter LL.B (Hons), MBA, FCA, CA, MCT, FAICD, FCIS	<p>(Age 53) Company Secretary and Chief Financial Officer. Appointed Company Secretary March 2004; appointed Chief Financial Officer October 2007.</p> <p>Mr. Crafter is a Chartered Accountant in both Australia and the UK and qualified Corporate Treasurer with extensive experience in financial management including several years with KPMG and Touche Ross in the United Kingdom. He holds an honours degree in Law from the University of London and an MBA from Heriot-Watt University, Scotland. He joined Software Communication Group Limited as Chief Financial Officer in 1999 and was Acting Chief Executive Officer of that Company from 2001 to 2002. He was Chief Financial Officer of ASX-listed CBD Energy Limited from 2002 to 2003. He was Company Secretary of ASX-listed The Swish Group Limited from 2003 to 2009. He was appointed Chief Financial Officer and Company Secretary of Traffic Technologies Ltd in March 2004 and retired as Chief Financial Officer in February 2006. He was reappointed Chief Financial Officer of Traffic Technologies Ltd in October 2007. During the past three years Mr. Crafter has not served as a Director of any listed company.</p>

The following directors also served on the Company's Board during the year and resigned 3 December 2009:

- Mr. Rajeev Dhawan
- Mr. Garry Sladden

Traffic Technologies Ltd
Directors' Report (Continued)

Interests in the share and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Traffic Technologies Ltd were:

Director	Number		
	Ordinary Shares	Preference Shares	Options over Ordinary Shares
Mr. Ray Horsburgh	150,000	-	300,000
Mr. Constantinos L Liosatos	8,374,949	-	-
Mr. Alan J Brown	2,056,965	-	300,000
Mr. Ken Jarrett	9,452,563	-	-

Dividends

The directors do not recommend the payment of a dividend for the financial year ended 30 June 2010 (2009: \$Nil).

PRINCIPAL ACTIVITIES

In its goal of providing a suite of traffic products and traffic services to the traffic industry, the Group operates through its Traffic Products and Traffic Services divisions.

The Traffic Products division is comprised of the Technical Products segment and the Signage segment. Technical Products specializes in the design, manufacture and installation of traffic signals and emergency telephones and the design and manufacture of portable roadside technology. Signage provides a wide range of traffic signs, traffic control products and traffic cones to road traffic authorities, municipal councils and construction companies.

Traffic Services provides equipment hire (barrier guard and portable roadside technology) services to road traffic authorities and construction companies. The Group completed the sale of its labour hire (traffic controllers) business, which previously formed part of the Traffic Services Division, on 9 August 2010.

The Corporate division captures corporate costs and interest revenue.

There were no significant changes in the nature of these activities during the financial year.

Traffic Technologies Ltd
Directors' Report (Continued)

OPERATING AND FINANCIAL REVIEW

The Group achieved a significant improvement in its operating result for the 2010 financial year compared to the previous year (financial year ended 30 June 2009) with an 80% increase in earnings before interest, tax, depreciation, amortization ("EBITDA") from continuing operations before non-recurring items.

In August 2010 the Group completed the sale of its Traffic Management business. The divestment of the Traffic Management business enables management to focus on the Group's Technical Products business, while also significantly reducing Group debt. Net cash consideration for the sale is approximately \$11.4m. The net proceeds of the sale, which will include the collection of net debtors, will be applied in reducing net debt by \$14-\$15m.

Accounting standards require the results of the Traffic Management business to be classified as "disposal group held for sale" in the Annual Financial Report and the previous year results to be restated as follows:

	Year Ended 30 June (\$'m)		
	2010	2009*	% Change
Sales revenue from continuing operations	47.8	49.5	(3%)
EBITDA from continuing operations before non-recurring Items from continuing operations	4.2	2.3	80%
Non-recurring Items	(1.0)	(1.4)	(31%)
Depreciation and amortisation expenses	(2.2)	(1.7)	30%
Finance costs	(3.7)	(5.0)	(25%)
Income tax (expense)/benefit	(0.2)	0.1	(290%)
Disposal group held for sale	2.7	0.7	293%
Net loss	(0.2)	(5.0)	(95%)

** The results for the previous year have been restated to present the results of the Traffic Management business as "disposal group held for sale".*

The Group's results for the 2010 financial year reflect an improvement in trading conditions in which the Group operates and improved profitability resulting from management's continued focus on cost control and operating efficiencies.

Segmental Performance

The following table summarises revenue and EBITDA from continuing operations before non-recurring items for the Group's business segments for the financial years ended 30 June 2010 and 2009 and exclude the results of the Traffic Management business which have been classified as "disposal group held for sale" in the Annual Financial Report and the previous year results restated.

Traffic Technologies Ltd
Directors' Report (Continued)

	Revenue \$m		EBITDA [^] \$m	
	2010	2009*	2010	2009*
Traffic Products				
Signals	24.3	25.2	6.7	5.6
Signage	21.8	23.7	0.5	0.7
Total Traffic Products	46.1	48.9	7.2	6.3
Traffic Services	3.4	1.5	1.1	0.4
Total Corporate	(1.7)	(0.9)	(4.1)	(4.4)
Total Group	47.8	49.5	4.2	2.3

[^] - EBITDA is before non-recurring items

* The results for the previous year have been restated to exclude the results of the Traffic Management business which have been presented in the Annual Financial Report as "disposal group held for sale".

Technical Products

Technical Products has reported an increase in EBITDA from \$5.6m to \$6.7m. Traffic Signals traded strongly in the financial year and the Technical Products business continues to maintain its dominant position in its respective markets.

Signage

The Signage business has faced strong competition during the 2010 financial year and EBITDA decreased from \$0.7m to \$0.5m.

Traffic Services

With the sale of the Traffic Management Business, Traffic Services now comprises the Group's equipment hire business, including the hire of temporary steel barrier and Portable Roadside Technology such as Arrow Boards and Variable Message Signs. EBITDA increased from \$0.4m to \$1.1m.

Corporate

Corporate costs reduced from \$4.4m to \$4.1m.

Non-recurring Items

During the 2010 financial year, the Group incurred \$1.0m expenditure on items of a non-recurring nature (2009: \$1.4m). These costs included costs incurred on the shareholder General Meeting held in October 2009 and costs relating to the assessment of non-core assets.

Finance costs

Finance costs reduced from \$5.0m to \$3.7m.

Disposal group held for sale

The Traffic Management business traded strongly in the 2010 financial year. The net result of Traffic Management has been presented as "disposal group held for sale" in the Annual Financial Report.

Traffic Technologies Ltd
Directors' Report (Continued)

a) Financial position

Net assets of \$18.1m at 30 June 2010 (2009: \$17.7m) include assets held for sale of \$13.2m and liabilities held for sale of \$3.6m. Intangible assets have reduced to \$34.2m reflecting the divestment of the Traffic Management business.

The net proceeds of the sale of Traffic Management, which will include the collection of net debtors, will be applied in reducing net debt by \$14-\$15m. The Group's bankers, Westpac Banking Corporation, has confirmed that it will progressively reduce the Group's term debt facility from \$34.0m at 30 June 2010 to \$24.0m within six months of completion and the working capital facility from \$12.0m to \$8.6m within six months of completion.

Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Group believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole and the sub-committee further examines the issues and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholder's needs and manage business risk;
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against those budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature; and
- The establishment of sub-committees to report on and monitor specific business risks.

Statement of Compliance

This operating and financial review is based on the guidelines in The Group of 100 Incorporated publication *Guide to the Review of Operations and Financial Condition*.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the nature of these activities during the year.

SIGNIFICANT AFTER BALANCE DATE EVENTS

Traffic Technologies Ltd (Traffic Technologies) entered into an agreement to sell its Traffic Management business to Workforce International Group Pty Ltd on 29 June 2010. The sale, for a gross cash consideration of \$14.5m, will deliver Traffic Technologies around \$11.4m after adjustments, including motor vehicles leases and employee entitlements. In addition Traffic Technologies will collect the book debts of the Traffic Management business which will be applied partly in repaying trade creditors and other liabilities.

The transaction was completed on 9 August 2010 and the net proceeds of the sale will be applied in reducing net debt by \$14.0 - \$15.0m. Westpac has confirmed that it will reduce Traffic Technologies term debt facility from \$34.0m at 30 June 2010 to \$24.0m within six months of completion and the working capital facility from \$12.0m to \$8.6m within six months of completion.

Traffic Technologies Ltd
Directors' Report (Continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

For the financial year ending 30 June 2011 the Group will continue to pursue the goals identified in its strategic plan. Potential strategic acquisitions will be investigated in order to augment and strengthen the Group's portfolio of products and services together with pursuing continual development of the existing businesses to drive organic growth and further efficiency gains. One of the key priorities for the Group in the year ahead is to reduce gearing and the associated finance costs. With this in mind, the Board and management have been investigating ways in which debt can be further reduced. This may involve further cost savings and the restructure of non-core parts of the business. With the continued uncertainty in the world economy, the Group remains cautious about the economic outlook and accordingly is not yet in a position to give earnings guidance for the financial year ending 30 June 2011.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Signage segment is regulated by the Environmental Protection Act 1970 (8056/1970) and the Occupational Safety Regulations 2009 (54/2009) with regard to waste water run-off and the storage and treatment of chemicals. These operations are regularly audited by an independent environmental consultancy that reports directly to the Environmental Protection Authority.

There have been no significant known breaches of the Group's compliance with environmental regulations.

Other Group operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 750,000 unissued ordinary shares under option (987,000 at the reporting date). Refer to Note 17 of the financial statements for further details of options outstanding.

Option holders do not have any right, by virtue of their yet to be exercised options, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Shares Issued as a Result of the Exercise of Options

During the year, there were no options to acquire fully paid ordinary shares exercised by directors, executives or employees. Since the end of the financial year, no directors, executives or employees have exercised options.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year ended 30 June 2010, the Group paid premiums of \$49,750 in respect of a Directors' and Officers' insurance policy insuring Directors and Officers in respect of claims which may be brought against them. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premiums.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

Traffic Technologies Ltd
Directors' Report (Continued)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director was as follows:

	Directors' Meetings		Audit & Risk Committee		Nomination & Remuneration Committee		Corporate Governance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Ray Horsburgh	25	25	3	3	1	1	1	1
Mr. Con Liosatos	25	25	3	3	1	1	1	1
Mr. Alan Brown	25	25	3	3	1	1	1	1
Mr. Ken Jarrett	6	6	2	2	1	1	1	1
Mr. Rajeev Dhawan	17	13	1	1	-	-	-	-
Mr. Garry Sladden	17	17	1	1	-	-	-	-

Committee Membership

As at the date of this report the Company had an Audit & Risk Committee, a Nomination & Remuneration Committee and a Corporate Governance Committee of the Board of Directors.

The eligibility and attendance of each of the directors is as disclosed in the table above. The chairman of each committee was:

- Audit & Risk – Mr. Alan Brown
- Nomination & Remuneration – Mr. Ray Horsburgh
- Corporate Governance – Mr. Ray Horsburgh

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) 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 AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided immediately following this report.

During the financial year, the Company's auditor, Ernst & Young, did not provide any non-audit services.

Traffic Technologies Ltd
Directors' Report (Continued)

REMUNERATION REPORT (AUDITED)

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

For the purposes of this report, the term “executive” encompasses the Managing Director, Chief Financial Officer and general managers of the Group.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The Nomination & Remuneration Committee comprises all Board members and is chaired by Mr. Ray Horsburgh, who is an independent Director. The Nomination & Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration Philosophy

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

Remuneration Structure

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

Non-executive Director Remuneration

Objective

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

Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The notice convening a general meeting at which it is proposed to seek approval to increase that maximum aggregate sum must specify the proposed new maximum aggregate sum and the amount of the proposed increase. Aggregate maximum non-executive Directors' remuneration is currently \$400,000 per year.

It is considered good governance for directors to have a stake in the Company on whose board they sit. Non-executive directors have long been encouraged to hold shares in the Company (purchased by the director on market). The Company also facilitates this through the Company Share Option Plan.

Traffic Technologies Ltd
Directors' Report (Continued)

The non-executive directors do not receive retirement benefits, other than statutory superannuation, nor do they participate in any incentive programs.

The remuneration of non-executive directors for the financial years ended 30 June 2010 and 30 June 2009 is detailed in Table 1 and Table 2 respectively of this report.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for Group and individual performance;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

Structure

Currently remuneration is paid in the form of cash remuneration, superannuation contributions and share options where applicable.

The Company paid no bonuses, nor accrued any bonuses, during the financial year ended 30 June 2010. Further details of the remuneration of directors and executives are provided in Table 1 and Table 2 of this report.

The Nomination & Remuneration Committee is responsible for determining the level and make-up of executive remuneration and makes reference to a wide range of available external research as well as assessments of individual performance in determining the appropriate level of executive remuneration.

Share Options

All directors and executives have the opportunity to qualify for participation in the Company Share Option Plan (which form part of long term incentive variable remuneration). Options issued to key management personnel are detailed in Table 3 and Table 4 of this report. The issue of options under this plan is at the discretion of the Board. Options are used by the Company as a non-cash form of remuneration and have the objective of aligning employee interests with the objective of increasing shareholder wealth. Any issue of options under the plan to directors is subject to shareholder approval.

The issue of options to non-executive directors are not based on specified performance criteria. Some of the issue of options to executives have been subject to performance criteria. These conditions involve the continuous employment of the executive together with the achievement of the performance hurdle that the share price of the Company outperforms the ASX 200 share index measured over the 12 month period immediately prior to the vesting date of the option.

Traffic Technologies Ltd
Directors' Report (Continued)

These performance conditions were selected to incentivise executives to remain with the Group and provide a transparent and objective performance measure with the aim of aligning executive motivation with objective of achieving above average growth in the share price for shareholders. Further details regarding the issue of share options during the year and the terms and conditions attaching to these options are provided in Note 17 to the financial statements.

Executive Service and Management Agreements

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash, superannuation contributions and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The service contracts entered into with executives do not prescribe how compensation levels are to be modified from year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

Managing Director

The Managing Director, Mr. Liosatos, is employed under a rolling contract. Employment may be terminated by the giving, by either party, of 9 months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct. Prior to the employment contract, Mr. Liosatos had been previously granted 4 tranches of 3,300,000 options over ordinary shares of the Company. In order for each tranche to vest, Mr. Liosatos must have remained in the Company's employ; some tranches further required the Company's share price to outperform the ASX200 share index measured over the 12 month period immediately prior to respective vesting date. If the employment was terminated, Mr. Liosatos, within 28 days after the date of termination, must have exercised all or part of those of the options which he was entitled to exercise. Any option not exercised within that 28-day period would lapse. These options had all lapsed by the reporting date.

Mr. Liosatos' performance will be reviewed annually by the Nomination & Remuneration Committee.

Other Executives

Mr. Peter Crafter, Company Secretary and Chief Financial Officer, is employed under a rolling employment contract. Employment may be terminated by the giving, by either party, of 6 months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.

Pursuant to the employment contract, in a prior year, Mr. Crafter had been granted 3 tranches of 100,000 options over ordinary shares with terms as disclosed in Table 3. In order for each tranche to vest, Mr. Crafter must have remained in the Company's employ and the Company's share price must have outperformed the ASX200 share index measured over the 12 month period immediately prior to the respective vesting date. If the employment was terminated, Mr. Crafter, within 28 days after the date of termination, must have exercised all or part of those of the options which he was entitled to exercise. Any option not exercised within that 28-day period would lapse. These options had all lapsed by 1 July 2010.

Mr. Andrew Bull, the former General Manager Technical Products Division, was employed under an employment contract with an initial two year minimum term commencing on 1 May 2007. The Company could terminate the contract by providing 6 months' written notice or, in lieu of providing notice, making a payment in a sum equal to the salary Mr. Bull would have earned had he been given the relevant period of notice. The Company retained the right to terminate the contract at any time without notice, including within the minimum two year period, in the case of serious misconduct. Mr. Bull resigned from the Company effective 16 February 2010.

Mr. Graham Sergeant, General Manager Traffic Services Division, was employed under a rolling contract which commenced 4 February 2008. The Company could terminate Mr. Sergeant's employment agreement by providing 1-4

Traffic Technologies Ltd
Directors' Report (Continued)

weeks' written notice, depending on period of service, or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The Company could terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurred, Mr. Sergeant was only entitled to that portion of remuneration that was fixed and only up to the date of termination. Mr. Sergeant's employment was transferred to the Purchaser of the Traffic Management business on 9 August 2010.

Non-executive Director Agreements

The non-executive Directors have entered into non-executive Director Agreements with the Company. The non-executive Director agreements:

- entrench a Director's rights to be indemnified by the Company to the maximum extent permitted by law;
- require the Company to take out an appropriate Directors' and officers' insurance policy to protect the Director from liability (to the extent permitted by law); and
- access the books and records of the Company, which relate to the period the Director acted as a Director of the Company. After resignation as a Director, the Director can only use this information for the purposes of defending a claim.

Group Performance and Shareholder returns

	2010	2009
EBITDA before non-recurring items from continuing operations (\$'000)	\$4,159	\$2,307
Net loss attributable to equity holders of the parent (\$'000)	(\$254)	(\$4,954)
Basic earnings / (loss) per share from continuing operations	(2.02 cents)	(4.49 cents)
Share price at balance date	2.8 cents	2.3 cents
Share price growth over year ended 30 June	22%	(54%)

Traffic Technologies Ltd
Directors' Report (Continued)

Director and Executive Details

The following persons acted as directors of the Company during or since the end of the financial year:

- Mr Raymond Horsburgh - Chairman
- Mr. Con Liosatos - Managing Director
- Mr. Alan Brown
- Mr. Ken Jarrett - Appointed 27 January 2010
- Mr. Rajeev Dhawan - Resigned 3 December 2009
- Mr. Garry Sladden - Resigned 3 December 2009

The term “executives” is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Mr. Peter Crafter (Chief Financial Officer and Company Secretary)
- Mr. Andrew Bull (General Manager Technical Products Division) – Resigned 16 February 2010
- Mr. Graham Sergeant (General Manager Traffic Services Division) – Resigned 9 August 2010

Traffic Technologies Ltd
Directors' Report (Continued)

TABLE 1: REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2010 (AUDITED)

	Short-term benefits		Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees \$	Non-monetary \$				Other \$	Options \$
<i>Non-executive directors</i>							
Mr Raymond Horsburgh	90,000	-	-	-	-	98,100	-
Mr. Alan Brown	50,000	-	-	-	-	54,500	-
Mr. Ken Jarrett	19,355	-	1,742	-	-	21,097	-
Mr. Rajeev Dhawan	17,063	-	1,688	-	-	18,751	-
Mr. Garry Sladden	17,409	-	1,688	-	-	19,097	-
Sub-total non-executive directors	193,827	-	17,718	-	-	211,545	-
<i>Executive officers</i>							
Mr. Con Liosatos	400,000	49,773	-	-	2,874	488,647	-
Mr. Peter Crafter	201,000	8,847	-	-	2,293	263,813	-
Mr. Andrew Bull	198,677	29,786	-	-	2,616	259,726	-
Mr. Graham Sergeant	143,970	15,617	-	-	748	206,592	-
Mark Faunt	177,441	-	-	-	-	193,411	-
Sub-total executive officers	1,121,088	104,023	-	-	8,531	1,412,189	-
Total	1,314,915	104,023	-	-	8,531	1,623,734	-

Traffic Technologies Ltd
Directors' Report (Continued)

TABLE 2: REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2009 (AUDITED)*

	Short-term benefits			Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees	Non-monetary	Other					\$	% performance related
	\$	\$	\$	\$	\$	\$	\$	\$	
<i>Non-executive directors</i>									
Mr Raymond Horsburgh	90,000	-	-	8,100	-	-	-	98,100	-
Mr. Alan Brown	54,500	-	-	-	-	-	-	54,500	-
Mr. Rajeev Dhawan	19,442	-	-	1,750	-	-	-	21,192	-
Mr. Garry Sladden	19,442	-	-	1,750	-	-	-	21,192	-
Mr. Sam Kavourakis	38,831	-	-	3,495	-	-	-	42,326	-
Mr. Cary Stynes	42,325	-	-	-	-	-	-	42,325	-
Dr. Richard Gregson	38,831	-	-	3,495	-	-	-	42,326	-
Sub-total non-executive directors	303,371	-	-	18,590	-	-	-	321,961	-
<i>Executive officers</i>									
Mr. Con Liosatos	405,999	54,035	-	30,000	-	740	-	490,774	-
Mr. Peter Crafter	201,000	9,031	-	44,250	-	719	12,997	267,997	-
Mr. Andrew Bull	276,506	33,764	-	24,886	-	43,956	-	379,112	-
Mr. Graham Sergeant	143,100	15,617	-	47,650	-	209	-	206,576	-
Mr. Steve Polonidis	152,820	11,734	-	13,754	56,794	-	-	235,102	-
Sub-total executive officers	1,179,425	124,181	-	160,540	56,794	45,624	12,997	1,579,561	-
Total	1,482,796	124,181	-	179,130	56,794	45,624	12,997	1,901,522	-

* Non-monetary benefits disclosed in the above table have been restated to include fringe benefit tax relating to the benefits provided to the executive officers. The total impact is an increase in non-monetary benefits of \$64,036. Where executive officers have salary sacrifice superannuation, these amounts have been reallocated from salaries and fees to superannuation.

Traffic Technologies Ltd
Directors' Report (Continued)

TABLE 3: COMPENSATION OPTIONS GRANTED AND VESTED DURING THE YEAR ENDED 30 JUNE 2010 (AUDITED)

During the year no options were granted as equity compensation benefits to key management personnel and no options vested during the year. The terms and conditions of all outstanding options as at 30 June 2010 are stated at Note 17.

TABLE 4: COMPENSATION OPTIONS GRANTED AND VESTED DURING THE YEAR ENDED 30 JUNE 2009 (AUDITED)

During the year options were granted as equity compensation benefits to key management personnel as set out below.

	Granted No.	Terms & Conditions for each Grant					Vested		
		Grant Date	Fair value per option at grant date	Exercise price per option	Expiry Date	First exercise date	Last exercise date	No. of options vested during the year	%
<i>Non-executive directors</i>									
Mr Raymond Horsburgh	-	-	-	-	-	-	-	300,000	50
Mr. Alan Brown	-	-	-	-	-	-	-	300,000	50

Traffic Technologies Ltd
Directors' Report (Continued)

TABLE 5: OPTIONS GRANTED AS PART OF REMUNERATION (AUDITED)

	Value of options granted during the year	Value of options exercised during the year	Value of options forfeited during the year	Value of options lapsed during the year	Total value of options granted, exercised, forfeited and lapsed during the year	Remuneration consisting of options for the year
	\$	\$	\$	\$	\$	%
Mr. Raymond Horsburgh	-	-	-	17,013	17,013	-
Mr. Con Liosatos	-	-	-	70,099	70,099	-
Mr. Alan Brown	-	-	-	15,750	15,750	-
Mr. Peter Crafter	-	-	-	9,756	9,756	-
Mr. Andrew Bull	-	-	-	36,250	36,250	-

The terms and conditions of all options outstanding as at 30 June 2010 are stated at Note 17.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

No options were granted or exercised during the year; and no options were forfeited during the year. 1,950,000 options lapsed during the year with a value of \$148,868 which, in accordance with Accounting Standard AASB 2 Share-based Payment, remains frozen in the Group's equity share-based payment reserve.

The maximum grant, which will be payable assuming that all service and performance criteria are met (in accordance with the terms and conditions of all options issued – refer Note 17), is equal to the number of options or rights granted multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance criteria are not met is zero.

Signed in accordance with a resolution of the directors.

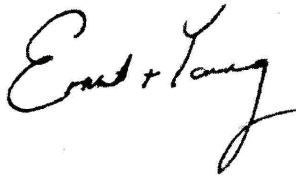


Mr. Raymond Horsburgh
Independent Non-Executive Chairman

26 August 2010
Melbourne

Auditor's Independence Declaration to the Directors of Traffic Technologies Ltd

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

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Robert J Dalton' in a cursive style.

Robert J Dalton
Partner
26 August 2010

Traffic Technologies Ltd

Corporate Governance Statement

The Board of Directors of Traffic Technologies Ltd is responsible for the corporate governance framework of the Group having regard to the ASX Corporate Governance Council's published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board of Directors has implemented the Recommendations of the ASX Corporate Governance Council to the extent appropriate for the size and nature of the Company's business as described below. The format of the Corporate Governance Statement follows the ASX Corporate Governance Council's "Second Edition - Revised Corporate Governance Principles and Recommendations". The Corporate Governance Statement must contain specific information and also report on the Company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendation that has not been adopted by the Company, together with the reasons it has not been adopted.

The Board has established a Corporate Governance Committee, which is responsible for reviewing the Company's compliance with best practice corporate governance requirements, including compliance with the ASX Corporate Governance Council's Recommendations. The Corporate Governance Committee comprises all Board members and is chaired by Mr. Raymond Horsburgh. For details of meetings of the Corporate Governance Committee held during the year and attendance at those meetings, refer to the Directors' report.

The Company's corporate governance practices have been in place throughout the year ended 30 June 2010. With the exception of the departures from the Corporate Governance Council recommendations detailed below, the corporate governance practices of the Company are compliant with the Council's best practice recommendations.

Principle 1: Lay solid foundations for management and oversight

The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board acts on behalf of and is accountable to shareholders. The Board seeks to identify the expectations of shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage these risks. The Board guides and monitors and fulfils its responsibility to protect shareholder interests and enhance shareholder value by:

- Approving and periodically reviewing the business and financial objectives, strategies and plans of the consolidated entity;
- Monitoring the financial performance of the consolidated entity, including approval of the consolidated entity's financial statements;
- Ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- Identifying areas of significant business or financial risk to the consolidated entity and ensuring management takes appropriate action to manage those risks;
- Reviewing the performance and remuneration of Board members and key members of staff;
- Monitoring the operations of the consolidated entity and the performance of management;
- Establishing and maintaining appropriate ethical standards; and
- Reporting to the shareholders, the Australian Securities and Investments Commission and the Australian Stock Exchange as required.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of Committees. Board Committees are able to focus on a particular responsibility and provide informed feedback to the Board. The Board has established the following Committees:

- Corporate Governance;
- Audit & Risk; and
- Nomination & Remuneration.

Traffic Technologies Ltd

Corporate Governance Statement

The Board delegates to the Managing Director and the executive management team responsibility for the operation and administration of the consolidated entity. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

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

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

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestments;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- Reporting to shareholders.

Principle 2: Structure the Board to add value

The Board has been structured to ensure that an appropriate mix of experience and expertise is available to provide strategic guidance for the Company and effective oversight of management. It is the policy of the Company that the composition of the Board is determined having regard to the following concepts:

- That the Board will comprise a majority of independent Directors;
- That the Board will comprise a minimum of three Directors and the actual number may be higher where additional expertise is required in specific areas and an outstanding candidate is located;
- That the Chairman of the Board will be a Non-Executive Director; and
- That the Board members should represent a broad range of expertise and experience.

The skills, experience and expertise relevant to the position held by each Director in office at the date of the Annual Report is included in the Directors' Report.

Traffic Technologies Ltd
Corporate Governance Statement

The Directors in office and the term in office held by each Director at the date of this report are as follows:

Name	Position	Term in Office
Mr. Ray Horsburgh	Independent Non-Executive Chairman	3 years, 9 months
Mr. Con Liosatos	Managing Director	7 years, 3 months
Mr. Alan Brown	Independent Non-Executive Director	6 years, 7 months
Mr. Ken Jarrett (appointed 27 January 2010)	Non-Executive Director	7 months

The following Directors resigned during the year:

Mr. Rajeev Dhawan (resigned 3 December 2009)	Non-Executive Director
Mr. Garry Sladden (resigned 3 December 2009)	Non-Executive Director

A director will be considered an independent director if the director:

- i) is not a substantial shareholder of the Company, being a shareholder who does not have more than a 5% interest in the Company;
- ii) has not been employed within the last 3 years as an executive of the Company;
- iii) has not within the last 3 years been a principal of a material professional adviser or consultant to the Company;
- iv) is not a material supplier, customer or other contractor of the Company; and
- v) is otherwise considered by the Board to be independent.

In accordance with the definition of independence above, two of the six Directors of the Company, as set out above, who served during the year ended 30 June 2010, were independent. Mr. Liosatos, the Managing Director, is a full time executive of the Company. Mr. Jarrett is a substantial shareholder of the Company. Mr. Dhawan and Mr. Sladden served on the Board as nominees of Equity Partners, the registered holder of ordinary shares and preference shares in the Company. The Company had an independent chairman throughout the year ended 30 June 2010. As at the date of this report, two of the four Directors of the Company were independent.

The Company's constitution provides that a Director other than the Managing Director may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors retire each year and are eligible for re-election. The Directors who retire by rotation at each annual general meeting are those with the longest length of time in office since their appointment or last election. All Directors must be elected by the members of the Company. It is not a requirement for a person who is a Director to own shares in the Company.

The Chair is held by an independent Director, Mr. Horsburgh. The roles of Chair (Mr. Horsburgh) and Managing Director (Mr. Liosatos) are not exercised by the same individual.

Recommendation 2.4 requires listed entities to establish a Nomination Committee to oversee the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the Company's chief executive officer. During the financial year ended 30 June 2010, the Company re-established its Remuneration Committee as the Nomination & Remuneration Committee. Previously the Company did not have a separate Nomination Committee and the duties and responsibilities typically delegated to such a committee were expressly included in the Board's charter as being the responsibility of the full Board. All members of the Board are members of the Nomination & Remuneration Committee, which is chaired by Mr. Horsburgh.

The Company provides the capacity for any Director to obtain separate professional advice on any matter being discussed by the Board and for the Group to pay the cost incurred. Before the engagement is made, the Director is required to obtain the Chairman of the Board's approval. Approval will not be unreasonably denied and the Director will be expected to provide the Board with a copy of that advice.

Traffic Technologies Ltd
Corporate Governance Statement

Performance

The performance of the Board, Board Committees and individual Directors is reviewed regularly by the Board as a whole. During the reporting period, the Board reviewed the performance of each Board member and key executive. The performance criteria against which Directors and executives are assessed are aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently unsatisfactory may be asked to retire.

Principle 3: Promote ethical and responsible decision-making

All Directors and officers of the Company are required to discharge their responsibilities ethically and with integrity.

The Board has drawn up a code of conduct to guide Board members, executives and employees in carrying out their duties and responsibilities, to guide compliance with legal and other obligations and to maintain confidence in the Company's integrity. Executives and employees are encouraged to report to Board members any concerns regarding potentially unethical practices.

The Board is committed to good corporate governance and aims for continuous improvement in these practices. The Company embraces high ethical standards and requires its employees to demonstrate both personal and corporate responsibility. Directors, officers and employees are required to safeguard the integrity of the Company and to act in the best interests of its stakeholders (generally, shareholders).

There must be no conflict, or perception of a conflict, between the interests of any Director, officer or employee of the Company and the responsibility of that person to the Company and to the stakeholders. No Director, officer or employee improperly use their position for personal or private gain to themselves, a family member, or any other person ("associates").

Trading policy

The Company's Share Trading Policy ensures that unpublished price sensitive information about the Company is not used in an unlawful manner. The main provisions of this policy are governed by:

- the specific requirements of the Corporations Act;
- a prohibition on short term trading in the Company's shares;
- when Directors and employees may trade in the Company's shares; and
- prior notification by Directors, officers and employees of their intention to deal in the Company's shares.

A summary of the Policy is as follows:

- (a) Trading of securities by a Director, officer or employee is only allowed when he or she is not in possession of price sensitive information that is not generally available to the market.
- (b) Directors, officers and employees (and their associates) must notify the Company of their intention to trade in the Company's shares and obtain the Chairman's consent prior to any trading.
- (c) As a general rule, the Chairman will consent to trading in the Company's shares during specified "trading windows", being the periods:
 - commencing 2 business days after the release of quarterly cash flow statements by the Company and ending 2 weeks after the release of that statement;
 - commencing 2 business days after the release of the Company's annual or half yearly results and ending 1 month after the release of those results; and
 - commencing 2 days after the Company issues a prospectus and ending 1 month after that issue.
- (d) Directors, officers and employees must not engage in short term trading in the Company's shares. The purchase of shares with a view to resell within a 12 month period and the sale of shares with a view to repurchase within a 12 month period would be considered to be transactions of a short term nature.

Traffic Technologies Ltd
Corporate Governance Statement

Principle 4: Safeguard integrity in financial reporting

It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

Audit & Risk Committee

The Audit & Risk Committee plays a key role in assisting the Board of Directors with its responsibilities relating to accounting, developing internal control systems, reporting practices and risk management, and ensuring the independence of the Company Auditor. The Charter for this Committee incorporates policies and procedures to ensure an effective focus from an independent perspective.

The Audit & Risk Committee oversees and appraises the quality of the audits conducted by the Auditors of the Company. Ernst & Young are the currently appointed Auditors of Traffic Technologies. Their appointment will be reviewed periodically. The Company believes in the ongoing assessment of its audit arrangements and complies with any regulatory requirements to rotate its external audit partner.

The Audit & Risk Committee includes in its Charter a review of the effectiveness of administrative, operating and accounting controls.

Meetings of the Committee will be held a minimum of twice per annum, represented by one meeting for each of the full-year and half-year financial accounts review, approval and recommendation to the Board. Further meetings may be held for discussion on policies and procedures and risk management matters. The auditors of the company, Ernst & Young, will also be invited to make recommendations to the Committee on policies and procedures for discussion.

The Company's Audit & Risk Committee follows each of the principles listed below:

- Consists only of Non-executive Directors;
- Consists of a majority of independent Directors;
- Has an independent Chairperson, who is not Chairperson of the Board
- Has at least one member who is a qualified accountant or finance professional with experience of financial and accounting matters; and
- Has at least three members.

All members of the Board with the exception of the Managing Director are members of the Audit & Risk Committee. The Audit & Risk Committee is chaired by Mr. Brown, who is an independent chairman and who is not Chairman of the Board.

Qualifications of Audit & Risk Committee members

None of the Audit & Risk Committee members have formal accountancy qualifications. However, all Audit & Risk Committee members have extensive business experience at Board level and in senior management positions.

Audit & Risk Committee meetings are attended by the partner responsible for the Company's audit. For details of meetings of the Audit & Risk Committee held during the year and attendance at those meetings, refer to the Directors' Report.

Principle 5: Make timely and balanced disclosure

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance, as required by Recommendation 5.1.

The Company's Continuous Disclosure Policy is designed to promote transparency and investor confidence and ensure that all interested parties have an equal opportunity to obtain information which is issued by the Company. The Company is committed to complying with the continuous disclosure obligations contained in the listing rules of the Australian Securities Exchange (ASX) and under the Corporations Act, and ensuring that all shareholders and the market have an equal opportunity to obtain and review full and timely information about the Company's securities.

Traffic Technologies Ltd

Corporate Governance Statement

The ASX defines continuous disclosure in its Listing Rules as “the timely advising of information to keep the market informed of events and developments as they occur”. The Listing Rules and the Corporations Act require that a listed entity disclose to the market matters which a reasonable person would expect to have a material effect on the price or value of the entity’s securities. A reasonable person is taken to expect information to have a material effect on the price or value of securities if it would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities.

The CEO controls all the Company’s communications with assistance from the Company Secretary in carrying out this responsibility. The CEO and Chairman are the only two officers allowed to authorise the release of material information to the market. The Company Secretary is responsible for administering this policy and is responsible for dealing with the ASX in relation to all listing rule issues. The procedures which have been developed to comply with these rules include immediate reporting of any matter which could potentially have a material effect, via established reporting lines to the CEO and/or the Company Secretary.

Disclosure of such price-sensitive information to the ASX must not be delayed and is disclosed, in the first instance, to the ASX and only after receiving confirmation that a release of this disclosure has been made to the market will it then be placed on the Company’s website, www.trafficltd.com.au. Material information must not be selectively disclosed (i.e. to analysts, the media or shareholders) prior to being announced to the ASX, and all media releases must be referred to the CEO for approval prior to any release.

Principle 6: Respect the rights of shareholders

The Company’s communication strategy is to promote effective communication with shareholders.

The Company is committed to:

- ensuring that shareholders and the financial markets are provided with full and timely information about the Company’s activities in a balanced and understandable way;
- complying with continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act in Australia; and
- communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

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

- through the release of information to the market via the ASX;
- through the distribution of the Annual Report and Notices of Annual General Meeting;
- through shareholder meetings;
- through letters and other forms of communications directly to shareholders;
- by posting relevant information on the Company’s website; and
- by providing shareholders with a choice of information delivery i.e. paper or electronic means

The Company’s website, www.trafficltd.com.au, has a dedicated Shareholder Information section and endeavours to publish on the website all important company information and relevant announcements made to the market.

The external auditors will be requested to attend the Annual General Meeting and will be available to answer shareholders’ questions about the conduct of the audit and preparation of the Auditor’s Report.

The Company’s reports and ASX announcements may be viewed and downloaded from the ASX website: www.asx.com.au (Stock code: TTI). The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group’s strategy and goals. The external auditor is required to attend the Annual General Meeting of the Company and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor’s report.

Traffic Technologies Ltd
Corporate Governance Statement

Principle 7: Recognise and manage risk

The Board of the Company takes a proactive approach to the Company's risk management and internal compliance and control system. This function is dealt with by the Audit & Risk Committee.

The Audit & Risk Committee is responsible for ensuring that adverse risks and mitigation of these risks are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Committee and the Board of Directors.

The Company has developed a policy on risk oversight and management and will undertake a detailed risk assessment of the company's operations, procedures and processes. The risk assessment will be aimed at identifying the following:

- a culture of risk control and the minimisation of adverse risk throughout the Company, which is being done through natural or instinctive process by employees of the Company;
- a culture of risk control that can easily identify adverse risks as they arise and amend practices;
- the installation of practices and procedures in all areas of the business that are designed to minimise an event or incident that could have a financial or other effect on the business and its day to day management; and
- adoption of practices and procedures to minimise many of the standard adverse commercial risks, i.e., taking out the appropriate insurance policies, or ensuring compliance reporting is up to date and
- adoption of regular risk management controls reporting to the Board, via the Audit & Risk Committee.

For the purposes of assisting investors to understand better the nature of the risks faced by the Company, the Board has prepared a list of adverse operational risks as part of these disclosures. However the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events:

- Adverse change in economic conditions affecting demand for the Company's products or services;
- Decrease in Federal or State government expenditure on transport infrastructure;
- Deferral of major projects through circumstances outside the Company's control;
- Adverse operating conditions, including prolonged periods of adverse weather conditions affecting operations; and
- Increasing costs of operations, including labour costs.

Managing Director and Chief Financial Officer certification

In accordance with section 295A of the Corporations Act, the Managing Director and the Chief Financial Officer have provided a written statement to the Board that:

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

Traffic Technologies Ltd
Corporate Governance Statement

Principle 8: Remunerate fairly and responsibility

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Nomination & Remuneration Committee takes account of the Company's financial and operating performance in setting the nature and amount of executive Directors' and executives' remuneration. In relation to the payment of bonuses, options or other incentive payments, discretion is exercised by the Nomination & Remuneration Committee, having regard to the overall performance of the Company and the performance of the individual during the period. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the Company; and
- Performance incentives that allow executives to share in the success of the Company.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report which is contained within the Directors' Report.

Nomination & Remuneration Committee

The Company has a Nomination & Remuneration Committee which is responsible for determining and reviewing compensation arrangements for the Directors and CEO and for approving parameters within which the review of the compensation arrangements for the senior executive team can be conducted by the CEO.

The Nomination & Remuneration Committee comprises all Board members, and is chaired by Mr. Horsburgh, who is an independent Director. For details of meetings of Nomination & Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

The details of the remuneration paid to Directors and Officers are included in the Remuneration Report contained in the Annual Report.

Non-executive Directors' remuneration

Certain non-executive directors have previously been issued share options as part of their remuneration. All Directors and executives have the opportunity to qualify for participation in the Company Share Option Plan, including non-executive Directors, although Shareholder approval is required and has been obtained for all equity-based remuneration payable to Board members. The payment of part of the remuneration of non-executive Directors in a non-cash form preserves cash for use in the business. In common with other smaller-cap listed companies, the Company believes that it must pay its non-executive Directors adequate remuneration in the form of cash and options in order to attract and retain non-executive Directors of appropriate qualifications and experience. Details of Directors' option holdings are disclosed in the Annual Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive Directors. Shareholder approval is required for all equity-based remuneration payable to Board members.

Traffic Technologies Ltd and Controlled Entities
Statement of Comprehensive Income
For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Continuing operations			
Revenue	2a	47,801	49,488
Cost of sales	3a	(31,470)	(34,976)
Gross Profit		16,331	14,512
Other income	2b	50	379
Employee benefits expense	3h	(7,510)	(7,907)
Occupancy costs		(2,061)	(2,154)
Other expenses	3b	(2,651)	(2,523)
Earnings before interest, tax, depreciation, amortisation expense and non-recurring items		4,159	2,307
Non-recurring items	3d	(955)	(1,382)
Depreciation, amortisation and impairment expense	3c	(2,186)	(1,682)
Finance costs	3e	(3,722)	(4,991)
Loss before income tax		(2,704)	(5,748)
Income tax benefit / (expense)	4(b)	(218)	115
Loss for the year from continuing operations		(2,922)	(5,633)
Discontinued operations and Disposal group held for sale			
Profit for the year from Discontinued operations and Disposal group held for sale	6b	2,668	679
Net loss for the year		(254)	(4,954)
Other comprehensive income for the period, net of tax		-	-
Net loss and total comprehensive income for the year		(254)	(4,954)
Earnings/ (loss) per share			
From continuing operations			
- Basic (cents per share)	5	(2.02)	(4.49)
- Diluted (cents per share)	5	(2.02)	(4.49)
From continuing and disposal group held for sale			
- Basic (cents per share)	5	(0.18)	(3.94)
- Diluted (cents per share)	5	(0.18)	(3.94)

The Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities
Statement of Financial Position
As at 30 June 2010

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Current Assets			
Cash and cash equivalents	20(a)	3,457	3,591
Trade and other receivables	7	16,506	14,267
Inventories	8	7,237	7,488
Prepayments		784	657
Assets of disposal group classified as held for sale	6(c)	13,171	-
Total Current Assets		41,155	26,003
Non-Current Assets			
Property, plant and equipment	10	5,699	9,501
Intangible assets and goodwill	11	34,241	43,641
Other financial assets	9	1	193
Deferred tax assets	4(d)	316	388
Total Non-Current Assets		40,257	53,723
TOTAL ASSETS		81,412	79,726
Current Liabilities			
Trade and other payables	12	13,750	12,391
Interest bearing loans and borrowings	13	19,135	9,790
Provisions	14	2,392	2,751
Liabilities directly associated with assets of disposal group classified as held for sale	6(c)	3,597	-
Total Current Liabilities		38,874	24,932
Non-Current Liabilities			
Trade and other payables	12	116	176
Interest bearing loans and borrowings	13	23,936	35,998
Provisions	14	96	254
Derivative financial instruments	16	333	663
Total Non-Current Liabilities		24,481	37,091
TOTAL LIABILITIES		63,355	62,023
NET ASSETS		18,057	17,703
Equity			
Contributed equity	15	41,663	41,062
Accumulated losses		(24,606)	(24,352)
Share-based payments reserve		1,000	993
TOTAL EQUITY		18,057	17,703

The Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2010

	Ordinary Shares	Convertible redeemable preference shares	Share based payments Reserve	Accumulated Losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED					
At 1 July 2008	33,062	8,000	980	(19,398)	22,644
Loss for the year	-	-	-	(4,954)	(4,954)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(4,954)	(4,954)
Transactions with owners in their capacity as owners:					
Conversion of 100 preference shares into 100 ordinary shares#	-	-	-	-	-
Share-based payment	-	-	13	-	13
At 30 June 2009	33,062	8,000	993	(24,352)	17,703
Loss for the year	-	-	-	(254)	(254)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(254)	(254)
Transactions with owners in their capacity as owners:					
<i>Share Placement</i>					
18,838,717 new ordinary shares issued at 3.5 cents per share – 10 August 2009	659	-	-	-	659
Transaction costs	(69)	-	-	-	(69)
Deferred tax on transaction costs	21	-	-	-	21
<i>Share Conversion</i>					
Conversion of 500,000 preference shares to 500,000 ordinary shares at 25 cents per share - 15 December 2009	125	(125)	-	-	-
<i>Share Conversion</i>					
Conversion of 15,000,000 preference shares to 15,000,000 ordinary shares at 25 cents per share – 11 May 2010	3,750	(3,750)	-	-	-
Transaction costs	(10)	-	-	-	(10)
Share-based payment	-	-	7	-	7
At 30 June 2010	37,538	4,125	1,000	(24,606)	18,057

- Transaction is less than \$500.

Share-based Payment Reserve

The share based payments reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration and the value of share based payments provided to vendors as part of the consideration in business combinations. See Note 17 for further details.

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities
Statement of Cash Flows
For the year ended 30 June 2010

	Note	Consolidated	
		2010 Inflows / (Outflows) \$'000	2009 Inflows / (Outflows) \$'000
Cash flows from operating activities			
Receipts from customers		98,637	100,759
Payments to suppliers and employees		(92,371)	(94,964)
Interest received		77	122
Interest paid		(3,464)	(4,406)
Income tax refund		-	524
Income tax paid		-	(546)
Net cash provided by operating activities	20(b)	<u>2,879</u>	<u>1,489</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		125	431
Proceeds from disposal of intangibles		32	-
Purchase of property plant and equipment		(1,090)	(3,066)
Proceeds from disposal of businesses		5	652
Purchase of businesses		-	(718)
Purchase of intangible assets		(1,528)	(1,560)
Net cash (used in) investing activities		<u>(2,456)</u>	<u>(4,261)</u>
Cash flows from financing activities			
Proceeds from share issues		659	-
Capital raising fees		(80)	-
Proceeds from borrowings		-	2,447
Payment for finance facility fees		(115)	(230)
Repayment of borrowings		(1,021)	(1,208)
Net cash (used in)/ provided by financing activities		<u>(557)</u>	<u>1,009</u>
Net decrease in cash and cash equivalents		(134)	(1,763)
Cash and cash equivalents at beginning of the financial year		3,591	5,354
Cash and cash equivalents at end of the financial year	20(a)	<u>3,457</u>	<u>3,591</u>

The Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

The financial report of Traffic Technologies Ltd (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 26 August 2010.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

1. Summary of Significant Accounting Policies

a) Basis of Preparation

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

The financial report covers Traffic Technologies Ltd as an individual parent entity and Traffic Technologies Ltd and controlled entities as a Group. Traffic Technologies Ltd is an Australian listed public company limited by shares, incorporated and domiciled in Australia.

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

The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial report of Traffic Technologies Ltd for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 26 August 2010.

Rounding

The amounts contained in the financial report have been rounded to the nearest thousand dollars (\$'000) (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Clarification of terminology used in income statement

Under the requirements of AASB 101 *Presentation of Financial Statements*, expenses (apart from finance costs) must be classified according to either the nature (type) of the expense or the function (activity to which the expense relates). Expenses have been classified using the nature classification as it more accurately reflects the type of operations undertaken.

Earnings before interest, income tax, depreciation, amortisation expenses and non-recurring items ("EBITDA before non-recurring items") reflects the results from continuing, recurring operational performance. This is believed to be a relevant and useful financial measure used by management to measure the Group's ongoing performance.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

b) New accounting standards and interpretations

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations effective 1 January 2009
- AASB 7 Financial Instruments: Disclosures effective 1 January 2009
- AASB 8 Operating Segments effective 1 January 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- AASB 123 Borrowing Costs (revised 2007) effective 1 January 2009
- AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2009
- AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate effective 1 January 2009
- AASB 2009-3 Amendments to Australian Accounting Standards - Embedded Derivatives [AASB 139 and Interpretation 9] effective 30 June 2009
- AASB 2009-6 Amendments to Australian Accounting Standards operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009
- AASB 3 Business Combinations (revised 2008) effective 1 July 2009
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 effective 1 July 2009
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5] effective 1 July 2009
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

The Group elected to early adopt the revised Standards from 1 January 2009 (instead of 1 July 2009).

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously “minority interests”), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in within this financial report. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in this financial report.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 26, including the related revised comparative information.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

AASB 123 Borrowing Costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. The Group did not capitalise any borrowing costs in the current year.

Annual Improvements Project

In May 2008 and April 2009 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *AASB 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures in note 6.
- *AASB 8 Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in note 5.
- *AASB 101 Presentation of Financial Statements*: assets and liabilities classified as held for trading in accordance with AASB 139 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities is in accordance with AASB 101. This did not result in any re-classification of financial instruments between current and non-current in the statement of statement of financial position.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

- AASB 116 *Property, Plant and Equipment*: replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- AASB 123 *Borrowing Costs*: the definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with AASB 139. The Group has amended its accounting policy accordingly which did not result in any change in its statement of financial position.
- AASB 136 *Impairment of Assets*: when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The Group has amended its disclosures accordingly in note 11. The amendment also clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- AASB 138 *Intangible Assets*: expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

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

- AASB 2 *Share-based Payment*
- AASB 108 *Accounting Policies, Change in Accounting Estimates and Error*
- AASB 110 *Events after the Reporting Period*
- AASB 117 *Leases*
- AASB 118 *Revenue*
- AASB 119 *Employee Benefits*
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- AASB 128 *Investment in Associates*
- AASB 131 *Interests in Joint Ventures*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*

Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2010, outlined in the table below:

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:</p> <p>The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.</p> <p>The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.</p> <p>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.</p> <p>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:</p> <ul style="list-style-type: none"> ▶ has primary responsibility for providing the goods or service; ▶ has inventory risk; ▶ has discretion in establishing prices; ▶ bears the credit risk. 	1 January 2010	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2010

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5 (con't)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.			
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 <i>Share-based Payment</i> and supersedes Interpretation 8 <i>Scope of AASB 2</i> and Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i> . The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2010

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-9	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> .	<p>The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process.</p> <p>Specifically, the amendments:</p> <ul style="list-style-type: none"> ▶ exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets ▶ exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i> when the application of their national accounting requirements produced the same result. 	1 January 2010	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2010

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> ▶ two categories for financial assets being amortised cost or fair value ▶ removal of the requirement to separate embedded derivatives in financial assets ▶ strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ▶ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ▶ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ▶ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)</p>	1 January 2011	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This amendment to AASB 1 allows a first-time adopter may apply the transitional provisions in Interpretation 19 as identified in AASB 1048.	1 July 2010	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2010

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	<p>These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.</p> <p>The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.</p>	1 January 2011	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2011
Interpretation 19***	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	<p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>	1 July 2010	The Group does not expect any material impact as a result of these amendments, if any.	1 July 2010

* designates the beginning of the applicable annual reporting period unless otherwise stated

** only applicable to not-for-profit / public sector entities

*** pronouncements that have been issued by the IASB and IFRIC but have not yet been issued by the AASB. Entities must disclose the impact of these pronouncements in order to make the statement of compliance with IFRS under AASB 101.14. For-profit public sector entities may not be required to disclose the impact of IASB and IFRIC pronouncements if they have applied an Australian Accounting Standard, which is inconsistent with IFRS requirements under AASB 101.Aus14.2. Not-for-profit entities need not comply with AASB 101.14 and are not required to disclose the impact of IASB and IFRIC pronouncements under AASB 101.Aus14.3.

Compliance with IFRS

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

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Traffic Technologies Ltd and its subsidiaries (as outlined in note 9) as at 30 June each year (the Group).

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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

Investments in subsidiaries held by Traffic Technologies Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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

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

d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product and service delivery expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Classification of assets and liabilities as held for sale

The Group classifies assets and liabilities as held for sale when its carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and the Group must be committed to selling the asset either through the entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

Capitalised development costs

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements 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.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Significant accounting estimates and assumptions

Significance of inputs in fair value hierarchy

An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10% change in the overall fair value of the instrument.

Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in the estimation of recoverable amount and the carrying amount of goodwill including a sensitivity analysis are discussed in note 11.

Unfavourable contracts

In determining its liability under unfavourable contracts, the Group first assesses which of its contracts are loss making and then ascertains whether the contract can be renegotiated or cancelled at no cost. In the event the Group is unsuccessful with an unfavourable contract, a provision is calculated in accordance with the lesser amount of cancelling the contract and performing its obligation under the contract.

Long service leave provision

As discussed in Note 1(u), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through inflation and promotion have been taken into account.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Allowance for impairment loss on receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. Debts that are considered to be uncollectible are written off when identified.

Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are disclosed in Note 10.

Maintenance warranty

In determining the level of the provision required for warranties, the Group has made judgements in respect of the expected performance of the products and any liability resulting from installation works. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in Note 14.

e) Revenue recognition

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

(i) Sale of goods

Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

(ii) Rendering of services

Revenue is recognised by reference to the stage of completion of a contract. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Interest revenue

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

(iv) Dividends

Revenue is recognised when the Group's right to receive the dividend is established.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

f) Leases

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

Group as a lessee

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

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

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

h) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90-120 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Amounts due from subsidiary entities

Amounts due from subsidiary entities are non-interest bearing and are receivable on demand.

An impairment assessment is undertaken each financial year in order to determine whether there is objective evidence that the inter-company receivable is impaired. If such objective evidence exists, the Company recognises an allowance for the impairment loss.

i) Inventories

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

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

- *Raw materials* – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials and volume discounts and rebates.
- *Finished goods and work-in-progress* – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

j) Investments and other financial assets

Classification

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

Loans and Receivables

Trade receivables, loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Available-for-sale investments

Certain shares held by the Group are classified as available-for-sale and are stated at cost less any known impairment. Cost is considered to be an approximation for fair value. The fair value of the unlisted investments is not supported by observable market prices and management does not have timely access to the financial reports and budgets of the unlisted investments that would be necessary to estimate the fair value using valuation techniques such as discounted cash flow analysis.

Management reviews the carrying value of the investment at each balance date and assesses it against the latest available information as part of a periodic impairment review.

Dividends on available for sale equity investments are recognised in the Income Statement when the Group's right to receive payments is established.

k) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

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

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

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

Tax consolidation

The Company and all its wholly owned Australian entities are part of a tax consolidated group as of 1 July 2005 under Australian taxation law.

Traffic Technologies Ltd is the head entity in the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 4 to the financial statements. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

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

1) Property, plant and equipment

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

Buildings are measured at cost less accumulated depreciation on buildings.

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

	2010	2009
Buildings	40 years	40 years
Leasehold improvements	10 years	10 years
Office furniture and fittings	4 to 10 years	4 to 10 years
Office furniture and fittings under finance lease	4 to 10 years	4 to 10 years
Motor vehicles	8 years	8 years
Motor vehicles under finance lease	8 years	8 years
Plant and equipment, including signage	1 to 15 years	1 to 15 years

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

m) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset to be classified as held for sale it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the face of the balance sheet.

n) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with AASB 8 *Segment Reporting*.

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

The Group performs its impairment testing as at 30 June each year using a value in use, discounted cash flow methodology for its cash-generating units to which goodwill has been allocated. Impairment testing may be performed at other dates where an indicator of impairment exists.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

o) Intangible assets

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

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

Development Expenditure

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure so capitalised is amortised over the period of expected benefit from the related project. Any expenditure so capitalised is amortised over the period of expected benefit from the related project which is generally 5 years (2009: 5 years). The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Type approval certification

Type approval certification internally generated or acquired in a business combination is carried at cost less accumulated amortisation and accumulated impairment losses and is amortised using the straight line method over a period between 5 years (2009: 5 years). Type approval certification represents the Group's 'license' to sell its light-emitting diode ("LED") traffic light signals.

Brand names

Brand names acquired in business combinations are assessed to have a finite life and are amortised over a period of 10 years (2009: 10 years).

Patents and trademarks

Patents and trademarks acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Patents and trademarks are amortised on a straight line basis over a 10 year period (2009: 10 years).

Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over their existing contract life and existing customer base. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

Software development

Purchased software development is assessed to have a finite life and is amortised over a period of 4 years (2009: 4 years).

p) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Traffic Technologies Ltd conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

q) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

r) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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

Borrowing costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. The Group did not capitalise any borrowing costs in the current year.

s) Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its interest rate risk exposures, including interest rate swaps and interest rate caps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts and interest rate cap contracts are determined by reference to market values for similar instruments.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. When there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required the Group reassesses whether an embedded derivative contained in a host contract must be separated from the host and accounted for as a derivative.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

t) Provisions and employee benefits

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

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

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

Employee leave benefits

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

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in current payroll liabilities (Note 12) and current provisions (Note 14) in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

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

u) Foreign currency translation

(i) Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the each business in the Group and the presentational currency for the consolidated financial statements.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

(ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

v) Share-based payment transactions

Equity settled transactions

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. For material share-based payment transactions, the fair value is determined by an external valuer using the option pricing model and assumptions detailed in Note 17; for other share-based payment transactions, the fair value is determined by management using the option pricing model and assumptions detailed in Note 17.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Traffic Technologies Ltd (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Traffic Technologies Ltd to employees of subsidiaries are recognised in the Company's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Traffic Technologies Ltd in relation to equity-settled awards only represents the expense associated with grants to employees of the Company. The expense recognised by the Group is the total expense associated with all such awards.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied. If the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification. If an equity-settled transaction is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction and designated as a replacement transaction on the date that it is granted, the cancelled and new transaction are treated as if they were a modification of the original transaction, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

w) Contributed equity

Convertible non-cumulative redeemable preference shares

The component of convertible non-cumulative redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs.

On issuance of the convertible redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years.

The corresponding equity dividends on those shares are recognised as a distribution. Interest on the liability component of the instrument is recognised as an expense in profit and loss.

Transaction costs are apportioned between the liability and equity components of the convertible non-cumulative redeemable preference shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Ordinary Shares

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

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

x) Earnings per share

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

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

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

Although options and preference shares on issue at 30 June 2010 could be considered dilutive, the fully diluted earnings per share calculation cannot give a more favourable result than the basic earnings per share calculation. Therefore, as per note 5, the basic earnings per share calculation is also used for the fully diluted calculation while the Company is in a loss position.

y) Business combinations

Subsequent to 1 July 2009

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

1. Summary of Significant Accounting Policies (continued)

Prior to 1 July 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated. When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

z) Operating segments

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

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team. The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services, and if applicable; and
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

2. Revenues

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
(a) Revenue		
Sale of goods	43,989	46,585
Rendering of services	3,740	2,713
Finance revenue – bank interest receivable	72	190
	<u>47,801</u>	<u>49,488</u>
(b) Other income		
Other income	5	374
Net gain on disposal of fixed assets	45	5
	<u>50</u>	<u>379</u>

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

3. Expenses

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
(a) Cost of sales		
Purchases and changes in inventory	21,027	24,495
Employee benefits expense – direct costs	9,502	9,282
Motor vehicle expenses – direct costs	271	601
Other direct costs	670	598
	31,470	34,976
(b) Other expenses		
Administrative costs	1,976	1,990
Public company costs	675	533
	2,651	2,523
(c) Depreciation, amortisation and impairment expense		
Depreciation of non-current assets:		
Plant and equipment, including signage	686	661
Office furniture and fittings	107	11
Motor vehicles	120	149
Land and Buildings	8	8
Leasehold improvements	40	17
	961	846
Amortisation of non-current assets:		
Patents and trademarks	135	23
Software costs	277	279
Development costs	301	93
Type approval	314	420
Customer contracts	-	9
Brand names	47	48
	1,074	872
Impairment of non-current assets:		
Other financial assets and subsidiaries	67	-
Related party receivables	-	-
Goodwill	-	-
Development costs	84	(36)
Acquisition costs	-	-
Plant and equipment, including signage	-	-
Office furniture and fittings	-	-
Motor vehicles	-	-
Leasehold improvements	-	-
	151	(36)
Total depreciation, amortisation and impairment expense	2,186	1,682

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

3. Expenses (continued)

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
(d) Non-recurring items		
Sale of business assets	-	(140)
Costs in relation to prior year business combinations	41	159
Consultancy costs – assessment of non-core assets	342	674
Consultancy costs - other	76	-
Redundancy costs	173	462
EGM Costs	294	-
Lease termination costs	18	169
Other	11	58
Total non-recurring items	955	1,382
(e) Finance costs		
Fair value of interest rate contracts	(330)	663
Amortisation of capitalised transaction costs	160	170
Bank loans and overdrafts	3,803	3,938
Lease interest	41	58
Other	48	162
Total finance costs	3,722	4,991
(f) Research and development costs		
Research and development costs charged directly to cost of sales in the income statement	57	88
(g) Operating lease rental expenses		
Operating lease rentals	1,910	1,802
(h) Employee related expenses		
Share-based payment expense	7	13
Wages and salaries	11,370	12,557
Superannuation	970	1,007
Other employee benefits expense	4,665	3,612
	17,012	17,189
<i>Employee related expenses are recognised in the income statement as follows:</i>		
Cost of sales	9,502	9,282
Employee benefits expense	7,510	7,907
	17,012	17,189

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

4. Income Tax

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
(a) Income tax expense / (benefit)		
The major components of income tax expense / (benefit) are:		
Income Statement		
<i>Current income tax</i>		
Current income tax charge / (benefit)	-	-
Adjustment recognised in the current year in relation to the current tax of prior years	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	93	1
Derecognition of tax losses	-	-
Income tax expense/(benefit) reported in the income statement	93	1
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate		
Accounting loss before income tax from Continuing operations	(2,704)	(5,772)
Accounting profit before income tax from Discontinued operations and Disposal group held for sale	2,543	795
	(161)	(4,977)
Prima facie income tax benefit at the Group's statutory income tax rate of 30% (2009: 30%)	(48)	(1,493)
Benefit arising from previously unrecognised tax losses of a prior period that is used to reduce probable future income tax	93	-
Share-based payment (equity settled)	2	4
Amortisation of other intangible assets	293	179
Impairment of non-current assets	45	(6)
(Income) / expenses that are not deductible in determining taxable profit	68	74
Deferred tax expense / (income) relating to origination and reversal of temporary differences	-	-
Temporary differences now derecognised / (recognised) as deferred tax assets/liabilities	(360)	1,243
Under-provision for income tax in prior year	-	-
Aggregate income tax expense / (benefit)	93	1
Aggregate income tax expense / (benefit) is attributable to:		
Continuing operations	218	(115)
Discontinued operations and Disposal group held for sale	(125)	116
Income tax expense / (benefit)	93	1
(c) Income tax recognised directly in equity		
The following current and deferred amounts were credited directly to equity during the period:		
<u>Deferred Tax</u>		
Share issue expenses deductible over 5 years	-	-

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

4. Income Tax (continued)

(d) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

30 June 2010	Consolidated				
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Acquisitions \$'000	Closing balance \$'000
<i>Temporary differences</i>					
Intangible assets	(915)	(120)	-	-	(1,035)
Property, plant and equipment	-	-	-	-	-
Employee provisions	573	(8)	-	-	565
Warranty provisions	34	(1)	-	-	33
Restructuring provisions	19	(19)	-	-	-
Unfavourable contract provision	53	(2)	-	-	51
Inventory provisions	44	31	-	-	75
Doubtful debts	6	1	-	-	7
Credit notes	31	99	-	-	130
Unclaimed share issue costs	73	(48)	21	-	46
Accruals	470	(26)	-	-	444
	388	(93)	21	-	316
Unused tax losses	-	-	-	-	-
	388	(93)	21	-	316

Presented in the balance sheet as follows:

Deferred tax liability	(1,035)
Deferred tax assets	1,351
	316

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

4. Income Tax (continued)

30 June 2009	Consolidated				
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Acquisitions \$'000	Closing balance \$'000
<i>Temporary differences</i>					
Intangible assets	(777)	(138)	-	-	(915)
Property, plant and equipment	161	(161)	-	-	-
Employee provisions	480	93	-	-	573
Warranty provisions	42	(8)	-	-	34
Restructuring provisions	-	19	-	-	19
Unfavourable contract provision	-	53	-	-	53
Inventory provisions	39	5	-	-	44
Doubtful debts	49	(43)	-	-	6
Credit notes	-	31	-	-	31
Unclaimed share issue costs	172	(99)	-	-	73
Accruals	223	247	-	-	470
	389	(1)	-	-	388
Unused tax losses	-	-	-	-	-
	389	(1)	-	-	388

Presented in the balance sheet as follows:

Deferred tax liability	(915)
Deferred tax assets	1,303
	388

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
The following deferred tax assets and deferred tax liabilities have not been brought to account as assets:		
Property, Plant and Equipment	921	527
Inventory Provisions	36	8
Doubtful debts	87	7
Accruals and employee provisions	595	615
Tax losses – revenue	-	-
<i>Total deferred tax assets</i>	1,639	1,157

“Tax losses – revenue” are available to carry forward against future “taxable profits – revenue” (but not against capital related profits) without expiry.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

4. Income Tax (continued)

Unrecognised temporary differences

At 30 June 2010 there are no unrecognised temporary differences associated with the Group's investment in subsidiaries or associates as the Group has no liability for additional taxation should unremitted earnings be remitted (2009: \$nil).

(f) Tax consolidation

Traffic Technologies Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Traffic Technologies Ltd. Each wholly owned subsidiary of Traffic Technologies Ltd is a member of the tax consolidated group, as identified at Note 9.

(g) Nature of tax funding and tax sharing agreements

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing arrangement with the head entity. Under the terms of the tax funding arrangement, Traffic Technologies Ltd and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for the tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

5. Earnings per Share

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

(a) Earnings used in calculating earnings per share	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<i>For basic and diluted earnings per share:</i>		
Net loss from continuing operations attributable to ordinary equity holders of the parent	(2,922)	(5,633)
Profit attributable to discontinued operations	2,668	679
Net loss attributable to ordinary equity holders of the parent	(254)	(4,954)

(b) Weighted average number of shares

	Consolidated 2010 Thousands	Consolidated 2009 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	144,639	125,591
Effect of dilution:		
Share options	-	-
Redeemable preference shares	29,367	31,692
Weighted average number of ordinary shares adjusted for the effect of dilution	174,006	157,283

There are no instruments (e.g. share options) excluded from the calculation of diluted earnings per share that could potentially dilute earnings per share in the future because they are anti-dilutive for either of the periods presented.

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

(c) Weighted average number of shares

(i) Options

Options granted to employees (including KMP) as described in Note 17 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

(i) Redeemable preference shares

The redeemable preference shares as described in Note 15 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These shares have not been included in the determination of basic earnings per share.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

6. Discontinued operations and Disposal group held for sale

(a) Details of operations disposed

On 29 June 2010 the Group entered into a sale agreement to dispose of its Traffic Management business and assets (“Traffic Management”), a business which involved the hiring out of traffic controllers to road authorities, contractors and local councils. The disposal was completed on 9 August 2010, on which date control of the business passed to the acquirer. No cash proceeds had been received by the Company as at 30 June 2010.

On 12 May 2008 the Group entered into a sale agreement to dispose of its Guard Rail Installations business and assets (“Guard Rail”), a business which involved the design, supply and installation of Guard Rail on roads. The disposal was completed on 16 May 2008, on which date control of the business passed to the acquirer.

On 10 August 2007 the Group entered into a sale agreement to dispose of its line marking services business and assets (“Line Marking”). The disposal was completed on 10 September 2007, on which date control of the business passed to the acquirer.

(b) Financial performance of operations disposed

The results of the disposal group held for sale for the year until disposal are presented below:

	Disposal group held for sale		Discontinued operations			
	Traffic Management		Guard Rail		Line Marking	
	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	44,184	38,890	-	-	-	-
Other income	44	-	-	-	-	-
Gain on disposal	-	-	-	150	-	-
Expenses	(40,277)	(36,349)	-	(277)	-	(27)
EBITDA before non-recurring items	3,951	2,541	-	(127)	-	(27)
Non-recurring items	(42)	(234)	-	-	-	-
Depreciation and amortisation expenses	(1,182)	(1,161)	-	(28)	-	-
Finance costs	(184)	(74)	-	-	-	-
Loss recognised on remeasurement to fair value	-	-	-	(95)	-	-
Profit before tax from Discontinued operations and Disposal group held for sale	2,543	1,072	-	(250)	-	(27)
Income tax benefit / (expense)	125	(139)	-	23	-	-
Profit after tax from Discontinued operations and Disposal group held for sale	2,668	933	-	(227)	-	(27)
	2010	2009				
	\$'000	\$'000				
<i>Reconciliation of profit after tax from Discontinued operations and Disposal group held for sale</i>						
Profit before income tax						
Traffic Management	2,543	1,072				
Guard Rail	-	(250)				
Line Marking	-	(27)				
	2,543	795				
Income tax benefit / (expense)	125	(116)				
	2,668	679				

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

6. Discontinued operations and Disposal group held for sale (continued)

(c) Assets and liabilities and cash flow information of Discontinued operations and Disposal group held for sale

The major classes of assets and liabilities classified as Disposal group held for sale

Traffic Management	2010	2009
	\$'000	\$'000
Assets		
Prepayments	52	-
Property, plant and equipment	3,315	-
Intangibles	9,680	-
Other financial assets	124	-
Assets classified as disposal group held for sale	13,171	-
Liabilities		
Other payables	88	-
Finance lease liabilities	2,567	-
Employee entitlements	942	-
Liabilities directly associated with assets classified as disposal group held for sale	3,597	-
Net assets attributable to Disposal group held for sale	9,574	-

The net cash flows of Discontinued operations and Disposal group held for sale are as follows:

	2010			Total
	Traffic Management	Guard Rail	Line Marking	
	\$'000	\$'000	\$'000	\$'000
Operating activities	3,339	-	-	3,339
Investing activities	(637)	-	-	(637)
Financing activities	(2,749)	-	-	(2,749)
Net cash outflow	(47)	-	-	(47)
	2009			
	Traffic Management	Guard Rail	Line Marking	Total
	\$'000	\$'000	\$'000	\$'000
Operating activities	1,663	(119)	(21)	1,523
Investing activities	(321)	162	-	(159)
Financing activities	(1,301)	-	-	(1,301)
Net cash inflow / (outflow)	41	43	(21)	63

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

6. Discontinued operations and Disposal group held for sale (continued)

(d) Assets and liabilities and cash flow information of Discontinued operations and Disposal group held for sale (continued)

Consideration received:

	2010	2009
	\$'000	\$'000
Cash*	-	150
Less net assets disposed	-	-
Gain on disposal before income tax expense	-	150
Income tax expense	-	-
Gain on disposal after income tax expense	-	150

* - Cash proceeds exclude GST

(e) Earnings per share of Discontinued operations and Disposal group held for sale

	2010	2009
<i>Earnings per share (cents per share)</i>		
- Basic from disposal group held for sale	1.84	0.54
- Diluted from disposal group held for sale	1.53	0.43

7. Trade and Other Receivables (Current)

	Consolidated	Consolidated
	2010	2009
	\$'000	\$'000
Trade receivables	16,310	13,911
Allowance for impairment loss (a)	(28)	(20)
	16,282	13,891
Other receivables	224	376
	16,506	14,267

(a) Allowance for impairment loss – trade receivables

Trade receivables are non-interest bearing and are generally on 30 day terms, and can vary depending on any individual contract. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. A net impairment loss of \$28,000 (2009: \$20,000) has been recognised by the Group and \$nil (2009: \$nil) by the Company in the current year. These amounts have been included in the administration costs line item, within other expenses.

The amount of the allowance for impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Movements in the allowance for impairment loss were as follows:

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

7. Trade and Other Receivables (Current) - (continued)

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Balance at the beginning of the year	20	133
Charge for the year	28	-
Amounts written off as uncollectible	-	(15)
Amounts recovered during the year	-	-
Allowance no longer required	(20)	(98)
Balance at the end of the year	28	20

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

		TOTAL	0 – 30 days \$'000	31 – 60 days \$'000 PDNI*	31 – 60 days \$'000 CI*	61 – 90 days \$'000 PDNI*	61 – 90 Days \$'000 CI*	+ 91 days \$'000 PDNI*	+ 91 days \$'000 CI*
2010	Group	16,310	8,667	5,485	-	1,173	-	957	28
2009	Group	13,911	8,215	5,019	-	428	-	229	20

*** - Table Legend**

- Past due not impaired (PDNI)
- Considered impaired (CI)

Receivables past due but not considered impaired are: Group \$7,621,000 (2009: \$5,676,000). Payment terms on these amounts have not been renegotiated; however credit has been stopped until full payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Fair value and credit risk

Due to the short term nature of trade and other receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 18.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

8. Inventories (Current)

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Raw materials	3,259	2,751
Work in progress	229	318
Finished goods	3,749	4,419
	7,237	7,488

Inventory write-downs recognised as an expense totalled \$nil (2009: \$42,154) for the Group. During the year, inventory write-downs of \$nil were reversed following the disposal of associated aged/impaired inventory (2009: \$75,000). This expense/benefit is included in cost of sales.

9. Other Financial Assets (Non-current)

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Unlisted investments, at recoverable amount <i>(ii)</i>	1	193
	1	193

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

9. Other Financial Assets (Non-current) (continued)

(i) Subsidiaries

Name of entity	Country of Incorporation	% of equity interest 2010	% of equity interest 2009	Investment 2010 \$'000	Investment 2009 \$'000
Traffic Technologies Signal & Hardware Division Pty Ltd ("TTSH")	Australia	100%	100%	-	-
Traffic Technologies Traffic Management Division Pty Ltd	Australia	100%	100%	1,074	1,074
De Neeffe Signs Pty Ltd ("DNS")	Australia	100%	100%	-	-
Traffic Technologies Traffic Hire Pty Ltd ("Traffic Hire")	Australia	100%	100%	-	-
Sunny Signs Pty Ltd ("Sunny")	Australia	100%	100%	1,881	1,881
Pro-Tech Traffic Management Pty Ltd	Australia	100%	100%	-	-
KJ Aldridge Investments Pty Ltd	Australia	100%	100%	40,564 ^A	40,564 ^A
- Aldridge Traffic Group Pty Ltd	Australia	100%	100%	-	-
- Excelsior Diecasting Pty Limited	Australia	100%	100%	-	-
- Aldridge Traffic Systems Pty Ltd	Australia	100%	100%	-	-
- Aldridge Plastics Pty Ltd	Australia	100%	100%	-	-
				43,519	43,519

^A – The cost of the investment relates to the purchase of 100% of the share capital in KJ Aldridge Investments Pty Limited and 100% of the share capital in each of the wholly owned subsidiaries as detailed above. The cost of the investment has not been apportioned to the individual subsidiaries within the Aldridge group.

(ii) The investment in Warp Pty Ltd forms part of the disposal assets sold as part of the Traffic Management divestment and as such has been reclassified as part of Disposal group held for sale. Prior to this reclassification as part of the divestment the Group held 10% (2009: 10%) of the ordinary share capital of Warp Pty Ltd, a company involved in the provision of traffic management services. Prior to 30 June 2010 the directors of the Group did not believe that the Group was able to exert significant influence over Warp Pty Ltd as the other 90% is owned by the directors of the Warp Pty Ltd who also manage day to day operations of that company. Prior to the divestment, the Directors have determined that the carrying value of the investment in WARP Pty Ltd should be reduced to its recoverable amount resulting in an impairment loss of \$66,651 (2009: \$336,000).

(iii) The Directors review the carrying value of the parent entity's investment in its subsidiary entities on an ongoing basis. In the prior year the Directors determined that the carrying values of the investment in TTSH, DNS, Sunny and Traffic Hire should be adjusted to their recoverable amount resulting in a \$132,000 reversal in the financial year ended 30 June 2009 of an impairment loss recorded in a previous year. The Directors have determined that all other investments in subsidiary entities should remain at cost.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

10. Property, Plant and Equipment

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
a) Carrying values		
<i>Plant and equipment, including signage:</i>		
At cost	8,122	11,775
Accumulated depreciation*	(3,255)	(6,089)
Total plant and equipment	4,867	5,686
 <i>Office furniture and fittings</i>		
At cost	1,053	1,693
Accumulated depreciation*	(905)	(1,309)
Total office furniture and fittings	148	384
 <i>Office equipment under lease</i>		
At cost	30	320
Accumulated depreciation*	(30)	(297)
Total office equipment under lease	-	23
 <i>Motor vehicles</i>		
At cost	584	1,129
Accumulated depreciation*	(307)	(551)
Total motor vehicles	277	578
 <i>Motor vehicles under lease</i>		
At cost	235	2,905
Accumulated depreciation*	(104)	(474)
Total motor vehicles under lease	131	2,431
 <i>Buildings</i>		
At cost	200	200
Accumulated depreciation	(38)	(30)
Total land and buildings	162	170
 <i>Leasehold improvements</i>		
At cost	677	812
Accumulated depreciation*	(563)	(583)
Total leasehold improvements	114	229
 <i>Total property, plant and equipment</i>		
At cost	10,901	18,834
Accumulated depreciation*	(5,202)	(9,333)
Total net book value	5,699	9,501

* - Includes impairment

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

10. Property, Plant and Equipment (continued)

b) Reconciliation of carrying amounts at the beginning and end of period

CONSOLIDATED

	Plant & Equipment \$'000	Office furniture & fittings \$'000	Office equipment under lease \$'000	Motor vehicles \$'000	Motor vehicles under lease \$'000	Buildings \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2010								
Balance at the beginning of the year, net of accumulated depreciation	5,686	384	23	578	2,431	170	229	9,501
Additions	916	67	19	82	607	-	6	1,697
Disposals	(29)	-	-	(31)	(54)	-	-	(114)
Impairment (i)	-	-	-	-	-	-	-	-
Depreciation expense as part of continuing operations	(686)	(107)	-	(83)	(37)	(8)	(40)	(961)
Depreciation expense as part of Discontinued operations and Disposal group held for sale	(575)	(69)	(16)	(85)	(350)	-	(15)	(1,110)
Assets transferred to Disposal group held for sale	(445)	(127)	(26)	(184)	(2,466)	-	(66)	(3,314)
Balance at the end of the year, net of accumulated depreciation	4,867	148	-	277	131	162	114	5,699

Year ended 30 June 2009

Balance at the beginning of the year, net of accumulated depreciation	4,608	590	62	1,183	485	178	182	7,288
Transfers - property, plant & equipment	1	12	(8)	(136)	131	-	-	-
Transfers - intangible assets	-	(75)	-	-	-	-	-	(75)
Additions	2,787	110	-	89	2,212	-	80	5,278
Disposals	(488)	(11)	-	(213)	(217)	-	-	(929)
Impairment (i)	(95)	-	-	-	-	-	-	(95)
Depreciation expense as part of Continuing operations	(661)	(10)	(1)	(98)	(51)	(8)	(17)	(846)
Depreciation expense as part of Discontinued operations and Disposal group held for sale	(466)	(232)	(30)	(247)	(129)	-	(16)	(1,120)
Balance at the end of the year, net of accumulated depreciation	5,686	384	23	578	2,431	170	229	9,501

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

b) Property, plant and equipment pledged as security for liabilities

Leased assets are pledged as security for the related finance lease liabilities.

The Group's property, plant and equipment is pledged as security against the borrowings with Westpac Bank as disclosed in Note 13.

11. Intangible Assets

a) Carrying values

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<i>Development costs</i>		
At cost	2,566	1,273
Accumulated amortisation	(443)	(38)
Accumulated impairment	(400)	(315)
	<u>1,723</u>	920
<i>Type approval certification</i>		
At cost	2,393	2,393
Accumulated amortisation	(1,120)	(806)
	<u>1,273</u>	1,587
<i>Patents and trademarks</i>		
At cost	191	210
Accumulated amortisation	(58)	(35)
	<u>133</u>	175
<i>Software costs</i>		
At cost	613	800
Accumulated amortisation	(362)	(376)
	<u>251</u>	424
<i>Customer contracts</i>		
At cost	650	650
Accumulated amortisation	(650)	(650)
	<u>-</u>	-
<i>Brand names</i>		
At cost	477	477
Accumulated amortisation	(151)	(104)
	<u>326</u>	373
<i>Goodwill</i>		
At cost	33,023	42,650
Accumulated impairment	(2,488)	(2,488)
	<u>30,535</u>	40,162
<i>Total intangibles</i>		
At cost	39,913	48,453
Accumulated amortisation*	(5,672)	(4,812)
Total net book value	<u>34,241</u>	43,641

* - Includes impairment

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

11. Intangible Assets (continued)

	Consolidated							
	Development Costs \$'000	Type Approval \$'000	Software Costs \$'000	Patents and Trademarks \$'000	Customer Contracts \$'000	Brands \$'000	Goodwill \$'000	TOTAL \$'000
At 1 July 2009 net book value	920	1,587	424	175	-	373	40,162	43,641
Additions	1,205	-	230	93	-	-	-	1,528
Disposals	(17)	-	-	-	-	-	-	(17)
Transfers – intangible assets	-	-	-	-	-	-	-	-
Transfers – property, plant & equipment	-	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	-	-	-
Amortisation as part of continuing operations	(301)	(314)	(277)	(135)	-	(47)	-	(1,074)
Amortisation as part of Disposal group held for sale	-	-	(72)	-	-	-	-	(72)
Impairment	(84)	-	-	-	-	-	-	(84)
Assets transferred to Disposal group held for sale	-	-	(54)	-	-	-	(9,627)	(9,681)
At 30 June 2010 net book value	1,723	1,273	251	133	-	326	30,535	34,241
At 1 July 2008 net book value	663	1,331	84	112	9	421	40,412	43,032
Additions	576	450	597	86	-	-	-	1,709
Disposals	(20)	-	-	-	-	-	-	(20)
Transfers – intangible assets	(226)	226	-	-	-	-	-	-
Transfers – property, plant & equipment	-	-	75	-	-	-	-	75
Fair value adjustment	-	-	-	-	-	-	(250)	(250)
Amortisation	(93)	(420)	(332)	(23)	(9)	(48)	-	(925)
Impairment	20	-	-	-	-	-	-	20
At 30 June 2009 net book value	920	1,587	424	175	-	373	40,162	43,641

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

11. Intangible Assets (continued)

(b) Description of the Group's intangible assets and goodwill

(i) Development costs

Development costs, including type approval work-in-progress, are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years. Once type approval projects have been certified by the State Road Transport Authority, the costs are transferred to a separate category of intangible assets, "type approval certification", at which point amortisation commences. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

(ii) Type approval certification

Type approval certification internally generated or acquired in a business combination is carried at cost less accumulated amortisation and accumulated impairment losses and is amortised using the straight line method over a period of 5 years. Type approval certification represents the Group's 'license' to sell its light-emitting diode ("LED") traffic light signals. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

(iii) Patents and trademarks

Patents and trademarks acquired separately or in a business combination are carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having finite lives and are amortised using the straight line method over a period of 10 years. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

(iv) Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and are amortised using the straight line method using existing contract life and existing customer base. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

(v) Brand names

After initial recognition brand names acquired in a business combination are measured at cost less any accumulated impairment losses. These intangible assets have been assessed as having finite lives and are amortised using the straight line method over a period of 10 years. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

(vi) Goodwill

After initial recognition goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer section (c) of this note).

(vii) Software costs

These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 4 years. The amortisation has been recognised in the income statement in the line item 'depreciation, amortisation and impairment expense'.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

11. Intangible Assets (continued)

(c) Impairment tests for goodwill and intangibles with indefinite useful lives

(i) Description of the cash-generating units and other relevant information

Goodwill and brand names acquired through business combinations have been allocated to two individual cash-generating units for impairment testing as follows:

- Signals
- Traffic Management

Signals Cash-generating Unit

The recoverable amount of the Signals cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets prepared by management covering a five year period.

The pre tax discount rate applied to the cash flow projections is 14.9% (2009: 14.3%), which is the Group's WACC adjusted downwards to reflect the risks specific to the Signals cash-generating unit. The growth rate used to extrapolate the cash flows over the five year period is 5% (2009: 5%).

The Group believes that the growth rate selected is justified based on expected growth in demand due to increased road infrastructure investment in line with government projections.

Traffic Management Cash-generating Unit

The recoverable amount of the Traffic Management (TMD) business for the 30 June 2010 year has been determined based on a fair value less costs to sell valuation as the Company had signed an Agreement on 29 June 2010 to divest the TMD business. At 30 June 2010 the fair value less cost to sell of the TMD business does not indicate that an impairment is required.

During the 2009 financial year the recoverable amount of the TMD cash-generating unit had been determined based on a value in use calculation using cash flow projections based on financial budgets prepared by management covering a five year period.

In the 30 June 2009 year recoverable amount was the pre tax discount rate applied to the cash flow projections in 2009 was 15.5%, which was the Group's WACC adjusted upwards to reflect the risks specific to the TMD cash-generating unit. The growth rate used to extrapolate the cash flows over the five year period was 5% for 30 June 2009.

The Group believes that the growth rate selected was justified based on strong expected growth in traffic management services over the next ten years in line with government projections.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

11. Intangible Assets (continued)

(ii) *Carrying amount of goodwill and indefinite lived intangible assets allocated to each of the cash-generating units*

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<i>Summary by Cash-generating Unit</i>		
Signals	30,535	30,535
Traffic Management	-	9,627
	30,535	40,162

(iii) *Key assumptions used in value in use calculations for the cash-generating units for 30 June 2010 and 30 June 2009*

The Group has based its cash flow projections on budgets prepared by management.

The cash flows have been extrapolated using the expected growth rate of 5% for the Signals cash-generating unit for both 30 June 2010 and 30 June 2009 years, however due to agreed sale of Traffic Management at 30 June 2010 the value in use calculation has only been used for the 30 June 2009 calculation. At 30 June 2010 the recoverable amount of the Traffic Management business for the 30 June 2010 year has been determined based on a fair value less costs to sell valuation.

The Group believes that the growth rates selected are justified based on strong expected growth in demand over the next 5 years in line with government projections.

It has been assumed that the current market share achieved by the Group will be maintained and that the budgeted growth rates will be achieved through expected strong growth in market demand.

The projections are based on the gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. The Group believes that efficiency improvements of up to 5% per year can be reasonably achieved in each of the cash generating units.

The cash flows have been discounted at higher WACC rates as at 30 June 2010 compared with 30 June 2009 and this is a reflection of the Group's higher cost of finance and high level of gearing.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2010 and management does not believe there are reasonably possible changes in the key assumptions.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

12. Trade and Other Payables

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<i>Current</i>		
Trade creditors (i)	8,618	7,542
Sundry creditors and accruals (ii)	5,132	4,839
Deferred consideration	-	10
Current Trade and Other Payables	13,750	12,391
 <i>Non-current</i>		
Sundry creditors and accruals (ii)	116	176
Non-current Trade and Other Payables	116	176

(i) Trade creditors

Trade payables are non-interest bearing and are normally settled on 60-day terms.

(ii) Sundry creditors and accruals

Current

Current sundry creditors and accruals are non-trade payables, non-interest bearing and have an average term of 3 months.

Non-current

Non-current sundry creditors and accruals are long-term, unamortised property lease incentives ranging from 2-5 years maturity.

(iii) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(iv) Interest rate, foreign exchange and liquidity risk

Information regarding the effective interest rate, foreign exchange and liquidity risk exposure is set out in note 18.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

13. Interest Bearing Loans and Borrowings

	Nominal interest rate	Year of maturity	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Current borrowings				
Term bank facility (secured) – (i) (ii)	BBR + 3.75%	2011	10,000	-
Working capital facility (secured) (iii)	BBR + 5.00%	2011	8,997	8,997
Lease liabilities (iv)	5.5% - 8.9%	2010-2013	138	793
			19,135	9,790
Non-current borrowings				
Term bank facility (secured) – (i) (ii)	BBR + 3.75%	2011	23,796	33,744
Lease liabilities	5.5% - 8.9%	2010-2013	140	2,254
			23,936	35,998

All loans are denominated in Australian Dollars. The carrying amount of the Group's current and non-current borrowings approximates their fair value.

(i) *Reconciliation of Term Bank Facility*

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Term bank facility balance comprises:		
Term bank facility – Principal loan amounts payable	34,000	34,000
Less: capitalised transaction costs	(204)	(256)
	33,796	33,744
Current borrowings	10,000	-
Non-current borrowings	23,796	33,744
	33,796	33,744

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

13. Interest Bearing Loans and Borrowings (continued)

Terms and conditions relating to the above financial instruments:

(ii) *Term Facility*

The term facility has been scheduled for repayment on 1 October 2011 and has been presented as non-current in accordance with AASB 101 *Presentation of Financial Statements*, except for the reduction in the term debt facility agreed with Westpac (refer (vii) below). The term facility is secured by fixed and floating charges over the total assets of the Group.

(iii) *Working Capital Facility*

The working capital facility comprises a bank overdraft facility, a bank guarantee commitment and a revolving cash advance facility. The combination of these facilities must not exceed \$12m at any point in time. The facility has been scheduled for repayment on 1 October 2011 and has been presented as current in accordance with the economic substance of a working capital facility. The working capital facility is secured by fixed and floating charges over the total assets of the Group, excluding inventory.

(iv) Information regarding the effective interest rate risk of borrowings is set out in Note 18.

(v) During the current and prior years, there were no defaults or breaches on any of the loans.

(vi) Refer to Note 20(c) for details regarding the financing facilities available.

(vii) On 9 August 2010 Westpac confirmed that it will reduce Traffic Technologies term debt facility from \$34.0m at 30 June 2010 to \$24.0m within six months of completion of the sale of the Traffic Management business and the working capital facility from \$12.0m to \$8.6m within six months of completion.

14. Provisions

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<i>Current</i>		
Annual leave	921	1,544
Long service leave	753	859
Restructuring	100	65
Unfavourable contracts	170	170
Maintenance warranties	448	113
	2,392	2,751
<i>Non-current</i>		
Long service leave	96	254
	96	254
Total provisions	2,488	3,005

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

14. Provisions (continued)

(a) Movements in provisions

Movements in each class of provisions during the financial year, other than provisions relating to employee benefits, are set out below:

	Restructuring \$'000	Unfavourable Contracts \$'000	Maintenance Warranties \$'000	Total \$'000
CONSOLIDATED				
At 1 July 2009	65	170	113	348
Arising during the year	35	-	335	370
Unused amounts reversed	-	-	-	-
At 30 June 2010	100	170	448	718
Current 2010	100	170	448	718
Non-current 2010	-	-	-	-
	100	170	448	718
Current 2009	65	170	113	348
Non-current 2009	-	-	-	-
	65	170	113	348

(b) Nature and timing of provision for restructuring

(i) Traffic Technologies Ltd

In line with the Group's ongoing implementation of its Profit Improvement Program, the Group recognised a provision for restructure. The provision represented the present value of the directors' best estimate of the future outflow of economic benefits that will be required in order to effect the restructuring plan.

(c) Nature and timing of provision for unfavourable contracts

(i) Guard Rail Installations – Discontinued operations

The Group has recognised a provision for an unfavourable contract in relation to its former Guard Rail Installations business disposed in the prior year. The contract was identified during the year and further that it had not been assigned to the purchaser on disposal of the business. The provision recognised represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required in order to either complete the requirements of the contract or to settle any claim brought against the Group in the event that it does not complete the requirements of the contract.

(d) Nature and timing of provision for maintenance warranties

(i) Technical Products – Signals Division

The Group has recognised a provision for expected warranty claims on products sold by the Signals division during the last five years, based on current sales levels, current information available about past returns and repairs, and on the five year warranty period for all products sold. The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under warranties offered for traffic signals and emergency telephones produced by the Technical Products division.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

15. Contributed Equity

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Ordinary shares	37,538	33,062
Convertible non-cumulative redeemable preference shares	4,125	8,000
	41,663	41,062
	No. of Shares '000	\$'000
a) Ordinary shares		
At 1 July 2008	125,591	33,062
Conversion of 100 preference shares to 100 ordinary shares#	-	-
At 30 June 2009	125,591	33,062
At 1 July 2009	125,591	33,062
<i>Share Placement</i>		
18,838,717 new ordinary shares issued at 3.5 cents per share – 10 August 2009	18,839	659
Transaction costs	-	(69)
Deferred tax on transaction costs	-	21
	-	-
<i>Share Conversion</i>		
Conversion of 500,000 preference shares to 500,000 ordinary shares at 25 cents per share - 15 December 2009	500	125
<i>Share Conversion</i>		
Conversion of 15,000,000 preference shares to 15,000,000 ordinary shares at 25 cents per share – 11 May 2010	15,000	3,750
Transaction costs	-	(10)
At 30 June 2010	159,930	37,538

- Transaction is less than \$500.

Terms and conditions of contributed equity

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

15. Contributed Equity (continued)

	No. of Shares '000	\$'000
b) Movement in convertible non-cumulative redeemable preference shares		
At 1 July 2008	31,692	8,000
Conversion of 100 preference shares to 100 ordinary shares at \$0.25 per share#	-	-
At 30 June 2009	31,692	8,000
At 1 July 2009	31,692	8,000
Conversion of 15,500,000 preference shares to 15,500,000 ordinary shares at \$0.25 per share	(15,500)	(3,875)
At 30 June 2010	16,192	4,125

- Transaction is less than \$500.

Terms and conditions of convertible non-cumulative redeemable preference shares

Preference shares are convertible into fully paid Ordinary shares on the basis that each Preference share is convertible at the option of the Preference shareholder into one Ordinary share. There is no time limit specified within which Preference shares must be converted. No additional consideration is payable on conversion. Equity Partners may only convert so that the number of shares to be issued on conversion does not result in Equity Partners' voting power in the Company increasing in contravention of section 606 of the *Corporations Act 2001*.

Preference shares are redeemable only on the occurrence of an "Insolvency Event", (an application made to a court to wind up the Company, the appointment of a liquidator, provisional liquidator, receiver, manager, administrator or controller or the Company entering into an arrangement with one or more of its creditors or failing to comply with a statutory demand) or the Company ceasing to trade, at the option of the Preference shareholder.

Preference shareholders will not be entitled to vote at any general meeting of the Company except in the following circumstances:

- a) on a proposal:
 - (i) to reduce the share capital of the Company;
 - (ii) that affects the rights attached to Preference shares;
 - (iii) to wind up the Company; and
 - (iv) for the disposal of the whole of the property, business and undertakings of the Company.
- b) on a resolution to approve the terms of a share buy-back agreement;
- c) during a period in which a Dividend or part of a Dividend is in arrears;
- d) during the winding-up of the Company.

Subject to the Preference share terms, but in any event only if the Directors declare a dividend on the Ordinary shares, each Preference share entitles the Preference shareholder on a Record Date to receive on the relevant Dividend payment date in preference to the holder of Ordinary shares a non-cumulative dividend in an amount equal to the dividend declared on the Ordinary shares. Dividends will be payable on the dates on which dividends on Ordinary shares are payable. Preference shareholders are entitled to receive dividends in priority to holders of Ordinary shares and equally with the holders of other Preference shares that may be issued with the consent of the holders of the majority of the Preference shares.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

15. Contributed Equity (continued)

c) Capital risk management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, which includes borrowings disclosed in Note 13, cash and cash equivalents disclosed in Note 20 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

Operating cash flows are used to maintain and expand the Group's manufacturing and distribution assets, as well as to make the routine outflows of tax and repayment of maturing debt. The Group's policy is to borrow centrally through the parent entity, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

Gearing ratio

The directors review the capital structure on a monthly basis. As a part of this review the board considers the cost of capital and risks associated with each class of capital. The Group has a target gearing ratio of 30-45%, which is determined as the proportion of net debt to total capital. The Group will balance its overall capital structure through new share issues and the redemption of existing debt, as market conditions allow. The Group is not subject to any externally imposed capital requirements.

The gearing ratios based on continuing operations at 30 June 2010 and 2009 were as follows:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Total borrowings (i)	43,071	45,788
Cash and cash equivalents	(3,457)	(3,591)
Net debt	<u>39,614</u>	<u>42,197</u>
Equity (ii)	18,057	17,703
Total capital	<u>57,671</u>	<u>59,900</u>
Gearing ratio	69%	70%

(i) Total borrowings includes long and short-term interest bearing liabilities, as detailed in note 13.

(ii) Equity includes all capital and reserves.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

16. Derivative Financial Instruments

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Non-current liabilities		
Interest rate swap contract	329	622
Interest rate cap contract	4	41
	333	663

(i) *Interest rate contracts*

Interest bearing loans of the Group currently bear an average floating interest rate of 4.4% (2009: 3.6%). In order to protect against rising interest rates the Group has entered into an interest rate swap contract and an interest rate cap contract under which it has a right to receive interest at variable rates and to pay interest at fixed rates. The swap covers approximately 37.5% (2009: 37.5%) of the notional principal outstanding and the cap covers approximately 37.5% (2009: 37.5%); both contracts are timed to expire on 1 May 2012 (being the original expiry date of the term loan to which the interest rate contracts relate). The fixed interest rate on both contracts is 7.1% (2009: 7.1%) and the floating interest rate on the both contracts is the Australian BBR.

The term loan, whose interest is hedged through these interest rate contracts, is fully disclosed in Note 13.

At 30 June 2010, the notional principal amounts and period of expiry of the interest rate contracts are as follows:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
0 – 1 years	2,550	2,550
1 – 2 years	15,513	2,550
2 – 3 years	-	15,513
3 – 5 years	-	-
5+ years	-	-
	18,063	20,613

The interest rate contracts settle on a quarterly basis. The interest payments on the term facility loan and the interest rate contracts occur simultaneously. The difference, if any, is recognised directly in the profit and loss account.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

17. Share-based Payment Plans

(a) Summaries of options granted under the Company's share-based payment plans

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year.

	2010 No. Thousand	2010 WAEP \$	2009 No. Thousand	2009 WAEP \$
Outstanding at the beginning of the year	2,937	0.41	10,987	0.38
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(2,250)	0.45
Expired during the year	(1,950)	0.40	(5,800)	0.33
Outstanding at the end of the year	987	0.44	2,937	0.41
Exercisable at the end of the year	887	0.42	2,737	0.41

The outstanding balance as at 30 June 2010 is represented by:

- Option Series E and X were issued to employees;
- Option Series N and S were issued to Directors; and
- Option Series K were issued to Vendors of businesses acquired in prior periods.

Option Series	Number	Grant Date	Vesting Date	Expiry Date	Exercise Price \$	Fair value at grant date \$	Terms and Conditions
(E) Issued 8 August 2005	137,000	08/08/05	08/08/05	08/08/10	0.25	0.21	ii
(K) Issued 12 December 2005	150,000	12/12/05	12/12/05	01/09/10	0.25	0.12	i
(N) Issued 21 February 2006	300,000	21/02/06	01/07/08	31/12/10	0.50	0.05	i
(S) Issued 28 Nov 2006	300,000	28/11/06	01/07/08	31/12/10	0.50	0.05	i
(X) Issued 1 October 2007	<u>100,000</u>	01/10/07	01/07/10	31/12/12	0.50	0.05	iii
	987,000						

(b) Terms and conditions of the Company's share-based payment plans

With respect to the Company's options, all options were issued at no cash consideration. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity. The issue of options to non-executive directors was not based on specified performance criteria. The vesting of options to executives is subject to performance criteria. Details of the performance criteria for each series of options are set out below:

- (i) There are no performance or service criteria associated with these options.
- (ii) Options are subject to the continuous employment of the option holder. The options will lapse if they are not exercised within 28 days of employment being terminated.
- (iii) Options will vest provided the share price of the Company outperforms the ASX 200 share index measured over the 12 month period immediately prior to the vesting dates specified above. If a tranche of options does not vest, it will lapse. Options are also subject to the continuous employment of the option holder. The options will lapse if they are not exercised within one month of employment being terminated.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

17. Share-based Payment Plans (continued)

There have been no cancellations or modifications to any of the plans during 2010 and 2009. The following numbers of share options were forfeited or expired during the year:

Option Series	Number Forfeited Thousand	Number Expired Thousand	Number Total Thousand
(G) Issued 12 December 2005	-	(1,000)	(1,000)
(M) Issued 21 February 2006	-	(300)	(300)
(R) Issued 21 February 2006	-	(300)	(300)
(T) Issued 1 May 2007	-	(250)	(250)
(W) Issued 1 October 2007	-	(100)	(100)
	-	(1,950)	(1,950)

(c) Option pricing model

The fair value of option series E, K & N was estimated on the date of grant using a Black-Scholes option pricing model; and the fair value of option series S & X was estimated on the date of grant using the Binomial option pricing model. No options were granted during the year ended 30 June 2010 (2009: nil). The expense recognised within the income statement in relation to share-based payments is disclosed in Note 3(h).

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the outstanding share options as at 30 June 2010 is 0.60 years (2009: 0.94 years).

(e) Range of exercise price

The range of exercise prices for outstanding share options at the end of the year was \$0.25 - \$0.50 (2009: \$0.20 - \$0.50).

(f) Weighted average fair value

No options were granted during the year ended 30 June 2010 (2009: nil).

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise a term loan facility, with an associated interest rate swap contract and interest rate cap contract, working capital facility (as disclosed in Note 13), finance leases, hire purchase contracts, forward contracts to purchase foreign currency and cash and short-term deposits.

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

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, credit risk and foreign exchange rate risk.

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

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

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

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Risk exposures and responses

Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2009: fair values).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies (continued)

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in Note 13.

At balance date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Financial assets		
Cash and cash equivalents	3,457	3,591
Other financial assets	1	193
	3,458	3,784
Financial liabilities		
Term bank facility	33,796	33,744
Working capital facility	8,997	8,997
Derivative financial instruments	333	663
	43,126	43,404
Net exposure	(39,668)	(39,620)

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner the Group enters into interest rate swaps and interest rate cap contracts, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps and caps are designated to hedge underlying debt obligations. At 30 June 2010, after taking into account the effect of interest rate swaps and caps, approximately 56% of the Group's borrowings are at a fixed rate of interest (2009: 34%).

Interest rate exposure

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date, and is net of the hedging affect of the interest rate swap and interest rate cap contracts.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies (continued)

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre tax loss and other equity reserves would have been affected as follows:

<i>Judgments of reasonably possible movements:</i>	Pre Tax Loss		Other Equity Reserves	
	Increase / (Decrease)		Increase / (Decrease)	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Group				
+1% (100 basis points)	53	9	-	-
- 0.5% (50 basis points)	(193)	98	-	-

The movements in profit/loss are due to higher/lower interest costs from variable rate debt and cash balances. The change in sensitivity between 2009 and 2010 is due to the mix of interest rate swap and interest rate cap contracts and the associated fair value of those contracts and the underlying variable interest rates.

Foreign currency risk

The Group currently purchases immaterial amounts of materials denominated in foreign currency, hence immaterial exposures to exchange rate fluctuations arise. The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated purchase transactions up to 6 months out to hedge the exposure generated. The exchange gain or loss on these transactions is recognised directly in the profit and loss account.

At balance date the Group had no commitments to purchase foreign currency.

Credit risk

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

The Group does not hold any credit derivatives to offset its credit exposure.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies (continued)

The Group trades only with recognised, creditworthy third parties and, as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

There are no significant concentrations of credit risk within the Group.

Price risk

The Group's exposure to equity securities price risk is minimal. Equity price risk arises from investments in equity securities, which are carried at cost as an approximation to fair value. The price risk is immaterial in terms of a possible impact on profit or loss or total equity and as such a sensitivity analysis has not been completed.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 20(c) is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, recycling of assets through sale, finance leases and committed available credit lines.

The Group's policy is that not more than 20% of borrowings should mature in any 12 month period. At 30 June 2010, 23.4% of the Group's debt is due to be retired in less than one year as part of the Traffic Management disposal (2009: 1.0%), 75.7% of the Group's debt will mature in 18 months' time (2009: 93.0%) and the balance of the Group's debt will mature in more than one year but not more than 5 years.

On 9 August 2010 Westpac confirmed that it will reduce Traffic Technologies term debt facility from \$34.0m at 30 June 2010 to \$24.0m within six months of completion of the sale of the Traffic Management business and the working capital facility from \$12.0m to \$8.6m within six months of completion.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Group can be required to pay. The table includes both interest and principal cash flows. Cash flows for financial liabilities without fixed timing of amount are based on conditions existing at 30 June.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies (continued)

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

	Consolidated	
	2010	2009
	\$'000	\$'000
6 months or less	15,493	14,466
6 – 12 months	10,070	2,109
1 – 5 years	33,266	47,321
Over 5 years	-	-
	58,829	63,896

Maturity analysis of financial assets and liabilities in accordance with management's expectation

The risk implied from the values shown in the table below reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables). These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities, as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its business segments that reflects management's expectations of expected settlement of financial assets and liabilities, as illustrated in the tables below.

Year ended 30 June 2010	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Consolidated					
Financial assets					
Cash & cash equivalents	3,457	-	-	-	3,457
Trade & other receivables	16,458	-	48	-	16,506
	19,915	-	48	-	19,963
Financial liabilities					
Trade & other payables	12,550	-	1,200	-	13,750
Interest bearing loans & borrowings	10,138	-	32,933	-	43,071
Bank guarantee	-	-	857	-	857
	22,688	-	35,030	-	57,718
Net maturity	(2,773)	-	(34,892)	-	(37,755)

The difference between the contractual maturities of the Group's financial liabilities and management expectation of when those financial liabilities will be settled is explained by a provision in respect of a legal claim of \$1,200,000 (refer note 20(i)).

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies (continued)

Year ended 30 June 2009	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Consolidated					
Financial assets					
Cash & cash equivalents	3,591	-	-	-	3,591
Trade & other receivables	14,221	-	46	-	14,267
	17,812	-	46	-	17,858
Financial liabilities					
Trade & other payables	11,157	-	1,200	-	12,357
Interest bearing loans & borrowings	2,109	2,109	47,321	-	51,539
	13,266	2,109	48,521	-	63,896
Net maturity	4,546	(2,109)	(48,475)	-	(46,038)

The difference between the contractual maturities of the Group's financial liabilities and management expectation of when those financial liabilities will be settled is explained by a provision in respect of a legal claim of \$1,200,000 (refer note 20(i)).

Derivative financial liabilities maturity

Due to the unique characteristics and risks inherent to derivate instruments, the Group (through the Group Treasury Function) separately monitors the liquidity risk arising from transacting derivative instruments.

The table below details the liquidity arising from the derivative liabilities held by the Group at balance date. Net settled derivative liabilities comprise swap and cap contracts that are used as economic hedges of the Groups term facility. Gross settled derivatives mainly comprise forward interest rate cap and swap contracts that are used to hedge against future interest rate fluctuations.

	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Year ended 30 June 2010					
Derivative liabilities – net settled	-	-	(329)	-	(329)
Net maturity	-	-	(329)	-	(329)
Year ended 30 June 2009					
Derivative liabilities – net settled	-	-	(663)	-	(663)
Net maturity	-	-	(663)	-	(663)

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

18. Financial risk management objectives and policies (continued)

Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	30 June 2010			30 June 2009		
	Quoted market price (Level 1)	Valuation technique – market observable (Level 2)	Valuation technique – non market observable (Level 3)	Quoted market price (Level 1)	Valuation technique – market observable (Level 2)	Valuation technique – non market observable (Level 3)
Consolidated						
Financial Assets						
Derivative instruments						
Interest rate swap	-	-	-	-	-	-
Interest rate cap	-	-	-	-	-	-
Available for sale investments						
Unlisted investments	-	-	1	-	-	193
Listed investments	-	-	-	-	-	-
	-	-	1	-	-	193
Financial Liabilities						
Derivative instruments						
Interest rate swap	-	(329)	-	-	(622)	-
Interest rate cap	-	(4)	-	-	(41)	-
	-	(333)	-	-	(663)	-

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparisons to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rates swaps.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

19. Expenditure Commitments

	Consolidated 2010 Minimum rentals \$'000	Consolidated 2009 Minimum rentals \$'000
a) Operating lease commitments		
- Premises		
Within 1 year	1,655	1,813
After 1 year but not more than 5 years	1,073	2,630
More than 5 years	-	-
	2,728	4,443

The Group leases a number of warehouse, factory and office facilities under operating leases. The leases typically run for periods of 1 to 5 years with an option to renew the lease after that date.

b) Operating lease commitments
- Motor vehicles

Within 1 year	134	1,323
After 1 year but not more than 5 years	117	2,784
	251	4,107

The Group leases a fleet of vehicles under operating leases. The leases typically run for periods of 2 to 5 years with an option to renew after that date.

c) Finance lease & hire purchase

	Consolidated 2010 Minimum lease payments \$'000	Consolidated 2010 Present value of lease payments \$'000	Consolidated 2009 Minimum lease payments \$'000	Consolidated 2009 Present value of lease payments \$'000
Within 1 year	170	138	961	781
After 1 year but not more than 5 years	143	140	2,687	2,266
Minimum future lease payments	313	278	3,648	3,047
Less future finance charges	(35)	-	(601)	-
Lease liability	278	278	3,047	3,047

The Group has entered into finance and hire purchase contracts in respect of various items of plant & machinery and motor vehicles. These finance and hire purchase contracts expire within 1 to 5 years. Subsequent renewal of the contracts is at the option of the entity that holds the lease.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

20. Cash Flow Statement

a) Reconciliation of Cash

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Cash at bank and in hand	3,435	3,559
Short term deposits	22	32
	3,457	3,591

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

Short term deposits are made for varying periods of between one day and 3 months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

b) Reconciliation of net loss after tax to net cash flows from operations

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Net loss	(254)	(4,954)
Adjustments for:		
Depreciation, amortisation and impairment of non-current assets	3,368	2,843
Loss/(profit) on sale of fixed assets	(45)	(29)
Share options expensed	7	13
Doubtful debts expense	8	(113)
Stock obsolescence expense	78	(33)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(2,418)	3,088
(Increase)/decrease in inventories	251	1,105
Increase/(decrease) in trade and other payables	1,387	(821)
(Increase)/decrease in deferred tax assets	72	1
Increase/(decrease) in income taxes payable	-	(22)
Increase/(decrease) in provisions	425	411
Net cash provided by / (used in) operating activities	2,879	1,489

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

20. Cash Flow Statement (continued)

Non cash financing and investing activities

During the year the Group acquired property, plant and equipment with an aggregate value of \$606,904 (2009: \$2,212,203) by means of finance leases. These acquisitions are not reflected in the cash flow statement.

c) Financing facilities available

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
<i>Total facilities at reporting date</i>		
Term facility	34,000	34,000
Working capital facility comprising:		
- revolving cash advance facility	9,800	9,800
- bank overdraft facility	1,000	1,000
- bank guarantee facility	1,200	1,200
- bank letters of credit facility	-	-
	46,000	46,000
<i>Facilities used at reporting date</i>		
Term facility	34,000	34,000
Working capital facility comprising:		
- revolving cash advance facility	8,997	8,997
- bank overdraft facility	-	-
- bank guarantee facility	857	1,094
- bank letters of credit facility	-	-
	43,854	44,091
<i>Facilities unused at reporting date</i>		
Term facility	-	-
Working capital facility comprising:		
- revolving cash advance facility	803	803
- bank overdraft facility	1,000	1,000
- bank guarantee facility	343	106
- bank letters of credit facility	-	-
	2,146	1,909

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

21. Claims and Contingencies

(i) *Legal claims*

A vendor of a business acquired in a prior year lodged a claim against the Group in a prior year relating to amounts to be paid pursuant to the business sale agreement. The Group has denied liability for any further amounts payable and is defending the action. While liability is not admitted, the maximum amount payable by the Group under this action is \$0.9m plus contractual interest under the business sale agreement but excluding possible cost judgements. The vendor has also indicated that a second claim may be brought against the Group for additional amounts to be paid pursuant to the business sale agreement. The Group also denies liability in respect of this potential claim and will defend any action if and when brought. While liability is not admitted in respect of the potential claim, the maximum amount payable by the Group under this potential claim is estimated at approximately \$1.8m plus contractual interest and excluding possible cost judgements. The outcome of these actions is uncertain and cannot be reliably measured at balance date. The Group has currently provided \$1.2m as an estimate in respect of both claims as at 30 June 2010.

(ii) *Guarantees*

As detailed in Note 22, the Company is party to a deed of cross guarantee with its wholly-owned subsidiaries. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee. No liability is expected to arise. The deed of cross guarantee will continue to operate indefinitely.

As detailed in Note 13, the Company is party to a finance facility agreement with Westpac Banking Corporation to which the Company's subsidiaries are guarantors. The extent to which an outflow of funds will be required is dependent on the risk of default under the finance facility agreement. The directors do not expect default to occur.

22. Related Party Disclosures

The ultimate parent

Traffic Technologies Ltd is the ultimate parent Company.

Entities subject to Individual Order

Pursuant to the Individual Order granted by ASIC under subsection 340(1) of the *Corporations Act 2001*, relief has been granted to the subsidiary companies from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports. The relief granted under the Individual Order is equivalent to the advantage of the relief offered by ASIC Class Order 98/1418. The subsidiary companies are disclosed at Note 9.

As a condition of the Individual Order, Traffic Technologies Ltd and its subsidiary entities (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2007. The effect of the deed is that Traffic Technologies Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Traffic Technologies Ltd is wound up or if it does not meet its obligation under the terms of overdrafts, loans or other liabilities subject to the guarantee.

The consolidated income statement and balance sheet of the closed group is equivalent to the group's consolidated income statement and balance sheet.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

22. Related Party Disclosures (continued)

Wholly owned group transactions

Transactions with group companies

Subsidiary		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		\$	\$	\$	\$
Traffic Technologies Ltd (ii)	2010	-	12,000	21,286,564	13,635,828
	2009	-	-	17,755,184	8,825,750
Traffic Technologies Signal and Hardware Division Pty Ltd	2010	-	-	469,085	-
	2009	-	101,245	498,577	-
Traffic Technologies Traffic Management Division Pty Ltd	2010	283,782	137,576	23,695	5,638,786
	2009	127,803	115,058	293	8,358,611
De Neefe Signs Pty Ltd	2010	535,264	19,634	2,186,739	7,207,285
	2009	701,979	107,721	65,598	7,731,956
Traffic Technologies Traffic Hire Pty Ltd	2010	746,817	19,537	2,346	401,642
	2009	306,750	4,457	71,165	1,394,314
Sunny Signs Pty Ltd	2010	-	-	612,080	-
	2009	-	-	1,108,841	-
KJ Aldridge Investments Pty Limited	2010	-	-	-	-
	2009	-	-	7,538,144	549,536
Aldridge Traffic Group Pty Ltd	2010	-	-	-	-
	2009	-	-	3,433,366	7,478,341
Excelsior Diecasting Pty Limited	2010	-	-	-	-
	2009	-	-	1,340,118	1,000
Aldridge Traffic Systems Pty Ltd	2010	207,557	(734)	10,545,267	152,297
	2009	152,545	2,471	10,795,102	5,194,988
Aldridge Plastics Pty Ltd	2010	-	-	-	-
	2009	-	-	664,616	1,000

(i) The loans issued by Traffic Technologies Ltd to its wholly owned subsidiaries are unsecured, interest-free and repayable on demand.

(ii) Amounts owed by related parties are presented gross of an impairment loss of \$8,095,155 (2009:\$7,710,241).

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

22. Related Party Disclosures (continued)

Loans with Directors or Directors-related entities

Other transactions with Directors or Director related entities

The aggregate amounts recognised during the year relating to Directors and their Director-related entities were as follows:

Director / Director Related Entity	Transaction	Consolidated	Consolidated
		2010	2009
		\$	\$
Con Liosatos	Fees for contracted services	-	79,933
Cary Stynes (former director)	Legal and business consulting fees and fees for contracted services	-	55,943
Equity Partners	Fees for contracted services	-	8,925

During the year the parent entity charged management fees to subsidiaries of \$3m (2009: \$nil).

There were no other transactions or balances receivable from or payable to directors or executives during the financial year or at the date of this report.

23. Events after the Balance Date

Traffic Technologies Ltd (Traffic Technologies) entered into an agreement to sell its Traffic Management business to Workforce International Group Pty Ltd on 29 June 2010. The sale, for a gross cash consideration of \$14.5m, will deliver Traffic Technologies around \$11.4m after adjustments, including motor vehicles leases and employee entitlements. In addition Traffic Technologies will collect the book debts of the Traffic Management business which will be applied partly in repaying trade creditors and other liabilities.

The transaction was completed on 9 August 2010 and the net proceeds of the sale, will be applied in reducing net debt by \$14.0 - \$15.0m. Westpac has confirmed that it will reduce Traffic Technologies term debt facility from \$34.0m at 30 June 2010 to \$24.0m within six months of completion and the working capital facility from \$12.0m to \$8.6m within six months of completion.

24. Auditor's Remuneration

Amounts received or due and receivable by Ernst and Young:

	Consolidated	Consolidated
	2010	2009
	\$	\$
Audit or review of the financial report of the entity and any other entity in the Group	205,000	225,000
	205,000	225,000

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

25. Key Management Personnel Disclosures

a) Details of Key Management Personnel

(i) Directors

Mr Ray Horsburgh	Non-Executive Chairman
Mr. Constantinos Liosatos	Managing Director
Mr. Alan Brown	Non-Executive Director
Mr. Ken Jarrett (Appointed 27 January 2010)	Non-Executive Director
Mr. Rajeev Dhawan (Resigned 3 December 2009)	Non-Executive Director
Mr. Garry Sladden (Resigned 3 December 2009)	Non-Executive Director

(ii) Executives

Mr. Peter Crafter	Chief Financial Officer & Company Secretary
Mr. Andrew Bull (Resigned 16 February 2010)	General Manager Traffic Signals Division
Mr. Graham Sergeant (Resigned 9 August 2010)	General Manager Traffic Management Division
Mr. Mark Faunt (Appointed 5 August 2009)	Operations Manager Technical Products Division

b) Compensation of Key Management Personnel

(i) Remuneration of Key Management Personnel

Details of the nature and amount of each element of the remuneration of key management personnel are disclosed in the Remuneration Report section of the Directors' Report.

Compensation by Category: Key Management Personnel

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	1,418,939	1,606,977
Post employment benefits	188,842	179,130
Other long-term benefits	8,531	45,624
Termination benefits	-	56,794
Share-based payment	7,423	12,997
	1,623,735	1,901,522

c) Shares issued on exercise of remuneration options

No shares have been issued to key management personnel as a result of the exercise of remuneration options.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

25. Key Management Personnel Disclosures (continued)

d) Option holdings of Key Management Personnel

There have been no cancellations or modifications to any of the plans during 2010 and 2009.

Fair value of options

The basis on which the fair value of each option (granted during the year) has been valued is described in Note 17.

30 June 2010	Balance at beginning of period 1 July 2009 No.	Granted As remuneration No.	Net change other # No.	Balance at end of period 30 June 2010 No.	Total	Exercisable No.	Not Exercisable No.
Directors							
Mr. Ray Horsburgh	600,000	-	(300,000)	300,000	300,000	300,000	-
Mr. Constantinos Liosatos	1,000,000	-	(1,000,000)	-	-	-	-
Mr. Alan Brown	600,000	-	(300,000)	300,000	300,000	300,000	-
Mr. Ken Jarrett	-	-	-	-	-	-	-
Mr. Rajeev Dhawan	-	-	-	-	-	-	-
Mr. Garry Sladden	-	-	-	-	-	-	-
Total	2,200,000	-	(1,600,000)	600,000	600,000	600,000	-
Executives							
Mr. Peter Crafter	200,000	-	(100,000)	100,000	-	-	-
Mr. Andrew Bull	250,000	-	(250,000)	-	-	-	-
Total	450,000	-	(350,000)	100,000	-	-	-

- includes forfeitures and lapses

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

25. Key Management Personnel Disclosures (continued)

30 June 2009	Balance at beginning of period 1 July 2008	Granted As remuneration	Net change other #	Balance at end of period 30 June 2009	Total	Vested at 30 June 2009	Not Exercisable
	No.	No.	No.	No.	No.	Exercisable	No.
Directors							
Mr. Ray Horsburgh	600,000	-	-	600,000	600,000	600,000	-
Mr. Constantinos Liosatos	3,300,000	-	(2,300,000)	1,000,000	1,000,000	1,000,000	-
Mr. Alan Brown	1,200,000	-	(600,000)	600,000	600,000	600,000	-
Mr. Rajeev Dhawan	-	-	-	-	-	-	-
Mr. Garry Sladden	-	-	-	-	-	-	-
Mr. Cary Stynes	1,200,000	-	(1,200,000)	-	-	-	-
Mr. Samuel Kavourakis	2,000,000	-	(2,000,000)	-	-	-	-
Dr. Richard Gregson	900,000	-	(900,000)	-	-	-	-
Total	9,200,000	-	(7,000,000)	2,200,000	2,200,000	2,200,000	-
Executives							
Mr. Peter Crafter	600,000	-	(400,000)	200,000	-	-	-
Mr. Andrew Bull	725,000	-	(475,000)	250,000	250,000	250,000	-
Total	1,325,000	-	(875,000)	450,000	250,000	250,000	-

- includes forfeitures and lapses

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

25. Key Management Personnel Disclosures (continued)

e) Shareholdings of Key Management Personnel
Ordinary shares held in Traffic Technologies Ltd

	Balance at beginning of period 1 July 2009	Granted as remuneration	On exercise of Options	Net change other #	Balance at end of period
30 June 2010	No.	No.	No.	No.	30 June 2010 No.
Directors					
Mr Ray Horsburgh	150,000	-	-	-	150,000
Mr. Constantinos Liosatos	4,888,945	-	-	3,486,004	8,374,949
Mr. Alan Brown	2,056,965	-	-	-	2,056,965
Mr. Ken Jarrett	-	-	-	9,452,563	9,452,563
Mr. Rajeev Dhawan	1,100	-	-	(1,100)	-
Mr. Garry Sladden	-	-	-	-	-
Total	7,097,010	-	-	12,937,467	20,034,477
Executives					
Mr. Peter Crafter	10,000	-	-	-	10,000
Mr. Andrew Bull	1,276,738	-	-	(1,276,738)	-
Mr. Graham Sergeant	230,000	-	-	-	230,000
Mr. Mark Faunt	-	-	-	-	-
Total	1,516,738	-	-	(1,276,738)	240,000

- includes the resignations of Mr. Rajeev Dhawan, Mr. Garry Sladden & Mr. Andrew Bull. Mr. Ken Jarrett's shareholding was purchased on-market prior to his appointment to the Board and not granted either as remuneration during employ or on the exercise of options in the Company.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

25. Key Management Personnel Disclosures (continued)

	Balance at beginning of period 1 July 2008	Granted as remuneration	On exercise of Options	Net change other #	Balance at end of period 30 June 2009
30 June 2009	No.	No.	No.	No.	No.
Directors					
Mr Ray Horsburgh	150,000	-	-	-	150,000
Mr. Constantinos Liosatos	4,263,945	-	-	625,000	4,888,945
Mr. Alan Brown	1,516,965	-	-	540,000	2,056,965
Mr. Rajeev Dhawan	-	-	-	1,100	1,100
Mr. Garry Sladden	-	-	-	-	-
Mr. Samuel Kavourakis	1,331,101	-	-	(1,331,101)	-
Mr. Cary Stynes	472,100	-	-	(472,100)	-
Dr. Richard Gregson	-	-	-	-	-
Total	7,734,111	-	-	(637,101)	7,097,010
Executives					
Mr. Peter Crafter	10,000	-	-	-	10,000
Mr. Andrew Bull	711,238	-	-	565,500	1,276,738
Mr. Graham Sergeant	230,000	-	-	-	230,000
Mr. Steve Polonidis	50,000	-	-	(50,000)	-
Total	1,001,238	-	-	515,500	1,516,738

- includes the resignations of Mr. Samuel Kavourakis, Mr. Cary Stynes, Dr. Richard Gregson & Mr. Steve Polonidis.

f) Loans to Key Management Personnel

There were no loans made to directors or executives during the financial year and none are outstanding as at the date of this report.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

26. Operating Segments

Identification of reportable segments

The Group has identified its operating/reportable segments based on the internal reports that are reviewed and used by the managing director (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The reportable segments are identified by management based on the manner in which the products are sold and the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the managing director on at least a monthly basis. The Group operates predominantly in one geographic segment being Australia.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services

Technical Products

The Technical Products business specializes in the design and manufacture of traffic signals, emergency telephones and portable roadside technology.

Signage

Signage manufactures and supplies a wide range of traffic signs, traffic control products and traffic cones to road traffic authorities, municipal councils and construction companies.

Traffic Services

Traffic Services provides equipment hire (barrier guard and portable roadside technology) services to road traffic authorities and construction companies. The Group completed the sale of its labour hire (traffic controllers) business on 9 August 2010.

Accounting policies and intersegment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period except as detailed below:

Inter-entity sales

Inter-entity sales are recognised based on internally set transfer prices. The prices are reviewed periodically to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

Corporate charges

Corporate charges comprise non-segmental expenses such as head office expenses, finance costs and other unallocated costs such as consolidation adjustments. Corporate charges are not allocated to each operating segment.

Segment loans payable and loans receivable

Segment loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

Income tax expense

Current income tax expense is not calculated at the operating segment level; however, effect is given for taxable or deductible temporary differences (deferred tax expense) using a notional charge of 30% (2009: 30) at the operating segment level.

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

26. Operating Segments (continued)

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Reportable segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2010 and 30 June 2009:

Year Ended 30 June 2010

	Continuing Operations					Consolidated
	Traffic Products		Traffic Services	Total	Discontinued operations	
	Technical Products	Signage				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Sales to external customers	23,903	21,219	2,607	47,729	44,184	91,913
Inter-segment sales	353	535	747	1,635	284	1,919
Total segment revenue	<u>24,256</u>	<u>21,754</u>	<u>3,354</u>	49,364	44,468	93,832
Inter-segment elimination				(1,635)	(284)	(1,919)
Other and unallocated revenue				<u>72</u>	-	<u>72</u>
Total revenue per the statement of comprehensive income				47,801	44,184	91,985
Segment EBITDA before non-recurring items	<u>6,681</u>	<u>536</u>	<u>1,131</u>	8,348	3,951	12,299
Result						
Segment result	<u>5,360</u>	<u>242</u>	<u>797</u>	6,399	2,543	8,942
Reconciliation of segment EBITDA to net loss after tax						
Segment EBITDA before non-recurring items				8,348	3,951	12,299
Corporate charges & unallocated				(4,189)	-	(4,189)
EBITDA per statement of comprehensive income				4,159	3,951	8,110
Non-recurring items				(955)	(42)	(997)
Depreciation & amortisation				(2,186)	(1,182)	(3,368)
Finance costs				(3,722)	(184)	(3,906)
Income tax expense				(218)	125	(93)
Net loss before tax per the statement of comprehensive income				(2,922)	2,668	(254)

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

26. Operating Segments (continued)

Year Ended 30 June 2009

	Continuing Operations					Consolidated
	Traffic Products		Traffic Services	Total	Discontinued operations	
	Technical Products	Signage				
	\$'000	\$'000	\$'000	\$'000	\$'000	
Revenue						
Sales to external customers	25,079	23,008	1,211	49,298	38,890	88,188
Inter-segment sales	153	702	307	1,162	128	1,290
Total segment revenue	<u>25,232</u>	<u>23,710</u>	<u>1,518</u>	50,460	39,018	89,478
Inter-segment elimination				(1,162)	(128)	(1,290)
Other and unallocated revenue				190	-	190
Total revenue per the statement of comprehensive income				<u>49,488</u>	38,890	<u>88,378</u>
Segment EBITDA before non-recurring items						
	<u>5,577</u>	<u>721</u>	<u>386</u>	6,684	2,387	9,071
Result						
Segment result	<u>5,166</u>	<u>103</u>	<u>155</u>	5,424	795	6,219
Reconciliation of segment EBITDA to net loss after tax						
Segment EBITDA before non-recurring items				6,684	2,387	9,071
Corporate charges & unallocated				(4,377)	-	(4,377)
EBITDA per statement of comprehensive income				<u>2,307</u>	2,387	<u>4,694</u>
Non-recurring items				(1,382)	(234)	(1,616)
Depreciation & amortisation				(1,682)	(1,189)	(2,871)
Loss on recognition to fair value				-	(95)	(95)
Finance costs				(4,991)	(74)	(5,065)
Income tax benefit				115	(116)	(1)
Net loss before tax per the statement of comprehensive income				<u>(5,633)</u>	679	<u>(4,954)</u>

Traffic Technologies Ltd and Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2010

26. Operating Segments (continued)

Major customers

The Group has a number of customers to which it provides both products and services. The Group supplies a number of government agencies that combined account for 12% of external revenue (2009: 16%). The next most significant client accounts for 8% (2009: 6%) of external revenue.

Geographical information

The Group operates in one principal geographical location, namely Australia.

27. Parent Entity Information

	2010	2009
	\$'000	\$'000
Information relating to Traffic Technologies Ltd:		
Current assets	21,589	11,379
Total assets	68,115	57,949
Current liabilities	32,539	20,050
Total liabilities	68,859	56,547
Issued capital	41,663	41,062
Retained earnings	(43,407)	(40,653)
Share-based payments reserve	1,000	993
Total shareholders' equity	(744)	1,402
Profit or loss of the parent entity	(5,532)	(5,017)
Total comprehensive income of the parent entity	(5,532)	(5,017)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries ^	857	1,094

^ As a condition of the Individual Order, Traffic Technologies Ltd and its subsidiary entities (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2007. The effect of the deed is that Traffic Technologies Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Traffic Technologies Ltd is wound up or if it does not meet its obligation under the terms of overdrafts, loans or other liabilities subject to the guarantee.

Traffic Technologies Ltd
Directors' Declaration
For the year ended 30 June 2010

Directors' Declaration

In accordance with a resolution of the Directors of Traffic Technologies Ltd, I state that:

1. In the opinion of the Directors:
 - (a) The financial statements, notes and the additional disclosures included in the Directors' report designated as audited, of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of their performance for the financial year ended on that date;
 - (ii) complying with Accounting Standards, the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board 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.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act for the financial year ended 30 June 2010.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 22 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the board



Ray Horsburgh
Chairman

Melbourne
26 August 2010

Independent auditor's report to the Directors' of Traffic Technologies Ltd

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Liability limited by a scheme approved
under Professional Standards Legislation

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached immediately following the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Traffic Technologies Ltd is in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the financial position of Traffic Technologies Ltd and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and
- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

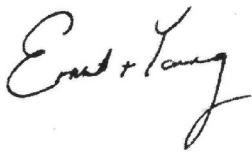
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 18 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Traffic Technologies Ltd for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Robert J Dalton'.

Robert J Dalton
Partner
Melbourne
26 August 2010

ASX Additional Information
As at 16 August 2010

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 16 August 2010.

(ii) *Distribution of Equity Securities*

The number of shareholders, by size of holding, in each class of share are:

	Ordinary Shares		Preference Shares	
	Number of Holders	Number of Shares	Number of Holders	Number of Shares
1 - 1,000	1,865	294,416	-	-
1,001 - 5,000	277	850,378	-	-
5,001 - 10,000	219	1,925,592	-	-
10,001 - 100,000	750	28,029,007	-	-
100,001 and over	203	128,830,770	1	16,192,208
	3,314	159,930,163	1	16,192,208
Holdings less than a marketable parcel	2,457	4,207,666	-	-

d) Twenty Largest Holders

The names of the twenty largest holders of quoted shares are:

Name	Ordinary Shares Number	Percentage
1. EQUITY PARTNERS TWO PTY LIMITED <EQUITY PARTNERS 2 A/C>	15,401,100	9.63
2. K J ALDRIDGE INVESTMENT GROUP PTY LTD	9,468,562	5.92
3. CJT NOMINEES PTY LTD*	8,500,000	5.31
4. MR MICHAEL JOHN DE LA HAYE + MR ROSS DE LA HAYE <DE LA HAYE SUPER FUND A/C>	6,428,000	4.02
5. CONTELITE PTY LTD*	2,963,945	1.85
6. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,940,000	1.84
7. MR LAMBROU LIOSATAU*	2,625,000	1.64
8. MR VICTOR JOHN PLUMMER	2,171,055	1.36
9. MR ALAN JOHN BROWN + MRS PAULA JANET BROWN <A & P BROWN FAMILY S/F A/C>*	2,056,965	1.29
10. CONTELITE PTY LTD*	1,786,004	1.12
11. MR SAMUEL KAVOURAKIS + MRS TOULA KAVOURAKIS <KAVOURAKIS SUPERFUND A/C>	1,731,101	1.08
12. PHILIP GEORGE INVESTMENTS PTY LTD <PHILIP GEORGE S/F A/C>	1,677,475	1.05
13. C V M & CO PTY LTD	1,500,000	0.94
14. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	1,413,654	0.88
15. DABVILLE PTY LTD <THE B R DONAGAN FAMILY A/C>	1,400,000	0.88
16. WESKAY CONSULTING PTY LTD <WESKAY FAMILY A/C>	1,383,717	0.87
17. QUEST TRADERS PTY LTD	1,318,563	0.82
18. MR PETER STAWSKI + MRS MARY STAWSKI <PETER STAWSKI SUPER FUND A/C>	1,300,000	0.81
19. MR MORGAN LITTLEWOOD	1,285,000	0.80
20. BROWNLOW PTY LTD	1,250,000	0.78
Total	68,600,141	42.89

* Associated with Directors.

ASX Additional Information
As at 16 August 2010

e) Substantial Shareholders (greater than 5%)

The names of substantial holders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Ordinary Shareholders	Ordinary Shares	
	Number	Percentage
Equity Partners Two Pty Limited	15,401,100	9.63
K J Aldridge Investment Group Pty Ltd	9,468,562	5.92
CJT Nominees & Associated Entities*	9,452,000	5.91
Mr. Con Liosatos*	8,374,949	5.24

* Associated with Directors.

f) Voting Rights

All ordinary shares carry one vote per share without restriction.

g) Securities subject to voluntary escrow restrictions

The following numbers of ordinary shares are subject to voluntary escrow restrictions:

- nil.

h) Unquoted equity securities shareholdings

	Number
Convertible non-cumulative redeemable preference shares	
Equity Partners Two Pty Ltd, as trustee of the Equity Partners 2 Trust	16,192,208

i) Options

As at 16 August 2010 there are 750,000 unissued ordinary shares in respect of which options are outstanding.

There are 600,000 options held by directors.

There are no voting rights attaching to the options.





head office

traffic technologies ltd

address. 31 Brisbane Street
Eltham 3095 Victoria Australia

phone. +61 3 9430 0222

facsimile. +61 3 9430 0244

email. tt@traffictld.com.au

web. www.traffictld.com.au