

# annual report 2011



**traffic**  
technologies





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technologies

ABN 21 080 415 407  
**Traffic Technologies Ltd.**  
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PO Box 828, Eltham Victoria 3095 Australia  
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**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 2011.

The past year has again been challenging for the Company and its shareholders and it is disappointing that a number of achievements by the Company have not so far been reflected in its share price.

I am pleased to report that earnings have improved significantly with a further improvement in profitability and reduction in costs and that the Group has achieved a positive net profit after tax. The Group achieved a significant improvement in its operating result for the financial year ended 30 June 2011 compared to the previous financial year with EBITDA before non-recurring items, increasing by 35% to \$6.1m. Revenue from continuing operations for the financial year ended 30 June 2011 was \$49.7m compared to \$47.8m in the previous financial year.

The Traffic Products Division has continued to perform well. During the year the Company was awarded a \$13.7 million contract by VicRoads for the replacement of incandescent and hybrid (incandescent and quartz halogen) traffic signals, with LED traffic signals at over 700 intersections in Victoria, which is expected to be completed in early 2012. The Traffic 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 Traffic Products Division includes the development of products such as electronic signage and the Clearsonics emergency telephone. Costs have been reduced across the Group which has also assisted the improvement in profitability.

The sale of the Traffic Management business, completed in August 2010, has enabled the Company to reduce debt by \$15.0m (including \$2.5m finance leases). 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.

The Group continues to maintain 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.

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

Alan Brown  
Chairman



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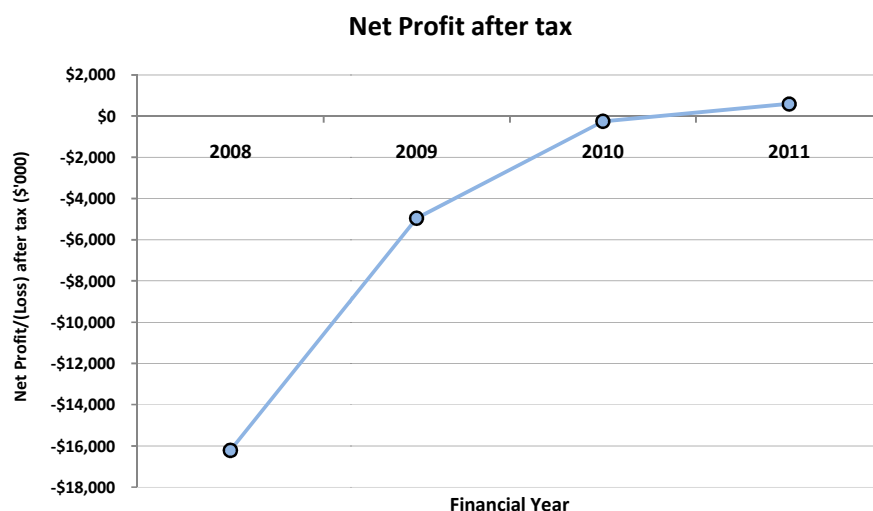
## Traffic Technologies Ltd and Controlled Entities Managing Directors' Report

Dear Shareholder,

The 2011 financial year has seen a major milestone achieved by the Company with a significant improvement in profitability. The results for the financial year reflect the ongoing commitment by management in remaining focused on operational efficiencies along with the continued drive for new markets and the accelerated research and development programs in order to provide "greener" and more efficient products.

The Group achieved revenues from continuing operations of \$49.7 million and EBITDA of \$6.1 million before non-recurring items in the 2011 financial year. This represents an increase of 4% in revenue and a major increase of 35% in EBITDA from continuing operations before non-recurring items compared to the previous financial year.

Of major note has been the significant increase of more than 300% improvement in net profit after tax over the 2010 financial year. The performance over the past four financial years is illustrated in the graph below which clearly indicates the results from the profit improvement program put in place in 2007.



### *Review of Operations*

#### *Traffic Products*

The Traffic Products Division has continued to deliver upon expectations and remains the dominant supplier of LED traffic signals throughout the Australian and New Zealand markets with a 5% increase in revenue and EBITDA before non-recurring items. Even with an appreciating currency, the Group has continued to develop its export program to various countries including Europe and Asia. The Company has also accelerated its research and development programs in order to deliver more efficient and innovative products to the ever growing Intelligent

Transport Systems (“ITS”) industry. Key products developed include the 240/42 volt LED Traffic Signal and Electronic Speed Limit Signs for the Australian and New Zealand markets and the 230/48 volt LED Traffic Signal and LED pedestrian countdown timers for the UK market.

During the financial year the Company was awarded a \$13.7 million contract by VicRoads for the replacement of incandescent and hybrid (incandescent and quartz halogen) traffic signals with LED traffic signals at over 750 intersections in Victoria, which is expected to be completed in early 2012. In addition the Company was successful in securing the supply and installation of 60 off traffic signal controllers which is consistent with the Group’s strategy of delivering “ITS” to road authorities.

The Group plans to expand its business in the 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.

The Signage business has continued to face strong competition in the financial year. However, a continued focus on cost control, factory efficiency and, along with the expansion of Northern Territory and Queensland operations and the consolidation of South Australia and New South Wales, has led to improved profitability in the 2011 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 although, with the sale of the Traffic Management business in 2010, there has been less “cross-hire” business where equipment was on-hired to Traffic Management.

In August 2010 the Group completed the sale of its Traffic Management business, which previously formed part of the Traffic Services Division. The results of the Traffic Management business have been presented as “discontinued operations” in the Financial Report.

### ***Outlook***

As the leading provider of innovative technical 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, along with the growing and expanding export opportunities.

The Group plans to continue to build on the success of the Traffic Products Division and in particular the lucrative road lighting market and to take advantage of the opportunities presented by Road Authorities in the Intelligent Transport Systems sector.

With an extremely professional and experienced management team and the benefit of cost reductions and efficiency improvements in the last four years, the Group will continue to roll out its strategy and position itself 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. Alan Brown  
Mr. Con Liosatos  
Mr. Ray Horsburgh  
Mr. Ken Jarrett (resigned 27 June 2011)

### **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 Securities 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**

BDO Audit (NSW-VIC) Pty Ltd  
The Rialto  
525 Collins Street  
Melbourne VIC 3000

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**Traffic Technologies Ltd and Controlled Entities**  
**Financial Report for the year ended 30 June 2011**  
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**Traffic Technologies Ltd**  
**Directors' Report**

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Your directors submit their report for the year ended 30 June 2011.

**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.

<b>Name</b>	<b>Qualifications, Experience and Special Responsibilities</b>
Mr. Alan J Brown FAICD	(Age 65) Non-Executive Chairman Appointed January 2004.

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 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 was Agent General for Victoria in London from 1997-2000. He is Chairman of Apprenticeships Plus and Bass Coast Community Foundation. 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 and was appointed Chairman in October 2010. Mr. Brown is Chairman of the Company, Chairman of the Nomination & Remuneration and Corporate Governance committees and a member of the Audit & Risk committee. Mr. Brown has not served as a Director of any other listed companies during the three years prior to June 2010.

Mr. Constantinos L Liosatos MAICD	(Age 49) Managing Director. Appointed April 2003.
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Mr. Liosatos has over 20 years experience in the construction industry and 12 years experience in the traffic 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 is a member of the Corporate Governance committee. Mr. Liosatos has not served as a Director of any other listed companies during the three years prior to June 2011.

Mr. Raymond K Horsburgh AM B.Eng (Chem.) FAICD (Hon D Univ) FIEAust	(Age 68) Non-Executive Director. Appointed November 2006.
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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 was Group Managing Director and Chief Executive Officer until 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 was Chairman from 2007 to 2010. Mr. Horsburgh is Chairman of the Audit & Risk Committee and is a member of the Nomination & Remuneration and Corporate Governance committees. Mr. Horsburgh has also served as a director and remains a director of the following listed companies during the last three years: CSR Limited, Toll Holdings Limited and National Can Industries Limited.



**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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<b>Name</b>	<b>Qualifications, Experience and Special Responsibilities</b>
<b>Company Secretary</b>	
Mr. Peter K Crafter LL.B (Hons), MBA, FCA, CA, MCT, FAICD, FCIS	(Age 54) Company Secretary and Chief Financial Officer. Appointed Company Secretary March 2004; appointed Chief Financial Officer October 2007.  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 was Chief Financial Officer of ASX-listed Software Communication Group Limited from 1999 to 2002 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.

**The following director also served on the Company's Board during the year and resigned on 27 June 2011:**

- Mr. Ken Jarrett

**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:

<b>Director</b>	<b>Number</b>		
	<b>Ordinary Shares</b>	<b>Preference Shares</b>	<b>Options over Ordinary Shares</b>
Mr. Alan Brown	2,856,965	-	-
Mr. Con Liosatos	10,129,377	-	-
Mr. Ray Horsburgh	328,400	-	-

**Dividends**

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2011 (2010: \$Nil).

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

**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 specialises in the design, manufacture and installation of traffic signals, emergency telephones and portable roadside technology and provides a wide range of directional and regulatory traffic signs and traffic control products 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 on 9 August 2010.

**OPERATING AND FINANCIAL REVIEW**

The following table summarises the Group's results for the financial years ended 30 June 2011 and 2010.

	Year Ended 30 June (\$'m)	
	2011	2010 #
Sales revenue from continuing operations	49.7	47.8
EBITDA from continuing operations before non-recurring items from continuing operations	6.1	4.5
Non-recurring items	(0.9)	(1.0)
Depreciation and amortisation expenses	(2.1)	(2.2)
Finance costs	(3.8)	(4.1)
Income tax benefit/(expense)	0.7	(0.2)
Discontinued operations	0.6	2.7
Net profit/(loss)	0.6	(0.3)

# - *Comparative figures have been restated – refer note 1 to the financial statements*

The Group's results for the 2011 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.

In August 2010 the Group completed the sale of its Traffic Management business. Net cash consideration for the sale was \$11.4m. The net proceeds of the sale, which included the collection of net debtors, have been applied in reducing net debt by \$15m (including \$2.5m finance leases). The results of the Traffic Management business have been presented as discontinued operations in the Annual Financial Report.

Comments on the Group's results are set out below.

**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 2011 and 2010 and excludes the results of the Traffic Management business which have been classified as "discontinued operations".

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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.

	Revenue \$m		EBITDA <sup>^</sup> \$m	
	2011	2010	2011	2010 #
Traffic Products	48.4	46.1	7.6	7.2
Traffic Services	1.8	3.4	0.7	1.1
Other	(0.5)	(1.7)	(2.2)	(3.8)
<b>Total Group</b>	<b>49.7</b>	<b>47.8</b>	<b>6.1</b>	<b>4.5</b>

<sup>^</sup> - EBITDA is before non-recurring items

# - Comparative figures have been restated – refer note 1 to the financial statements

Traffic Products

Traffic Products EBITDA increased from \$7.2m to \$7.6m. Sales of traffic signals continue to be strong and the Company continues to maintain a dominant position in the traffic signals market. During the financial year the Company was awarded a \$13.7 million contract by VicRoads for the replacement of incandescent and hybrid (incandescent and quartz halogen) traffic signals, with LED traffic signals at over 700 intersections in Victoria, which is expected to be completed in early 2012. The signage business has continued to face strong competition.

Traffic Services

Traffic Services 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 decreased from \$1.1m to \$0.7m. With the sale of the Traffic Management business in 2010, there has been less "cross-hire" business where equipment was on-hired to the Traffic Management business.

Corporate

Corporate costs reduced from \$3.8m to \$2.2m, reflecting cost savings made during the year.

Non-recurring Items

During the 2011 financial year, the Group incurred \$0.9m expenditure on items of a non-recurring nature (2010: \$1.0m). These costs included \$0.5m incurred in connection with a legal dispute which has now been settled, further details of which are provided in note 3 to the financial statements.

Finance costs

Finance costs reduced from \$4.1m to \$3.8m, as a result of the reduction of debt during the financial year following the sale of the Traffic Management business.

Discontinued operations

The results of Traffic Management have been presented as "discontinued operations" in the Annual Financial Report.

**Financial position**

Net assets of \$18.6m at 30 June 2011 (2010: \$18.1m) include intangible assets of \$34.4m and net debt of \$27.6m.

During the financial year the net proceeds of the Traffic Management sale were applied in reducing net debt by \$15m (including \$2.5m of finance leases). The Group's term debt facility reduced from \$34.0m to \$24.0m at 30 June 2011 and the working capital facility from \$12.0m to \$8.6m at 30 June 2011.

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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**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 business 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**

Subsequent to balance date there have been no significant events which have affected the operations of the Group.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

For the financial year ending 30 June 2012 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 2012.

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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**ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Traffic Products 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 nil unissued ordinary shares under option (nil at the reporting date). Refer to note 17 of the financial statements for further details of options.

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 2011, the Group paid premiums of \$60,061 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.

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 by 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:

<b>Directors' Meetings</b>		<b>Audit &amp; Risk Committee</b>		<b>Nomination &amp; Remuneration Committee</b>		<b>Corporate Governance Committee</b>		
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. Alan Brown	17	17	4	4	2	2	1	1
Mr. Con Liosatos	17	17	-	-	-	-	1	1
Mr. Ray Horsburgh	17	15	4	2	2	2	1	1
Mr. Ken Jarrett	16	16	4	4	2	2	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. Ray Horsburgh
- Nomination & Remuneration – Mr. Alan Brown
- Corporate Governance – Mr. Alan Brown

Prior to October 2010 Mr. Brown was chairman of the Audit & Risk Committee and Mr. Horsburgh was chairman of the Nomination & Remuneration and Corporate Governance Committees.

**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, BDO Audit (NSW-VIC) Pty Ltd, did not provide any non-audit services.

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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**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.

For the purposes of this report, the term “executive” encompasses the Managing Director, Chief Financial Officer and senior 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 non-executive Directors and is chaired by Mr. Alan Brown, 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.

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

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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The remuneration of non-executive Directors for the financial years ended 30 June 2011 and 30 June 2010 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 a bonus of \$19,541 to Mr. Raj Bhat during the financial year ended 30 June 2011. The Company paid no other bonuses, nor accrued any bonuses, to Key Management Personnel during the financial year ended 30 June 2011. 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 forms part of long term incentive variable remuneration). 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.

During the financial year ended 30 June 2011 no options were granted as equity compensation benefits to key management personnel and no options vested during the year (2010: nil). There were no options outstanding as at 30 June 2011 or at the date of this report.

The Board has no policy with regard to key management personnel limiting the risk of their exposure to options.



**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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*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.

**Director and Executive Details**

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

Mr Alan Brown	Chairman	
Mr. Con Liosatos	Managing Director	
Mr. Ray Horsburgh	Non-Executive Director	
Mr. Ken Jarrett	Non-Executive Director	Resigned 27 June 2011

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. Raj Bhat	Executive Manager Traffic Products Division
Mr. George Kotsopoulos	Group Financial Controller
Mr. Murray Jackman	Northern Territory Branch Manager
Mr. Soon Chua	Group Management Accountant

**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. Mr. Liosatos is also entitled to receive a bonus of up to 20% of base salary if certain KPI's in respect of the 2012 financial year are achieved.

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

**Key Management Personnel and 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. Mr. Crafter is also entitled to receive a bonus of up to 10% of base salary if certain KPI's in respect of the 2012 financial year are achieved.

Mr. Raj Bhat, Operations Manager in the Traffic Products Division, is employed under a rolling employment contract. Employment may be terminated by the giving, by either party, of four weeks' 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.

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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Mr. George Kotsopoulos, Group Financial Controller, is employed under a rolling employment contract. Employment may be terminated by the giving, by either party, of 3 months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.

Mr. Murray Jackman, Northern Territory Branch Manager, is employed under a rolling employment contract. Employment may be terminated by the giving, by either party, of 4 weeks' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct. Mr. Jackman is entitled to receive a bonus of up to \$15,000 on achieving budgeted KPI's.

Mr. Soon Chua, Group Management Accountant, is employed under a rolling employment contract. Employment may be terminated by the giving, by either party, of 4 weeks' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.

**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**

	<b>2011</b>	<b>2010</b>
EBITDA before non-recurring items from continuing operations (\$'000)	\$6,052	\$4,489+
Net profit/(loss) attributable to equity holders of the parent (\$'000)	\$582	(\$254)
Basic earnings / (loss) per share from continuing operations	(0.01 cents)	(2.02 cents)
Share price at balance date	1.5 cents	2.8 cents
Share price growth over year ended 30 June	(46%)	22%

+ *Comparative figures have been restated – refer note 1 to the financial statements*

Management remuneration is not related to group performance and shareholder returns except to the extent that the Managing Director and Chief Financial Officer are entitled to receive a bonus if certain KPI's in respect of the 2012 financial year are achieved.

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

**TABLE 1: REMUNERATION OF KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2011 (AUDITED)**

	Short-term benefits			Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees \$	Non-monetary \$	Cash Bonus \$	Superannuation \$		Long service leave \$		Options \$	\$
<b><i>Non-executive Directors</i></b>									
Mr. Alan Brown	76,666	-	-	6,900	-	-	-	83,566	-
Mr Ray Horsburgh	63,333	-	-	5,700	-	-	-	69,033	-
Mr. Ken Jarrett	45,000	-	-	4,050	-	-	-	49,050	-
<b>Sub-total non-executive Directors</b>	<b>184,999</b>	<b>-</b>	<b>-</b>	<b>16,650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201,649</b>	<b>-</b>
<b><i>Key Management Personnel</i></b>									
Mr. Con Liosatos	406,788	40,269	-	36,611	-	6,309	-	489,977	-
Mr. Peter Crafter	207,108	14,033	-	44,800	-	4,781	-	270,722	-
	<b>613,896</b>	<b>54,302</b>	<b>-</b>	<b>81,411</b>	<b>-</b>	<b>11,090</b>	<b>-</b>	<b>760,699</b>	<b>-</b>
<b>Sub-total</b>	<b>798,895</b>	<b>54,302</b>	<b>-</b>	<b>98,061</b>	<b>-</b>	<b>11,090</b>	<b>-</b>	<b>962,348</b>	<b>-</b>
<b><i>Other Executives</i></b>									
Mr. Raj Bhat	191,856	12,158	19,541	18,933	-	2,441	-	244,929	-
Mr. George Kotsopoulos	165,138	43,278	-	14,862	-	2,379	-	225,657	-
Mr. Murray Jackman	137,550	32,596	-	12,830	-	16,062	-	199,038	-
Mr. Soon Chua	149,419	5,897	-	13,384	-	654	-	169,354	-
	<b>643,963</b>	<b>93,929</b>	<b>19,541</b>	<b>60,009</b>	<b>-</b>	<b>21,536</b>	<b>-</b>	<b>838,978</b>	<b>-</b>
<b>Total</b>	<b>1,442,858</b>	<b>148,231</b>	<b>19,541</b>	<b>158,070</b>	<b>-</b>	<b>32,626</b>	<b>-</b>	<b>1,801,326</b>	<b>-</b>

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

**TABLE 2: REMUNERATION OF KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2010 (AUDITED)**

	Short-term benefits			Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees \$	Non-monetary \$	Other \$	Superannuation \$	\$	Long service leave \$	Options \$	\$	% performance related
<i>Non-executive Directors</i>									
Mr Ray Horsburgh	90,000	-	-	8,100	-	-	-	98,100	-
Mr. Alan Brown	50,000	-	-	4,500	-	-	-	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	-
<b>Sub-total non-executive Directors</b>	<b>193,827</b>	<b>-</b>	<b>-</b>	<b>17,718</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>211,545</b>	<b>-</b>
<i>Executive officers</i>									
Mr. Con Liosatos	400,000	49,773	-	36,000	-	2,874	-	488,647	-
Mr. Peter Crafter	201,000	8,847	-	44,250	-	2,293	7,423	263,813	-
Mr. Andrew Bull	198,677	29,786	-	28,647	-	2,616	-	259,726	-
Mr. Graham Sergeant	143,970	15,617	-	46,257	-	748	-	206,592	-
Mr. Mark Faunt	177,441	-	-	15,970	-	-	-	193,411	-
<b>Sub-total executive officers</b>	<b>1,121,088</b>	<b>104,023</b>	<b>-</b>	<b>171,124</b>	<b>-</b>	<b>8,531</b>	<b>7,423</b>	<b>1,412,189</b>	<b>-</b>
<b>Total</b>	<b>1,314,915</b>	<b>104,023</b>	<b>-</b>	<b>188,842</b>	<b>-</b>	<b>8,531</b>	<b>7,423</b>	<b>1,623,734</b>	<b>-</b>

**Traffic Technologies Ltd**  
**Directors' Report (Continued)**

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Signed in accordance with a resolution of the Directors.



Mr. Alan Brown  
Independent Non-Executive Chairman

22 August 2011  
Melbourne

**DECLARATION OF INDEPENDENCE BY NICHOLAS E. BURNE TO THE DIRECTORS OF  
TRAFFIC TECHNOLOGIES LIMITED**

As lead auditor of Traffic Technologies Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Traffic Technologies Limited and the entities it controlled during the period.



**NICHOLAS E. BURNE**

Director

**BDO Audit (NSW-VIC) Pty Ltd**

Melbourne, 22<sup>nd</sup> day of August 2011

## **Traffic Technologies Ltd**

### **Corporate Governance Statement**

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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. Alan Brown. 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 2011. 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 Securities 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 (Continued)**

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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 an independent 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.

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

<b>Name</b>	<b>Position</b>	<b>Term in Office</b>
Mr. Alan Brown	Independent Non-Executive Chairman	7 years, 7 months
Mr. Con Liosatos	Managing Director	8 years, 3 months
Mr. Ray Horsburgh	Independent Non-Executive Director	4 years, 9 months

The following Director resigned during the year:

Mr. Ken Jarrett  
(resigned 27 June 2011)                      Non-Executive Director



**Traffic Technologies Ltd**  
**Corporate Governance Statement (Continued)**

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

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

In accordance with the definition of independence above, two of the four Directors of the Company who served during the year ended 30 June 2011 were independent. Mr. Liosatos, the Managing Director, is a full time executive and substantial shareholder of the Company. Mr. Jarrett is a substantial shareholder of the Company. The Company had an independent chairman throughout the year ended 30 June 2011.

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. Brown. The roles of Chair (Mr. Brown) 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. All non-executive Directors are members of the Nomination & Remuneration Committee, which is chaired by Mr. Brown. In considering board candidates, the Nomination & Remuneration Committee will identify potential skill gaps and seek suitable qualified candidates to fill such gaps, using external recruitment tools where necessary.

The Company provides the capacity for any Director to obtain separate professional advice on any matter being discussed by the Board and for the Company 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.

### **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.

**Traffic Technologies Ltd**  
**Corporate Governance Statement (Continued)**

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**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 may improperly use their position for personal or private gain to themselves, a family member, or any other person ("associates").

The Company has established a trading policy governing the trading of its securities. As required by the ASX Listing Rules, a copy of the Company's trading policy is available from the Company's ASX announcements platform.

The Company has established a diversity policy. The policy requires the board to establish measurable objectives for achieving gender diversity and to annually assess the Company's progress toward achieving those objectives. The Board is still in the process of determining suitable measurable objectives and is not able to disclose further details until they are determined and adopted by the Board. However, all appointments are, and will continue to be, made on the basis of merit.

Currently the female workforce of the Company constitutes 18.4% of full-time staff and 100% of part-time staff. There are no women in senior executive positions or on the board at present.

**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's auditors. 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. BDO Audit (NSW-VIC) Pty Ltd 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

**Traffic Technologies Ltd**  
**Corporate Governance Statement (Continued)**

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be held for discussion on policies and procedures and risk management matters. The auditors of the company 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. Horsburgh, 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 2001 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.

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 2001 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 Managing Director controls all the Company's communications with assistance from the Company Secretary in carrying out this responsibility. The Managing Director 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 Managing Director 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

**Traffic Technologies Ltd**  
**Corporate Governance Statement (Continued)**

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then be placed on the Company's website. 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 Managing Director 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 2001; 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 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 Company's reports and ASX announcements may be viewed and downloaded from the ASX website: (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.

**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 Audit & Risk 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:

**Traffic Technologies Ltd**  
**Corporate Governance Statement (Continued)**

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- 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;
- 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 road 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 2001, 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.

**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.

**Traffic Technologies Ltd**  
**Corporate Governance Statement (Continued)**

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**Nomination & Remuneration Committee**

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

The Nomination & Remuneration Committee comprises all non-executive Directors and is chaired by Mr. Brown, who is an independent Director. For details of meetings of the Nomination & Remuneration Committee held during the year and the attendance 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 Director's 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. 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.

**Traffic Technologies Ltd and Controlled Entities**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2011**

	Note	Consolidated	
		2011 \$'000	2010 \$'000
<b>Continuing operations</b>			
Revenue	2a	49,727	47,801
Other income	2b	345	380
Changes in inventories of finished goods and work in progress		650	(251)
Raw materials and consumables used		(24,075)	(20,776)
Employee benefits expense	3a	(16,923)	(17,012)
Occupancy costs		(2,177)	(2,061)
Advertising and marketing expense		(223)	(209)
Equipment rental		(212)	(706)
Other expenses	3b	(1,060)	(2,677)
<b>Earnings before interest, tax, depreciation, amortisation expense and non-recurring items</b>		<b>6,052</b>	<b>4,489</b>
Non-recurring items	3c	(899)	(955)
Depreciation, amortisation and impairment expense	3d	(2,057)	(2,186)
Finance costs	3e	(3,774)	(4,052)
<b>Loss for the year from continuing operations before income tax</b>		<b>(678)</b>	<b>(2,704)</b>
Income tax benefit / (expense)	4b	654	(218)
<b>Loss for the year from continuing operations</b>		<b>(24)</b>	<b>(2,922)</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	6b	606	2,668
<b>Net profit/(loss) for the year</b>		<b>582</b>	<b>(254)</b>
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<b>582</b>	<b>(254)</b>
<b>Earnings/ (loss) per share</b>		<b>Cents</b>	<b>Cents</b>
From continuing operations			
- Basic (cents per share)	5	(0.01)	(2.02)
- Diluted (cents per share)	5	(0.01)	(2.02)
From discontinued operations			
- Basic (cents per share)	5	0.35	(1.84)
- Diluted (cents per share)	5	0.35	(1.84)
From continuing and discontinued operations			
- Basic (cents per share)	5	0.34	(0.18)
- Diluted (cents per share)	5	0.34	(0.18)

*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 2011**

	Note	Consolidated	
		2011 \$'000	2010 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	20a	3,005	3,457
Trade and other receivables	7	12,178	17,290
Inventories	8	7,887	7,237
Assets of disposal group classified as held for sale	6c	-	13,171
<b>Total Current Assets</b>		<b>23,070</b>	<b>41,155</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	10	5,489	5,699
Intangible assets and goodwill	11	34,406	34,241
Other financial assets	9	1	1
Deferred tax assets	4c	488	316
<b>Total Non-Current Assets</b>		<b>40,384</b>	<b>40,257</b>
<b>TOTAL ASSETS</b>		<b>63,454</b>	<b>81,412</b>
<b>Current Liabilities</b>			
Trade and other payables	12	11,953	13,750
Interest bearing loans and borrowings	13	6,519	19,135
Provisions	14	1,945	2,392
Derivative financial instruments	16	151	-
Liabilities directly associated with assets of disposal group classified as held for sale	6c	-	3,597
<b>Total Current Liabilities</b>		<b>20,568</b>	<b>38,874</b>
<b>Non-Current Liabilities</b>			
Trade and other payables	12	56	116
Interest bearing loans and borrowings	13	24,087	23,936
Provisions	14	104	96
Derivative financial instruments	16	-	333
<b>Total Non-Current Liabilities</b>		<b>24,247</b>	<b>24,481</b>
<b>TOTAL LIABILITIES</b>		<b>44,815</b>	<b>63,355</b>
<b>NET ASSETS</b>		<b>18,639</b>	<b>18,057</b>
<b>Equity</b>			
Contributed equity	15	41,663	41,663
Accumulated losses		(24,024)	(24,606)
Share-based payments reserve		1,000	1,000
<b>TOTAL EQUITY</b>		<b>18,639</b>	<b>18,057</b>

*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 2011**

	Ordinary Shares	Convertible redeemable preference shares	Share based payments Reserve	Accumulated Losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>CONSOLIDATED</b>					
<b>At 1 July 2009</b>	<b>33,062</b>	<b>8,000</b>	<b>993</b>	<b>(24,352)</b>	<b>17,703</b>
Loss for the year	-	-	-	(254)	(254)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(254)</b>	<b>(254)</b>
<b>Transactions with owners in their capacity as owners:</b>					
<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 - 15 December 2009	125	(125)	-	-	-
<i>Share Conversion</i>					
Conversion of 15,000,000 preference shares to 15,000,000 ordinary shares – 11 May 2010	3,750	(3,750)	-	-	-
Transaction costs	(10)	-	-	-	(10)
Share-based payment	-	-	7	-	7
<b>At 30 June 2010</b>	<b>37,538</b>	<b>4,125</b>	<b>1,000</b>	<b>(24,606)</b>	<b>18,057</b>
Profit for the year	-	-	-	582	582
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>582</b>	<b>582</b>
<b>Transactions with owners in their capacity as owners:</b>					
Conversion of 16,191,208 preference shares into 16,191,208 ordinary shares – 21 October 2010	4,048	(4,048)	-	-	-
Conversion of 1,000 preference shares into 1,000 ordinary shares – 28 April 2011	77	(77)	-	-	-
<b>At 30 June 2011</b>	<b>41,663</b>	<b>-</b>	<b>1,000</b>	<b>(24,024)</b>	<b>18,639</b>

*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.

*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 2011**

	Note	Consolidated	
		2011 Inflows / (Outflows) \$'000	2010 Inflows / (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		64,665	98,637
Payments to suppliers and employees		(58,350)	(92,371)
Interest received		67	77
Interest paid		(3,564)	(3,464)
Net cash provided by operating activities	20b	<b>2,818</b>	2,879
<b>Cash flows from investing activities</b>			
Proceeds from disposal of plant and equipment		50	125
Proceeds from disposal of business assets		11,400	5
Proceeds from disposal of intangible assets		-	32
Payment of development costs		(963)	(1,205)
Purchase of property, plant and equipment		(476)	(1,090)
Purchase of intangible assets		(336)	(323)
Transaction costs – sale of business assets		(341)	-
Net cash (used in) investing activities		<b>9,334</b>	(2,456)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		3,275	-
Repayment of borrowings		(15,716)	(1,021)
Proceeds from share issues		-	659
Capital raising fees		-	(80)
Payment for finance facility fees		(163)	(115)
Net cash (used in) financing activities		<b>(12,604)</b>	(557)
<b>Net decrease in cash and cash equivalents</b>		<b>(452)</b>	(134)
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>3,457</b>	3,591
<b>Cash and cash equivalents at end of the financial year</b>	20a	<b>3,005</b>	3,457

*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 2011**

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The financial report of Traffic Technologies Ltd (the Company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 22 August 2011. The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities 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 (AASB) and AASB Interpretations. The consolidated financial statements of Traffic Technologies Ltd and its subsidiaries also comply with International Financial Reporting Standards (IFRS) as issued by the International 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 and its subsidiaries (the 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.

*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 statement of comprehensive income*

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. The presentation in the statement of comprehensive income has been amended where necessary to present expense items more clearly using the nature classification and comparatives have been restated accordingly. This has resulted in adjustments to the following line items:

	2010
	\$'000
Other income	330
Changes in inventories of finished goods and work in progress	31,470
Changes in inventories	(251)
Raw materials and consumables used	(20,776)
Employee benefits expense	(9,502)
Advertising and marketing expense	(209)
Equipment rental	(706)
Other expenses	(26)
Finance costs	(330)
Net change	-

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

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.

**b) 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 2010:

- Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project – AASB 2009-5
- Improvements to IFRSs – AASB 2010-03.

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described below. An overview of standards, amendments and interpretations to IFRSs and AASBs issued but not yet effective is given below.

*Adoption of Improvements to IFRSs 2009 – AASB 2009-5*

The Improvements to IFRSs 2009 (issued as AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project) made several minor amendments to IFRSs. The only amendment relevant to the Group relates to AASB 117 Leases. The amendment requires that leases of land are classified as finance or operating by applying the general principles of AASB 117. Prior to this amendment, AASB 117 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 July 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

*Accounting standards and interpretations issued but not yet effective*

At the date of authorisation of these financial statements certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group’s financial statements.

*AASB 9 Financial Instruments (issued December 2009 and amended December 2010)*

This standard is applicable to periods beginning on or after 1 January 2013 and will amend requirements for classification and measurement of financial assets.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. At 30 June 2011, the entity has \$151,000 of financial liabilities measured at fair value through profit or loss. The amendments require that any changes in fair value attributable to the liability's credit risk be recognised in other comprehensive income instead of profit or loss. The amendments apply retrospectively from date of initial application, which will be 1 July 2012. Therefore, at this stage, it is not yet possible for the entity to quantify the impact on the financial statements of first time application of these amendments.

*IFRS 13 Fair Value Measurement (issued May 2011)*

This standard is applicable to periods beginning on or after 1 January 2013. The standard requires additional disclosures for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. When this standard is adopted for the first time on 1 July 2013, the financial statements will include additional disclosures about items measured at fair value.

The standard also establishes a single framework for measuring the fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Due to the recent release of this standard, the entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by IFRS 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.

*IAS 1 Presentation of Items of Other Comprehensive Income (issued June 2011)*

This standard is applicable to periods beginning on or after 1 January 2013 and requires amendments to the presentation of items of other comprehensive income (OCI) to align the presentation with US GAAP. This will involve a name change for the statement of comprehensive income, which will be referred to as the 'statement of profit or loss and other comprehensive income.' OCI items will also be grouped into two categories - those that could subsequently be reclassified into profit or loss and those that cannot. When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However the statement of comprehensive income will include name changes and include subtotals for any items of OCI that can subsequently be reclassified to profit or loss in future and those that cannot subsequently be reclassified.

*AASB 2010-4 Further Amendments to Australia Accounting Standards Arising from the Annual Improvements Process (issued June 2010)*

This standards is applicable to periods beginning on or after 1 January 2011 and reduces the level of disclosure required for credit risk, renegotiated loans and receivables and the fair value of collateral held. On initial adoption for the year ended 30 June 2012, there will be no impact on amounts recognised in the financial statements as the amendment results in fewer disclosures only.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**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 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.

**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.

***Significant accounting judgements***

***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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

*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 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.

*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 in 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. Assumptions about the generation of future taxable profits 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 in 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 profit or loss.

***Significant accounting estimates and assumptions***

*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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

*Long service leave provision*

As discussed in note 1(s), 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.

*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.



**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

*(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.

**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.

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

**g) Cash and cash equivalents**

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

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**h) Trade and other receivables**

Trade receivables, which generally have 30 day terms, are recognised 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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

**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) 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 date.

Deferred income tax is provided on all temporary differences at the balance 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 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:

- 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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

Unrecognised deferred income tax assets are reassessed at each balance 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 date.

Income taxes relating to items recognised directly in equity are recognised in equity.

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.

*Other taxes*

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

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

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

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

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

**k) 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:

	<b>2011</b>	<b>2010</b>
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.

**l) Assets held for sale and discontinued operations**

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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**1. Summary of Significant Accounting Policies (continued)**

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 in profit or loss and the assets and liabilities are presented separately in the statement of financial position.

**m) 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.

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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

**n) 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 1(o) 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.

*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 (2010: 5 years). The amortisation has been recognised in profit or loss 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.

*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 (2010: 5 years). Type approval certification represents the Group's 'licence' to sell its light-emitting diode ("LED") traffic light signals and other products.

*Brand names*

Brand names acquired in business combinations are assessed to have a finite life and are amortised over a period of 10 years (2010: 10 years).

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

*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 period of 3-10 years (2010: 3-10 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 profit or loss 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 1-4 years (2010: 1-4 years).

**o) 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.

The Group 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.

**p) 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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

**q) 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 balance date.

**r) 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.

**s) 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 profit or loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance 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.



**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

*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 balance 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 balance 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 balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**t) 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). The consolidated financial statements, are presented in Australian dollars, which is the functional and presentation currency of the Group.

(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 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.

**u) 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.

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).

The charge to profit or loss 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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

**v) 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 statement of financial position, 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 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.

*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.

**w) Earnings per share**

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

Diluted earnings per share is calculated as net profit/loss attributable to members of the parent entity, 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.

**x) Business combinations**

Business combinations are accounted for using the acquisition method. 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 consideration transferred in a business combination is measured at fair value, which is 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.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

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.

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. 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 the statement of comprehensive income.

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 in profit or loss. If the contingent consideration is classified as equity, it will not be remeasured.

**y) 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. 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 maker. 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
- 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**  
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**2. Revenues**

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
<b>(a) Revenue</b>		
Continuing operations		
Sale of goods	47,655	43,989
Rendering of services	2,005	3,740
Bank interest receivable	67	72
	<b>49,727</b>	<b>47,801</b>
Discontinued operations		
Rendering of services	4,229	44,184
	<b>4,229</b>	<b>44,184</b>
Total revenue	<b>53,956</b>	<b>91,985</b>
 <b>(b) Other income</b>		
Fair value of interest rate contracts	182	330
Net gain on disposal of fixed assets	12	45
Other income	151	5
	<b>345</b>	<b>380</b>

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**3. Expenses**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<b>(a) Employee related expenses</b>		
Wages and salaries	9,007	11,370
Superannuation (defined contribution)	947	970
Other employee benefits expense	6,969	4,665
Share-based payment expense	-	7
	<b>16,923</b>	<b>17,012</b>
 <b>(b) Other expenses</b>		
Administrative costs	805	2,002
Public company costs	255	675
	<b>1,060</b>	<b>2,677</b>
 <b>(c) Non-recurring items</b>		
Costs in relation to prior year business combinations	180	41
Consultancy costs – assessment of non-core assets	-	342
Consultancy costs - other	3	76
Redundancy costs	172	173
EGM costs	-	294
Lease termination costs	18	18
Legal costs*	493	-
Other	33	11
	<b>899</b>	<b>955</b>

\* Relate to dispute with Build 1 (Qld) Pty Ltd which was settled in April 2011.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**3. Expenses (continued)**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<b>(d) Depreciation, amortisation and impairment expense</b>		
Depreciation of non-current assets:		
Plant and equipment	672	686
Office furniture and fittings	78	107
Motor vehicles	148	120
Land and Buildings	8	8
Leasehold improvements	17	40
	<b>923</b>	<b>961</b>
Amortisation of non-current assets:		
Development costs	279	301
Type approvals	520	314
Software costs	236	277
Patents and trademarks	51	135
Brand names	48	47
	<b>1,134</b>	<b>1,074</b>
Impairment of non-current assets:		
Other financial assets	-	67
Development costs	-	84
	<b>-</b>	<b>151</b>
<b>Total depreciation, amortisation and impairment expense</b>	<b>2,057</b>	<b>2,186</b>
<b>(e) Finance costs</b>		
Amortisation of capitalised transaction costs	210	160
Bank loans and overdrafts	3,460	3,803
Lease interest	49	41
Other	55	48
<b>Total finance costs</b>	<b>3,774</b>	<b>4,052</b>
<b>(f) Research and development costs</b>		
Research and development costs charged directly to cost of sales in profit or loss	<b>66</b>	<b>57</b>

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**4. Income Tax**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<b>(a) Income tax expense / (benefit)</b>		
The major components of income tax expense / (benefit) are:		
<b>Statement of Comprehensive Income</b>		
<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	(454)	93
Derecognition of tax losses	-	-
Income tax expense/(benefit) reported in the statement of comprehensive income	(454)	93
<b>(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate</b>		
Accounting loss before income tax from continuing operations	(678)	(2,704)
Accounting profit before income tax from discontinued operations	806	2,543
	128	(161)
Prima facie income tax expense /(benefit) at the Group's statutory income tax rate of 30% (2010: 30%)	38	(48)
Incidental on sale of assets	101	-
Gain on sale of fixed assets	(374)	-
Current losses not recognised	868	-
Under provision in respect of fixed assets	196	-
Over provision for income tax in prior years	(1,404)	-
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
Amortisation of other intangible assets	-	293
Impairment of non-current assets	-	45
(Income) / expenses that are not deductible in determining taxable profit	121	68
Deferred tax expense / (income) relating to origination and reversal of temporary differences	-	-
Temporary differences now derecognised / (recognised) as deferred tax assets/liabilities	-	(360)
Aggregate income tax expense / (benefit)	(454)	93
Aggregate income tax expense / (benefit) is attributable to:		
Continuing operations	(654)	218
Discontinued operations	200	(125)
Income tax expense / (benefit)	(454)	93

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**4. Income Tax (continued)**

**(c) Deferred tax balances**

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

<b>30 June 2011</b>	<b>Consolidated</b>				
	Opening balance	Charged/ (credited) to income	Charged to equity	Disposals	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Temporary differences</i>					
Intangible assets	<b>(1,035)</b>	(35)	-	-	<b>(1,070)</b>
Property, plant and equipment	-	167	-	-	<b>167</b>
Employee provisions	<b>565</b>	302	-	(282)	<b>585</b>
Warranty provisions	<b>33</b>	(3)	-	-	<b>30</b>
Unfavourable contract provision	<b>51</b>	(51)	-	-	-
Inventory provisions	<b>75</b>	23	-	-	<b>98</b>
Doubtful debts	<b>7</b>	(5)	-	-	<b>2</b>
Credit notes	<b>130</b>	(108)	-	-	<b>22</b>
Unclaimed share issue costs	<b>46</b>	(33)	-	-	<b>13</b>
Accruals	<b>444</b>	11	-	-	<b>455</b>
Capital expenditure	-	186	-	-	<b>186</b>
	<b>316</b>	454	-	(282)	<b>488</b>
Unused tax losses	-	-	-	-	-
	<b>316</b>	454	-	(282)	<b>488</b>

Presented in the statement of financial position as follows:

Deferred tax liability	(1,121)
Deferred tax assets	1,609
	<b>488</b>



**Traffic Technologies Ltd and Controlled Entities**  
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**4. Income Tax (continued)**

30 June 2010	Consolidated				
	Opening balance \$'000	Charged/ Credited) to income \$'000	Charged to equity \$'000	Disposals \$'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
	<b>388</b>	<b>(93)</b>	<b>21</b>	<b>-</b>	<b>316</b>
Unused tax losses	-	-	-	-	-
	<b>388</b>	<b>(93)</b>	<b>21</b>	<b>-</b>	<b>316</b>

Presented in the statement of financial position as follows:

Deferred tax liability	(1,035)
Deferred tax assets	1,351
	<b>316</b>

	Consolidated 2011 \$'000	Consolidated 2010 \$'000
The following deferred tax assets and deferred tax liabilities have not been brought to account as assets:		
Property, Plant and Equipment	-	921
Inventory Provisions	-	36
Doubtful debts	-	87
Accruals and employee provisions	-	595
Tax losses – revenue	4,930	4,062
Tax losses – capital	100	100
<i>Total deferred tax assets</i>	<b>5,030</b>	<b>5,801</b>

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

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**4. Income Tax (continued)**

**Unrecognised temporary differences**

At 30 June 2011 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 (2010: \$nil).

**(d) 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 22.

**(e) 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.

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**5. Earnings per Share**

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

<b>(a) Earnings used in calculating earnings per share</b>	<b>Consolidated</b>	Consolidated
	<b>2011</b>	2010
	<b>\$'000</b>	\$'000

*For basic and diluted earnings per share:*

Net loss from continuing operations attributable to ordinary equity holders of the parent	(24)	(2,922)
Profit attributable to discontinued operations	606	2,668
Net profit/(loss) attributable to ordinary equity holders of the parent	582	(254)

**(b) Weighted average number of shares**

	<b>Consolidated</b>	Consolidated
	<b>2011</b>	2010
	<b>Thousands</b>	Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	171,109	144,639
Effect of dilution:		
Share options	-	-
Redeemable preference shares	-	29,367
Weighted average number of ordinary shares adjusted for the effect of dilution	171,109	174,006

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 2011. For 2010 the redeemable preference shares were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

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.

*(ii) 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.

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**6. Discontinued operations**

**(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 was involved in 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.

**(b) Financial performance of operations disposed**

The results of discontinued operations for the year until disposal are presented below:

	<b>Traffic Management</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	4,229	44,184
Other income	1	44
Expenses	<b>(4,556)</b>	(40,277)
EBITDA before non-recurring items	<b>(326)</b>	3,951
Non-recurring items	-	(42)
Depreciation and amortisation expenses	<b>(94)</b>	(1,182)
Finance costs	<b>(21)</b>	(184)
(Loss) / profit before tax from discontinued operations	<b>(441)</b>	2,543
Income tax (expense) / benefit	<b>(200)</b>	125
(Loss) / profit after tax from discontinued operations	<b>(641)</b>	2,668
Gain on sale before income tax	<b>1,247</b>	-
Income tax expense	-	-
Gain on sale after income tax	<b>1,247</b>	-
<b>Profit from discontinued operations</b>	<b>606</b>	2,668

**(c) Assets and liabilities and cash flow information of discontinued operations**

*The major classes of assets and liabilities disposed of in the year ended 30 June 2011 (2010: held for sale) were:*

<b>Traffic Management</b>	<b>2011</b>	<b>2010</b>
	<b>Disposed of</b>	<b>Held for sale</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>		
Prepayments	52	52
Property, plant and equipment	3,295	3,315
Intangibles	9,626	9,680
Other financial assets	124	124
Deferred tax asset	283	-
<b>Assets classified as discontinued operations</b>	<b>13,380</b>	13,171
<b>Liabilities</b>		
Other payables	89	88
Finance lease liabilities	2,514	2,567
Employee entitlements	965	942
<b>Liabilities directly associated with assets classified as discontinued operations</b>	<b>3,568</b>	3,597
<b>Net assets attributable to discontinued operations</b>	<b>9,812</b>	9,574

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**6. Discontinued operations (continued)**

*The net cash flows of discontinued operations are as follows:*

	2011 \$'000	2010 \$'000
Operating activities	4,918	3,339
Investing activities	-	(637)
Financing activities	-	(2,749)
Net cash outflow	4,918	(47)

*Consideration received:*

	2011 \$'000	2010 \$'000
Net cash consideration	11,400	-
Less transaction costs	(341)	-
Less net assets disposed	(9,812)	-
Gain on disposal before income tax expense	1,247	-
Income tax expense	-	-
Gain on disposal after income tax expense	1,247	-

*Net cash flow on disposal*

Cash and cash equivalents consideration	11,400	-
Reflected in the statement of cash flows	11,400	-

**7. Trade and Other Receivables (Current)**

	Consolidated 2011 \$'000	Consolidated 2010 \$'000
Trade receivables	11,464	16,310
Allowance for impairment loss (a)	(8)	(28)
	11,456	16,282
Prepayments	570	784
Other receivables	152	224
	12,178	17,290

**(a) Allowance for impairment loss – trade receivables**

Trade receivables are non-interest bearing, 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 \$8,166 (2010: \$28,000) has been recognised by the Group. This amount has 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.

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

Movements in the allowance for impairment loss were as follows:

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
Balance at the beginning of the year	28	20
Charge for the year	8	28
Amounts written off as uncollectible	-	-
Amounts recovered during the year	(4)	-
Allowance no longer required	(24)	(20)
 Balance at the end of the year	<b>8</b>	<b>28</b>

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

		<b>TOTAL</b>	<b>Not past due \$'000</b>	<b>1 – 30 days PDNI* \$'000</b>	<b>1 – 30 days CI* \$'000</b>	<b>31 – 60 days PDNI* \$'000</b>	<b>31 – 60 days CI* \$'000</b>	<b>+ 61 days PDNI* \$'000</b>	<b>+ 61 days CI* \$'000</b>
<b>2011</b>	<b>Group</b>	<b>11,464</b>	<b>8,315</b>	<b>2,337</b>	<b>-</b>	<b>482</b>	<b>-</b>	<b>322</b>	<b>8</b>
2010	Group	16,310	8,667	5,485	-	1,173	-	957	28

**\* - Table Legend**

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

Receivables past due but not considered impaired are: Group \$3,141,000 (2010: \$7,615,000). 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**

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 18.

**Traffic Technologies Ltd and Controlled Entities**  
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**8. Inventories (Current)**

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
Raw materials	4,252	3,259
Work in progress	214	229
Finished goods	3,421	3,749
	7,887	7,237

Inventory write-downs recognised as an expense totalled \$60,000 (2010: \$42,154) for the Group. During the year, inventory write-downs of \$104,000 were reversed following the disposal of associated aged/impaired inventory (2010: \$75,000). This expense/benefit is included in the statement of comprehensive income in changes in inventories of finished goods and work in progress.

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

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
Listed investments, at market value	1	1
	1	1

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**10. Property, Plant and Equipment**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<b>a) Carrying values</b>		
<i>Plant and equipment:</i>		
At cost	8,447	8,122
Accumulated depreciation*	(3,871)	(3,255)
Total plant and equipment	4,576	4,867
<i>Plant and equipment under lease:</i>		
At cost	170	-
Accumulated depreciation*	(5)	-
Total plant and equipment	165	-
<i>Office furniture and fittings</i>		
At cost	1,090	1,053
Accumulated depreciation*	(945)	(905)
Total office furniture and fittings	145	148
<i>Motor vehicles</i>		
At cost	459	584
Accumulated depreciation*	(280)	(307)
Total motor vehicles	179	277
<i>Motor vehicles under lease</i>		
At cost	256	235
Accumulated depreciation*	(96)	(104)
Total motor vehicles under lease	160	131
<i>Buildings</i>		
At cost	200	200
Accumulated depreciation	(46)	(38)
Total land and buildings	154	162
<i>Leasehold improvements</i>		
At cost	691	677
Accumulated depreciation*	(581)	(563)
Total leasehold improvements	110	114
<i>Total property, plant and equipment</i>		
At cost	11,313	10,871
Accumulated depreciation*	(5,824)	(5,172)
Total net book value	5,489	5,699

\* - Includes impairment



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**10. Property, Plant and Equipment (continued)**

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

<b>CONSOLIDATED</b>	<b>Plant &amp; Equipment \$'000</b>	<b>Plant &amp; Equipment under lease \$'000</b>	<b>Office furniture &amp; fittings \$'000</b>	<b>Office equipment under lease \$'000</b>	<b>Motor vehicles \$'000</b>	<b>Motor vehicles under lease \$'000</b>	<b>Buildings \$'000</b>	<b>Leasehold improvements \$'000</b>	<b>Total \$'000</b>
<b>Year ended 30 June 2011</b>									
Balance at the beginning of the year, net of accumulated depreciation	4,867	-	148	-	277	131	162	114	5,699
Additions	376	170	75	-	12	105	-	13	751
Disposals	-	-	-	-	(38)	-	-	-	(38)
Depreciation expense as part of continuing operations	(667)	(5)	(78)	-	(72)	(76)	(8)	(17)	(923)
<b>Balance at the end of the year, net of accumulated depreciation</b>	<b>4,576</b>	<b>165</b>	<b>145</b>	<b>-</b>	<b>179</b>	<b>160</b>	<b>154</b>	<b>110</b>	<b>5,489</b>
<b>Year ended 30 June 2010</b>									
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)
Depreciation expense as part of continuing operations	(686)	-	(107)	-	(83)	(37)	(8)	(40)	(961)
Depreciation expense as part of discontinued operations	(575)	-	(69)	(16)	(85)	(350)	-	(15)	(1,110)
Assets transferred to discontinued operations	(445)	-	(127)	(26)	(184)	(2,466)	-	(66)	(3,314)
<b>Balance at the end of the year, net of accumulated depreciation</b>	<b>4,867</b>	<b>-</b>	<b>148</b>	<b>-</b>	<b>277</b>	<b>131</b>	<b>162</b>	<b>114</b>	<b>5,699</b>

**Traffic Technologies Ltd and Controlled Entities**  
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**10. Property, Plant and Equipment (continued)**

**c) 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**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<i>Development costs</i>		
At cost	2,655	2,566
Accumulated amortisation	(722)	(443)
Accumulated impairment	(400)	(400)
	1,533	1,723
<i>Type approval certification</i>		
At cost	3,267	2,393
Accumulated amortisation	(1,640)	(1,120)
	1,627	1,273
<i>Software costs</i>		
At cost	901	613
Accumulated amortisation	(598)	(362)
	303	251
<i>Patents and trademarks</i>		
At cost	239	191
Accumulated amortisation	(109)	(58)
	130	133
<i>Brand names</i>		
At cost	477	477
Accumulated amortisation	(199)	(151)
	278	326
<i>Goodwill</i>		
At cost	33,023	33,023
Accumulated impairment	(2,488)	(2,488)
	30,535	30,535
<i>Total intangibles</i>		
At cost	40,562	39,263
Accumulated amortisation*	(6,156)	(5,022)
Total net book value	34,406	34,241

\* - Includes impairment

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**11. Intangible Assets (continued)**

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

	<b>Consolidated</b>						<b>TOTAL</b>
	<b>Development Costs*</b>	<b>Type Approval</b>	<b>Software Costs</b>	<b>Patents and Trademarks</b>	<b>Brands</b>	<b>Goodwill</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At 1 July 2010 net book value	1,723	1,273	251	133	326	30,535	34,241
Additions	89	874	288	48	-	-	1,299
Disposals	-	-	-	-	-	-	-
Amortisation as part of continuing operations	(279)	(520)	(236)	(51)	(48)	-	(1,134)
<b>At 30 June 2011 net book value</b>	<b>1,533</b>	<b>1,627</b>	<b>303</b>	<b>130</b>	<b>278</b>	<b>30,535</b>	<b>34,406</b>
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)
Amortisation as part of continuing operations	(301)	(314)	(277)	(135)	(47)	-	(1,074)
Amortisation as part of discontinued operations	-	-	(72)	-	-	-	(72)
Impairment	(84)	-	-	-	-	-	(84)
Assets transferred to discontinued operations	-	-	(54)	-	-	(9,627)	(9,681)
<b>At 30 June 2010 net book value</b>	<b>1,723</b>	<b>1,273</b>	<b>251</b>	<b>133</b>	<b>326</b>	<b>30,535</b>	<b>34,241</b>

\*- Internally generated intangible asset

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**11. Intangible Assets (continued)**

**c) 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 profit or loss 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 'licence' to sell its light-emitting diode ("LED") traffic light signals. The amortisation has been recognised in the profit or loss in the line item 'depreciation, amortisation and impairment expense'.

*(iii) 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 1-4 years. The amortisation has been recognised in the profit or loss in the line item 'depreciation, amortisation and impairment expense'.

*(iv) 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 3-10 years. The amortisation has been recognised in the profit or loss in the line item 'depreciation, amortisation and impairment expense'.

*(v) Customer contracts*

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 profit or loss in the line item 'depreciation, amortisation and impairment expense'.

*(vi) 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 profit or loss in the line item 'depreciation, amortisation and impairment expense'.

*(vii) 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 note 11(d)).

**Traffic Technologies Ltd and Controlled Entities**  
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**11. Intangible Assets (continued)**

**d) Impairment tests for goodwill and intangible assets 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 the Signals cash-generating unit for impairment testing.

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 13.0% (2010: 13.0%), which is the Group's WACC. The growth rate used to extrapolate the cash flows for periods beyond the five year period is 3% (2010: 3%).

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.

*(ii) Carrying amount of goodwill and indefinite life intangible assets allocated to the cash-generating unit*

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
Signals	<b>30,535</b>	30,535

*(iii) Key assumptions used in value in use calculations for the cash-generating unit at 30 June 2011 and 30 June 2010*

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 the 30 June 2011 and 30 June 2010 financial years.

The Group believes that the growth rates selected are justified based on 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 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 the Signals cash generating units.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2011. Management has considered the sensitivity of the value in use calculations to changes in assumptions and does not believe there are reasonably possible changes in the key assumptions which would cause the carrying value of the unit to materially exceed its recoverable amount.

**Traffic Technologies Ltd and Controlled Entities**  
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**12. Trade and Other Payables**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<i>Current</i>		
Trade creditors (i)	6,645	8,618
Sundry creditors and accruals (ii)	2,477	3,932
Deferred income	1,631	-
Provision for legal case (see note 21)	1,200	1,200
Current Trade and Other Payables	<b>11,953</b>	13,750
 <i>Non-current</i>		
Sundry creditors and accruals (ii)	56	116
Non-current Trade and Other Payables	<b>56</b>	116

*(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**  
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**13. Interest Bearing Loans and Borrowings**

	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
<b><i>Current borrowings</i></b>				
Term bank facility (secured) – (i) (ii)	BBR + 4.50%	2012	-	10,000
Working capital facility (secured) (iii)	BBR + 3.25%	2012	<b>6,400</b>	8,997
Lease liabilities (iv)	5.6% - 11.3%	2011-2012	<b>119</b>	138
			<b>6,519</b>	19,135
<b><i>Non-current borrowings</i></b>				
Term bank facility (secured) – (i) (ii)	BBR + 4.50%	2012	<b>23,843</b>	23,796
Lease liabilities (iv)	5.6% - 11.3%	2012-2016	<b>244</b>	140
			<b>24,087</b>	23,936

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*

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
<b>Term bank facility balance comprises:</b>		
Term bank facility – Principal loan amounts payable	<b>24,000</b>	34,000
Less: capitalised transaction costs	<b>(157)</b>	(204)
	<b>23,843</b>	33,796
Current borrowings	-	10,000
Non-current borrowings	<b>23,843</b>	23,796
	<b>23,843</b>	33,796

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**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 2012 and has been presented as non-current in accordance with AASB 101 *Presentation of Financial Statements*. 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 \$8.6m at any point in time. The facility has been scheduled for repayment on 1 October 2012 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.

(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.

**14. Provisions**

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
<i><b>Current</b></i>		
Annual leave	982	921
Long service leave	863	753
Restructuring	-	100
Unfavourable contracts	-	170
Maintenance warranties	100	448
	<b>1,945</b>	2,392
<i><b>Non-current</b></i>		
Long service leave	104	96
	<b>104</b>	96
Total provisions	<b>2,049</b>	2,488



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**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:

	<b>Restructuring \$'000</b>	<b>Unfavourable Contracts \$'000</b>	<b>Maintenance Warranties \$'000</b>	<b>Total \$'000</b>
<b>CONSOLIDATED</b>				
At 1 July 2010	100	170	448	718
Arising during the year	-	-	-	-
Unused amounts reversed	(100)	(170)	(348)	(618)
<b>At 30 June 2011</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
Current 2011	-	-	100	100
Non-current 2011	-	-	-	-
	<b>-</b>	<b>-</b>	<b>100</b>	<b>100</b>
Current 2010	100	170	448	718
Non-current 2010	-	-	-	-
	<b>100</b>	<b>170</b>	<b>448</b>	<b>718</b>

**(b) Nature and timing of provision for restructuring**

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**

The Group has recognised a provision for an unfavourable contract in relation to its former Guard Rail Installations business disposed in a prior year. The contract was identified during that 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**

The Group has recognised a provision for expected warranty claims on products sold by the Traffic Products division during the last five years, based on current sales levels, current information available about past returns and repairs and 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 Traffic Products division.

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**15. Contributed Equity**

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
Ordinary shares	41,663	37,538
Convertible non-cumulative redeemable preference shares	-	4,125
	<b>41,663</b>	<b>41,663</b>
	<b>No. Of Shares '000</b>	<b>\$'000</b>
<b>a) Ordinary shares</b>		
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)
<b>At 30 June 2010</b>	<b>159,930</b>	<b>37,538</b>
At 1 July 2010	159,930	37,538
<i>Share Conversion</i>		
Conversion of 16,191,208 preference shares to 16,191,208 ordinary shares at 25 cents per share – 21 October 2010	16,191	4,048
<i>Share Conversion</i>		
Conversion of 1,000 preference shares to 1,000 ordinary shares at 25 cents per share – 28 April 2011	1	77
<b>At 30 June 2011</b>	<b>176,122</b>	<b>41,663</b>

*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.

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**15. Contributed Equity (continued)**

	<b>No. of Shares '000</b>	<b>\$'000</b>
<b>b) Movement in convertible non-cumulative redeemable preference shares</b>		
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)
<b>At 30 June 2010</b>	<b>16,192</b>	<b>4,125</b>
At 1 July 2010	16,192	4,125
Conversion of 16,191,208 preference shares to 16,191,208 ordinary shares at \$0.25 per share	(16,191)	(4,048)
Conversion of 1,000 preference shares to 1,000 ordinary shares at \$0.25 per share	(1)	(77)
<b>At 30 June 2011</b>	<b>-</b>	<b>-</b>

*Terms and conditions of convertible non-cumulative redeemable preference shares*

Preference shares were convertible into fully paid ordinary shares on the basis that each preference share was convertible at the option of the preference shareholder into one ordinary share. There was no time limit specified within which Preference shares must be converted. No additional consideration was payable on conversion.

The remaining preference shares held by Equity Partners Two Pty Ltd (**Equity Partners**) were converted into ordinary shares on 28 April 2011 and the Investment Agreement which conferred various rights on Equity Partners various rights has been terminated.

**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 2010.

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.

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**15. Contributed Equity (continued)**

***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 2011 and 2010 were as follows:

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
Total borrowings (i)	<b>30,606</b>	43,071
Cash and cash equivalents	<b>(3,005)</b>	(3,457)
Net debt	<b>27,601</b>	39,614
Equity (ii)	<b>18,639</b>	18,057
Total capital	<b>46,240</b>	57,671
Gearing ratio	<b>60%</b>	69%

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

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**16. Derivative Financial Instruments**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<b>Current liabilities</b>		
Interest rate swap contract	151	-
Interest rate cap contract	-	-
	<b>151</b>	-
<b>Non-current liabilities</b>		
Interest rate swap contract	-	329
Interest rate cap contract	-	4
	-	333

(i) *Interest rate contracts*

Interest bearing loans of the Group currently bear an average floating interest rate of 4.8% (2010: 4.4%). 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% (2010: 37.5%) of the notional principal outstanding and the cap covers approximately 37.5% (2010: 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% (2010: 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. 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 profit or loss.

At 30 June 2011, the notional principal amounts and period of expiry of the interest rate contracts are as follows:

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
0 – 1 years	15,513	2,550
1 – 2 years	-	15,513
	<b>15,513</b>	18,063

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**17. Share-based Payment Plans**

**Summary of options granted under the Company's share-based payment plan**

The number (No.) and weighted average exercise prices (WAEP) of movements in share options during the year are as follows:

	<b>2011</b>	<b>2011</b>	2010	2010
	<b>No.</b>	<b>WAEP</b>	No.	WAEP
	<b>Thousand</b>	<b>\$</b>	Thousand	\$
<b>Outstanding at the beginning of the year</b>	<b>987</b>	<b>0.44</b>	2,937	0.41
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Expired during the year	<b>(987)</b>	<b>0.44</b>	(1,950)	0.40
<b>Outstanding at the end of the year</b>	<b>-</b>	<b>-</b>	987	0.44
<b>Exercisable at the end of the year</b>	<b>-</b>	<b>-</b>	887	0.42

**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, 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 preparation 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 forecasts.

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**18. Financial risk management objectives and policies (continued)**

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 (2010: 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.

*Interest rate risk*

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. Details of the Group's debt are 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:

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	3,005	3,457
Other financial assets	1	1
	<b>3,006</b>	3,458
<b>Financial liabilities</b>		
Term bank facility (net of capitalised transaction costs)	23,843	33,796
Working capital facility	6,400	8,997
Derivative financial instruments	151	333
	<b>30,394</b>	43,126
<b>Net exposure</b>	<b>(27,388)</b>	(39,668)

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 2011, after taking into account the effect of interest rate swaps and caps, approximately 59% of the Group's borrowings were at a fixed rate of interest (2010: 56%).

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**18. Financial risk management objectives and policies (continued)**

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 date and is net of the hedging affect of the interest rate swap and interest rate cap contracts.

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>	<b>Pre Tax Profit/ (Loss)</b>		<b>Other Equity Reserves</b>	
	<b>Increase / (Decrease)</b>		<b>Increase / (Decrease)</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Group</b>				
+1% (100 basis points)	<b>423</b>	53	-	-
- 0.5% ( 50 basis points)	<b>(211)</b>	(193)	-	-

The movements in profit/loss are due to higher/lower interest costs from variable rate debt and cash balances. The change in sensitivity between 2010 and 2011 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 certain components denominated in foreign currency, hence exposures to exchange rate fluctuations can arise. Where appropriate, 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 statement of comprehensive income.

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 financial 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.



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**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, which has 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 2011, 0.4% of the Group's debt is due to be retired in less than one year (2010: 23.4%), 98.8% of the Group's debt will mature within 18 months' time (2010: 75.7%) and the balance of the Group's debt will mature in more than one year but not more than 5 years.

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.

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**18. Financial risk management objectives and policies (continued)**

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

	<b>Consolidated</b>	
	<b>2011</b>	2010
	<b>\$'000</b>	\$'000
6 months or less	<b>13,466</b>	17,114
6 – 12 months	<b>1,664</b>	11,690
1 – 5 years	<b>31,368</b>	34,072
Over 5 years	-	-
	<b>46,498</b>	62,876

*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.

<b>Year ended 30 June 2011</b>	<b>≤ 6 months \$'000</b>	<b>6-12 months \$'000</b>	<b>1 – 5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Total \$'000</b>
<b>Consolidated</b>					
<b>Financial assets</b>					
Cash & cash equivalents	3,005	-	-	-	3,005
Trade & other receivables	12,168	-	10	-	12,178
	15,173	-	10	-	15,183
<b>Financial liabilities</b>					
Trade & other payables	10,753	-	1,200	-	11,953
Interest bearing loans & borrowings	119	-	30,488	-	30,607
Bank guarantee	-	-	1,092	-	1,092
	10,872	-	32,780	-	43,652
<b>Net maturity</b>	<b>4,301</b>	-	<b>(32,770)</b>	-	<b>(28,469)</b>

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 21(i)).

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**18. Financial risk management objectives and policies (continued)**

<b>Year ended 30 June 2010</b>	<b>≤ 6 months \$'000</b>	<b>6-12 months \$'000</b>	<b>1 – 5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Total \$'000</b>
<b>Consolidated</b>					
<b>Financial assets</b>					
Cash & cash equivalents	3,457	-	-	-	3,457
Trade & other receivables	16,458	-	48	-	16,506
	19,915	-	48	-	19,963
<b>Financial liabilities</b>					
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	-	34,990	-	57,678
<b>Net maturity</b>	(2,773)	-	(34,942)	-	(37,715)

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 21(i)).

***Derivative financial liabilities maturity***

Due to the unique characteristics and risks inherent to derivative 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.

	<b>≤ 6 months \$'000</b>	<b>6-12 months \$'000</b>	<b>1 – 5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Total \$'000</b>
<b>Year ended 30 June 2011</b>					
Derivative liabilities – net settled	-	(151)	-	-	(151)
Net maturity	-	(151)	-	-	(151)
<b>Year ended 30 June 2010</b>					
Derivative liabilities – net settled	-	-	(329)	-	(329)
Net maturity	-	-	(329)	-	(329)

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**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 2011			30 June 2010		
	Quoted market price (Level 1) \$'000	Valuation technique – market observable (Level 2) \$'000	Valuation technique – non market observable (Level 3) \$'000	Quoted market price (Level 1) \$'000	Valuation technique – market observable (Level 2) \$'000	Valuation technique – non market observable (Level 3) \$'000
<b>Consolidated</b>						
<b>Financial Assets</b>						
Unlisted investments	1	-	-	1	-	-
	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>						
Derivative instruments						
Interest rate swap	-	(151)	-	-	(329)	-
Interest rate cap	-	-	-	-	(4)	-
	<b>-</b>	<b>(151)</b>	<b>-</b>	<b>-</b>	<b>(333)</b>	<b>-</b>

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 on 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 and caps.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

**19. Expenditure Commitments**

	<b>Consolidated 2011 Minimum rentals \$'000</b>	<b>Consolidated 2010 Minimum rentals \$'000</b>
<b>a) Operating lease commitments - Premises</b>		
Within 1 year	2,040	1,655
After 1 year but not more than 5 years	2,467	1,073
More than 5 years	-	-
	4,507	2,728

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	65	134
After 1 year but not more than 5 years	8	117
	73	251

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**

	<b>Consolidated 2011 Minimum lease payments \$'000</b>	<b>Consolidated 2011 Present value of lease payments \$'000</b>	<b>Consolidated 2010 Minimum lease payments \$'000</b>	<b>Consolidated 2010 Present value of lease payments \$'000</b>
Within 1 year	179	118	170	138
After 1 year but not more than 5 years	256	245	143	140
Minimum future lease payments	435	363	313	278
Less future finance charges	(72)	-	(35)	-
Lease liability	363	363	278	278

The Group has entered into finance and hire purchase contracts in respect of various items of plant and 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**  
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**20. Statement of Cash Flows**

**a) Reconciliation of Cash**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
Cash at bank and in hand	3,005	3,435
Short term deposits	-	22
	<b>3,005</b>	<b>3,457</b>

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 profit/(loss) after tax to net cash flows from operations**

	<b>Consolidated 2011 \$'000</b>	<b>Consolidated 2010 \$'000</b>
<b>Net profit/(loss)</b>	<b>582</b>	<b>(254)</b>
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment of non-current assets	2,057	3,371
Fair value of interest rate contracts	(182)	-
Loss/(profit) on sale of fixed assets	(12)	(45)
Gain on sale of discontinued operations	(1,247)	-
Deferred tax on discontinued operations	(482)	-
Foreign exchange gain	(280)	-
Amortisation of capitalised finance fees	208	-
Share options expensed	-	7
Doubtful debts expense	8	8
Stock obsolescence (benefit)/expense	(44)	75
<b>Changes in assets and liabilities:</b>		
(Increase)/decrease in trade and other receivables	5,112	(2,418)
(Increase)/decrease in inventories	(650)	251
Increase/(decrease) in trade and other payables	(1,642)	1,387
(Increase)/decrease in deferred tax assets	(171)	72
Increase/(decrease) in provisions	(439)	425
<b>Net cash provided by operating activities</b>	<b>2,818</b>	<b>2,879</b>

*Non cash financing and investing activities*

During the year the Group acquired property, plant and equipment with an aggregate value of \$274,970 (2010: \$606,904) by means of finance leases. These acquisitions are not reflected in the Statement of Cash Flows.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**20. Statement of Cash Flows (continued)**

**c) Financing facilities available**

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
<i>Total facilities at reporting date</i>		
Term facility	<b>24,000</b>	34,000
Working capital facility comprising:		
- revolving cash advance facility	<b>6,400</b>	9,800
- bank overdraft facility	<b>1,000</b>	1,000
- bank guarantee facility	<b>1,200</b>	1,200
- bank letters of credit facility	-	-
	<b>32,600</b>	46,000
<i>Facilities used at reporting date</i>		
Term facility	<b>24,000</b>	34,000
Working capital facility comprising:		
- revolving cash advance facility	<b>6,400</b>	8,997
- bank overdraft facility	-	-
- bank guarantee facility	<b>1,092</b>	857
- bank letters of credit facility	-	-
	<b>31,492</b>	43,854
<i>Facilities unused at reporting date</i>		
Term facility	-	-
Working capital facility comprising:		
- revolving cash advance facility	-	803
- bank overdraft facility	<b>1,000</b>	1,000
- bank guarantee facility	<b>108</b>	343
- bank letters of credit facility	-	-
	<b>1,108</b>	2,146

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**21. Claims and Contingencies**

(i) *Legal claims*

A vendor of a business acquired in a prior year lodged a claim in a Supreme Court proceeding 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 claim is \$0.9m plus contractual interest under the business sale agreement but excluding possible cost judgements. The vendor has also recently brought a second claim against the Group in the same proceeding for additional amounts to be paid pursuant to the business sale agreement. This claim has previously been noted as a potential claim. The Group also denies liability in respect of this claim and is defending the action. While liability is not admitted in respect of the second claim, the maximum amount payable by the Group under this claim is estimated at approximately \$1.75m 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 provided \$1.2m as an estimate in respect of both claims as at 30 June 2011 (see note 12).

(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.



**Traffic Technologies Ltd and Controlled Entities**  
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**22. Related Party Disclosures**

*The ultimate parent*

Traffic Technologies Ltd is the ultimate parent Company.

*Subsidiary entities*

Traffic Technologies Signal & Hardware  
Division Pty Ltd

Traffic Technologies Traffic Management  
Division Pty Ltd

De Neefe Signs Pty Ltd

Traffic Technologies Traffic Hire Pty Ltd

Sunny Sign Company Pty Ltd

Pro-Tech Traffic Management Pty Ltd

KJ Aldridge Investments Pty Ltd

- Aldridge Traffic Group Pty Ltd
- Excelsior Diecasting Pty Limited
- Aldridge Traffic Systems Pty Ltd
- Aldridge Plastics Pty Ltd

*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.

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 statement of consolidated income and statement of financial position of the closed group is equivalent to the group’s statement of consolidated income and statement of financial position.

**Transactions with Directors or Director-related entities**

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**

Subsequent to balance date there have been no significant events which have affected the operations of the Group.

**Traffic Technologies Ltd and Controlled Entities**  
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**For the year ended 30 June 2011**

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**24. Auditor's Remuneration**

Amounts received or due and receivable by BDO Audit (NSW-VIC) Pty Ltd (2010: Ernst & Young):

	<b>Consolidated 2011</b>	Consolidated 2010
	\$	\$
Audit or review of the financial report of the entity and any other entity in the Group	<b>109,500</b>	205,000
	<b>109,500</b>	205,000

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**25. Key Management Personnel Disclosures**

**a) 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.

<i>Compensation by Category:</i>	<b>Consolidated</b>	
	<b>2011</b>	2010
<i>Key Management Personnel</i>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	<b>853,197</b>	1,418,938
Post employment benefits	<b>98,061</b>	188,842
Other long-term benefits	<b>11,090</b>	8,531
Share-based payment	-	7,423
	<b>962,348</b>	1,623,734

The 2010 KMP disclosures include General Managers. During the course of the financial year ended 30 June 2011 management implemented a personnel restructure as part of a cost cutting initiative. General Manager roles no longer exist and accordingly are not included in the 2011 disclosure.

**b) 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**  
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**25. Key Management Personnel Disclosures (continued)**

**c) Option holdings of Key Management Personnel**

There have been no cancellations or modifications to the Company's share option plan during 2011 and 2010.

*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.

<b>30 June 2011</b>	<b>Balance at beginning of period 1 July 2010 No.</b>	<b>Granted As remuneration No.</b>	<b>Net change other # No.</b>	<b>Balance at end of period 30 June 2011 No.</b>	<b>Total</b>	<b>Vested at 30 June 2011 No.</b>	
						<b>Exercisable</b>	<b>Not Exercisable</b>
<b><i>Directors</i></b>							
Mr. Alan Brown	300,000	-	(300,000)	-	-	-	-
Mr. Con Liosatos	-	-	-	-	-	-	-
Mr. Ray Horsburgh	300,000	-	(300,000)	-	-	-	-
Mr. Ken Jarrett	-	-	-	-	-	-	-
<b>Total</b>	<b>600,000</b>	<b>-</b>	<b>(600,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><i>Executives</i></b>							
Mr. Peter Crafter	100,000	-	(100,000)	-	-	-	-
<b>Total</b>	<b>100,000</b>	<b>-</b>	<b>(100,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# - lapses. The value of these options at the date they lapsed was minimal as they were heavily out of the money.

**Traffic Technologies Ltd and Controlled Entities**  
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**25. Key Management Personnel Disclosures (continued)**

<b>30 June 2010</b>	<b>Balance at beginning of period 1 July 2009 No.</b>	<b>Granted As remuneration No.</b>	<b>Net change other # No.</b>	<b>Balance at end of period 30 June 2010 No.</b>	<b>Vested at 30 June 2010 No.</b>		
					<b>Total</b>	<b>Exercisable</b>	<b>Not Exercisable</b>
<b><i>Directors</i></b>							
Mr. Ray Horsburgh	600,000	-	(300,000)	300,000	300,000	300,000	-
Mr. Con 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	-	-	-	-	-	-	-
<b>Total</b>	<b>2,200,000</b>	<b>-</b>	<b>(1,600,000)</b>	<b>600,000</b>	<b>600,000</b>	<b>600,000</b>	<b>-</b>
<b><i>Executives</i></b>							
Mr. Peter Crafter	200,000	-	(100,000)	100,000	-	-	-
Mr. Andrew Bull	250,000	-	(250,000)	-	-	-	-
<b>Total</b>	<b>450,000</b>	<b>-</b>	<b>(350,000)</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

# - lapses

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**25. Key Management Personnel Disclosures (continued)**

**d) Shareholdings of Key Management Personnel**

*Ordinary shares held in Traffic Technologies Ltd*

	Balance at beginning of period 1 July 2010 No.	Granted as remuneration No.	On exercise of Options No.	Net change other # No.	Balance at end of period 30 June 2011 No.
<b>30 June 2011</b>					
<b>Directors</b>					
Mr. Alan Brown	2,056,965	-	-	800,000	2,856,965
Mr. Con Liosatos	8,374,949	-	-	1,754,428	10,129,377
Mr Ray Horsburgh	150,000	-	-	178,400	328,400
Mr. Ken Jarrett	9,452,563	-	-	(9,452,563)	-
<b>Total</b>	<b>20,034,477</b>	<b>-</b>	<b>-</b>	<b>(6,719,735)</b>	<b>13,314,742</b>
<b>Executives</b>					
Mr. Peter Crafter	10,000	-	-	-	10,000
<b>Total</b>	<b>10,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,000</b>

# - includes the resignation of Mr. Ken Jarrett.

**Traffic Technologies Ltd and Controlled Entities**  
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**25. Key Management Personnel Disclosures (continued)**

*Ordinary shares held in Traffic Technologies Ltd*

<b>30 June 2010</b>	<b>Balance at beginning of period 1 July 2009 No.</b>	<b>Granted as remuneration No.</b>	<b>On exercise of Options No.</b>	<b>Net change other # No.</b>	<b>Balance at end of period 30 June 2010 No.</b>
<b>Directors</b>					
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	-	-	-	-	-
<b>Total</b>	<b>7,097,010</b>	<b>-</b>	<b>-</b>	<b>12,937,467</b>	<b>20,034,477</b>
<b>Executives</b>					
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	-	-	-	-	-
<b>Total</b>	<b>1,516,738</b>	<b>-</b>	<b>-</b>	<b>(1,276,738)</b>	<b>240,000</b>

# - includes the resignations of Mr. Rajeev Dhawan, Mr. Garry Sladden and 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.

**e) 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**  
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## **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 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**

#### *Traffic Products*

The Traffic Products division specialises in the design, manufacture and installation of traffic signals, emergency telephones and portable roadside technology and provides a wide range of directional and regulatory traffic signs and traffic control products 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.

#### *Traffic Management*

Traffic Management involved the hiring out of traffic controllers to road authorities, contractors and local councils. The Group completed the sale of this business on 9 August 2010. Information about this discontinued segment is included in note 6.

### **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 comparative 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.

#### *Segment loans payable and loans receivable*

Segment loans are initially recognised at the consideration received excluding transaction costs. Inter-segment 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) at the operating segment level. 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.



**Traffic Technologies Ltd and Controlled Entities**  
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**26. Operating Segments (continued)**

**Reportable segments**

The following tables present revenue and profit information and certain asset information regarding reportable segments for the financial years ended 30 June 2011 and 30 June 2010.

**Year Ended 30 June 2011**

	<b>Traffic Products</b>	<b>Traffic Services</b>	<b>Total</b>	<b>Traffic Management</b>	<b>Consol- idated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>					
Sales to external customers	47,896	1,764	<b>49,660</b>	4,229	<b>53,889</b>
Inter-segment sales	474	92	<b>566</b>	-	<b>566</b>
<b>Total segment revenue</b>	<b>48,370</b>	<b>1,856</b>	<b>50,226</b>	<b>4,229</b>	<b>54,455</b>
Inter-segment elimination					(566)
Interest revenue					67
<b>Total revenue (refer to note 2)</b>					<b>53,956</b>
<b>Segment EBITDA before non-recurring items</b>					
	7,612	714	<b>8,326</b>	(326)	<b>8,000</b>
Non-recurring items	-	-	-	-	-
Depreciation & amortisation	(1,108)	(347)	<b>(1,455)</b>	(94)	<b>(1,549)</b>
Finance costs	(3,035)	(5)	<b>(3,040)</b>	(21)	<b>(3,061)</b>
<b>Segment gain before tax</b>	<b>3,469</b>	<b>362</b>	<b>3,831</b>	<b>(441)</b>	<b>3,390</b>
<b>Total segment gain before tax</b>					
					<b>3,390</b>
Non-recurring items					(899)
Depreciation & amortisation					(602)
Finance costs					(734)
Discontinued operations					441
Corporate costs					(2,274)
<b>Loss for the year from continuing operations before income tax per the statement of comprehensive income</b>					<b>(678)</b>
<b>Segmental income tax benefit/(expense)</b>					
	688	(158)	<b>530</b>	(200)	<b>330</b>
Total segment income tax benefit/(expense)					<b>330</b>
Discontinued operations					<b>200</b>
Corporate costs					<b>124</b>
<b>Total income tax benefit/(expense)</b>					<b>654</b>

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**26. Operating Segments (continued)**

**Year Ended 30 June 2011**

	<b>Traffic Products</b>	<b>Traffic Services</b>	<b>Total</b>	<b>Traffic Management</b>	<b>Consol- idated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Segment assets</b>	27,012	3,346	<b>30,358</b>	-	<b>30,358</b>
Total segment assets					<b>30,358</b>
Unallocated:					
Cash					1,543
Receivables					33
Property, plant & equipment					133
Intangible assets					31,201
Deferred tax asset					186
Total assets as per the statement of financial position					<b>63,454</b>
<b>Segment liabilities</b>	13,012	162	<b>13,174</b>	-	<b>13,174</b>
Total segment liabilities					<b>13,174</b>
Unallocated:					
Payables					1,121
Interest-bearing liabilities					30,293
Provisions					227
Total liabilities as per the statement of financial position					<b>44,815</b>

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
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**26. Operating Segments (continued)**

**Year Ended 30 June 2010**

	<b>Traffic Products</b>	<b>Traffic Services</b>	<b>Total</b>	<b>Traffic Management</b>	<b>Consol- idated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>					
Sales to external customers	45,122	2,607	47,729	44,184	91,913
Inter-segment sales	888	747	1,635	284	1,919
<b>Total segment revenue</b>	<b>46,010</b>	<b>3,354</b>	<b>49,364</b>	<b>44,468</b>	<b>93,832</b>
Inter-segment elimination					(1,919)
Interest revenue					72
<b>Total revenue (refer to note 2)</b>					<b>91,985</b>
<b>Segment EBITDA before non-recurring items</b>					
Non-recurring items	7,217	1,131	8,348	3,951	12,299
Depreciation & amortisation	-	-	-	(42)	(42)
Finance costs	(1,176)	(335)	(1,511)	(1,182)	(2,693)
	(3,021)	(13)	(3,034)	(184)	(3,218)
<b>Segment gain before tax</b>	<b>3,020</b>	<b>783</b>	<b>3,803</b>	<b>2,543</b>	<b>6,346</b>
<b>Total segment gain before tax</b>					
Non-recurring items					(955)
Depreciation & amortisation					(675)
Finance costs					(1,018)
Discontinued operations					(2,543)
Corporate costs					(3,859)
<b>Loss for the year from continuing operations before income tax per the statement of comprehensive income</b>					<b>(2,704)</b>
<b>Segmental income tax benefit/(expense)</b>					
Total segment income tax benefit/(expense)	(305)	113	(192)	125	(67)
Discontinued operations					(125)
Corporate costs					(26)
<b>Total income tax benefit/(expense)</b>					<b>(218)</b>

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**26. Operating Segments (continued)**

**Year Ended 30 June 2010**

	<b>Traffic Products</b>	<b>Traffic Services</b>	<b>Total</b>	<b>Traffic Management</b>	<b>Consol- idated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Segment assets</b>	21,973	4,410	<b>26,383</b>	13,171	<b>39,554</b>
Total segment assets					<b>39,554</b>
Unallocated:					
Cash					1,673
Receivables					7,915
Property, plant & equipment					94
Intangible assets					31,632
Deferred tax asset					544
Total assets as per the statement of financial position					<b>81,412</b>
<b>Segment liabilities</b>	10,005	1,180	<b>11,185</b>	3,597	<b>14,782</b>
Total segment liabilities					<b>14,782</b>
Unallocated:					
Payables					4,723
Interest-bearing liabilities					43,237
Provisions					613
Total liabilities as per the statement of financial position					<b>63,355</b>

**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 25% of external revenue within the Traffic Products and Traffic Services segments (2010: 12%). The next most significant client accounts for 4% (2010: 8%) of external revenue within the Traffic Products and Traffic Services segments.

**Geographical information**

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

Revenue by geographic location:

	<b>Consolidated 2011 \$'000</b>	Consolidated 2010 \$'000
Australia	47,287	45,680
Overseas	2,440	2,121
Total	<b>49,727</b>	<b>47,801</b>

All the Group's non-current assets are located in Australia.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

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**27. Parent Entity Information**

	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Information relating to Traffic Technologies Ltd:		
Current assets	<b>1,686</b>	21,589
Total assets	<b>45,649</b>	68,115
Current liabilities	<b>34,158</b>	32,539
Total liabilities	<b>58,063</b>	68,859
Issued capital	<b>41,663</b>	41,663
Retained earnings	<b>(55,077)</b>	(43,407)
Share-based payments reserve	<b>1,000</b>	1,000
Total shareholders' equity	<b>(12,414)</b>	(744)
Profit or loss of the parent entity	<b>(4,502)</b>	(5,532)
Total comprehensive income of the parent entity	<b>(4,502)</b>	(5,532)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries ^	<b>1,092</b>	857

^ 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 2011**

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**Directors' Declaration**

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date.
1. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included in pages 8 to 13 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the *Corporations Act 2001*.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

The members of the Closed Group identified in note 22 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 22.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

On behalf of the Board



Alan Brown  
Chairman

Melbourne  
22 August 2011

## INDEPENDENT AUDITOR'S REPORT

To the members of Traffic Technologies Limited

### Report on the Financial Report

We have audited the accompanying financial report of Traffic Technologies Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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.

#### **Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Traffic Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

#### **Opinion**

In our opinion:

- (a) the financial report of Traffic Technologies Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 a).

#### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2011. 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.

#### **Opinion**

In our opinion, the Remuneration Report of Traffic Technologies Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (NSW-VIC) Pty Ltd**

**NICHOLAS E. BURNE**

Director

Melbourne, 22<sup>nd</sup> day of August 2011



**ASX Additional Information**  
**As at 10 August 2011**

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 10 August 2011.

(ii) *Distribution of Equity Securities*

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

		<b>Ordinary Shares</b>	
		<b>Number of Holders</b>	<b>Number of Shares</b>
1	-	1,848	290,146
1,001	-	261	794,829
5,001	-	186	1,640,592
10,001	-	647	23,515,706
100,001 and over		200	149,881,098
		3,142	176,122,371
Holdings less than a marketable parcel		2,680	10,079,826

**d) Twenty Largest Holders**

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

<b>Name</b>	<b>Ordinary Shares Number</b>	<b>Percentage</b>
1. K J ALDRIDGE INVESTMENT GROUP PTY LTD	9,468,562	5.38%
2. CJT NOMINEES PTY LTD	8,500,000	4.83%
3. MR MICHAEL JOHN DE LA HAYE + MR ROSS DE LA HAYE <DE LA HAYE SUPER FUND A/C>	6,428,000	3.65%
4. MR VICTOR JOHN PLUMMER	6,171,055	3.50%
5. PANSTYN INVESTMENTS PTY LTD	5,900,333	3.35%
6. WESKAY CONSULTING PTY LTD <WESKAY FAMILY A/C>	5,574,925	3.17%
7. CONTELITE PTY LTD*	4,749,949	2.70%
8. BROWNLOW PTY LTD	4,500,000	2.56%
9. MEGWIL PTY LTD <WPG SUPER FUND A/C>	4,500,000	2.56%
10. BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	4,000,000	2.27%
11. MR LAMBROU LIOSATAU*	3,346,757	1.90%
12. UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,900,000	1.65%
13. MR ALAN JOHN BROWN + MRS PAULA JANET BROWN <A & P BROWN FAMILY S/F A/C>*	2,856,965	1.62%
14. PETHOL (VIC) PTY LTD <FAMILY A/C>	2,500,000	1.42%
15. SEASPIN PTY LTD <APHRODITE A/C>	2,330,500	1.32%
16. MR SAMUEL KAVOURAKIS + MRS TOULA KAVOURAKIS <KAVOURAKIS SUPERFUND A/C>	2,481,101	1.41%
17. DOLPHIN CAPITAL PARTNERS PTY LTD	1,900,000	1.08%
18. PHILIP GEORGE INVESTMENTS PTY LTD <PHILIP GEORGE S/F A/C>	1,701,417	0.97%
19. JMW & LOB BUSINESS GROUP PTY LTD	1,600,000	0.91%
20. M F CUSTODIANS LTD	1,500,000	0.85%
<b>Total</b>	<b>82,909,564</b>	<b>47.07%</b>

\* Associated with Directors.

**ASX Additional Information**  
**As at 10 August 2011**

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**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:

<b>Ordinary Shareholders</b>	<b>Ordinary Shares</b>	
	<b>Number</b>	<b>Percentage</b>
Mr. Con Liosatos*	10,129,377	5.75
K J Aldridge Investment Group Pty Ltd	9,468,562	5.38
CJT Nominees & Associated Entities	9,452,563	5.37

\* Associated with Directors.

**f) Voting Rights**

All ordinary shares carry one vote per share without restriction.

**g) Securities subject to voluntary escrow restrictions**

None

**h) Unquoted equity securities shareholdings**

None

**i) Options**

None





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**traffic technologies ltd**

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