

# ANNUAL REPORT 2018

# TRAFFIC TECHNOLOGIES





**TRAFFIC TECHNOLOGIES LTD**  
ABN 21 080 415 407  
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2018



**traffic  
technologies**

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

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

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Ltd for the financial year ended 30 June 2018.

Over recent years the focus of your Board and management has been the transition of the Company from its traditional roots in traffic management and signage manufacturing and distribution into a leading supplier of an integrated range of products and services covering traffic management, road and street lighting, Intelligent Transport Systems, signage and maintenance services. I am pleased to report that these products and services are now delivered to an expanding range of customers including road authorities, local councils and energy companies in Australia and a growing number of export markets.

The objective of this transition program was to develop a more robust business with a leading range of products and services that could be supplied individually or as a package to road authorities or local councils seeking an integrated solution. To this end the Company is currently completing the first major roll-out of its proprietary software "Smart City" platform "TST", which connects street lights and other traffic management equipment on the road to a central control and management system. This platform has wider applications for the future, including detection of traffic flows, waste management, parking availability and monitoring of government infrastructure.

This achievement is the result of the Company's focus on its customers' needs and an ongoing investment in research and development.

Your board and management has also been mindful of the challenge to potential growth of the business of the historic level of debt. The resolution achieved with Westpac Banking Corporation in the past year where the term facility was repaid and a new funder introduced provides a balance sheet funding structure more appropriate for a business our size.

In addition to addressing the debt levels, the Company has also taken the opportunity to re-assess the carrying value of its inventory as a result of the diversification program. This has resulted in a reduction of \$2.5m in inventory. The Group's business model now has an increased focus on revenue streams from "Smart City" platforms and software, IoT sensors along with LED street and road lighting and is less reliant on revenue from the traditional activities of manufacture and supply of traffic signals.

I would like to take this opportunity to thank shareholders for their support of the Company, particularly through the rights issue. Our Board and management are committed to the ongoing improvement of shareholder value and believe that the Company is in a stronger position to take advantage of the opportunities ahead in the "Smart Cities" area with increasing focus on the use of technology to manage traffic flows and associated services. Along with my fellow Directors, I thank you for your continued support.

Garry Lowrey  
Chairman



**traffic  
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**Traffic Technologies Ltd and Controlled Entities  
Managing Director's Operating and Financial Review**

Dear Shareholder,

I am pleased to report a positive result for the 2018 financial year with:

- Revenue up by 16% to \$56.7m compared to \$48.9m in 2017 (including other income, total revenue was \$64.7m).
- EBIT up by 215% to \$8.4m compared to \$2.7m in 2017.
- NPAT up by 501% to \$6.1m compared to \$1.0m in 2017.
- Net debt down by 57% to \$9.3m compared to \$21.8m in 2017.

The 2018 financial year saw all product groups and services contributing to the result. The Group's result can be attributed to the significant investment in R&D and diversification in its product offerings and services along with the continued rationalisation of production, procurement and staff.

The profit for the year included a \$7.9m gain on the repayment of debt following the debt restructure and a reduction of \$2.5m in inventory following a reassessment of the carrying value in the balance sheet. With net debt reduced to \$9.3m compared to the previous year and a much stronger balance sheet the Group's business model can now focus on revenue streams from "Smart City" platforms and software, IoT sensors and export opportunities along with LED street and road lighting with less reliance on traditional revenue from the manufacture and supply of traffic signals.

Net assets improved to \$19.9m at 30 June 2018 an increase of 146% compared to the previous year, reflecting the profit for the year, the rights issue and the reduction in net debt following the debt restructure in the year. Net debt reduced by 57% to \$9.3m at 30 June 2018, compared to \$21.8m at 30 June 2017.

Depreciation and amortisation expense was \$1.7m, down 8% compared to \$1.9m in 2017. Finance costs were \$1.5m for the year. There was a \$0.6m exchange loss on the Company's loan facility but this was offset by a \$0.6m gain on a forward exchange contract to hedge the loan, both have been included in income. Tax expense was \$0.8m which related to deferred tax movements in the year. The Group has sufficient tax losses to cover the estimated tax liability for the year, although the Group expects to be in a tax paying position in future years.

Net operating cash inflows were \$2.3m for the year (2017: inflow \$3.6m), reflecting the Group's trading operations during the year. Net investing cash outflow was \$2.4m, (2017: outflow \$1.8m), including further investment in R&D to further expand and develop the Group's product portfolio. Net financing cash inflow was \$3.6m (2017: outflow \$2.4m), including the net repayment of debt and the proceeds of the rights issue.

This diversification of the Group's product and services range indicates a positive outlook for the 2019 financial year through formal approvals and recognition being gained in lighting, controllers and traffic signal portfolios. The diversification program has also led to de-risking of the Group's revenue stream along with the securing of long term supply contracts and orders to date.

We are very pleased with the Group's lighting products as we have seen substantial revenue growth of over 100% for the year and are well positioned for further growth, having secured approvals, long term supply contracts and orders from state and local government agencies, power companies and contractors. The Group's range of current and second generation LED road lights are significantly more energy efficient than conventional road lights and represent an attractive opportunity for state road authorities, local councils and other customers to make significant savings in their power bills and maintenance costs in a time of rising electricity prices.

The Group has secured and deployed well over 15,000 intelligent IoT devices alongside more than 70,000 LED products which, together with its "Smart Cities" TST platform, enables a road authority or local council to connect its street lighting and other infrastructure assets to a central control system via a secure private network. The Group's TST system has a range of applications which extend well beyond the street lights themselves. Applications include traffic monitoring and detection, asset maintenance and fault notification and the monitoring of environmental and weather conditions together with parking and waste management.

With significant growth expected on roads and infrastructure across the country, the Group's ITS sector has developed a suite of new products, including school speed zone signs, variable message signs and a range of electronic signs which have now been commercialised, for state road authorities to manage the road network more efficiently.

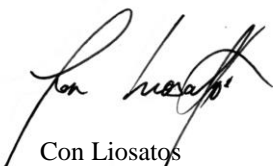
Export markets have continued to develop and grow with the Group exporting to a range of overseas markets, including the UK, New Zealand, Asia, the Middle East and South America. The Group's traffic controllers continue to enjoy success in export markets; recent significant export orders have come from New Zealand, Singapore, Ecuador, China and Qatar.

The Group has maintained its position as the dominant supplier of traffic signals to the Australian and New Zealand market with the continued supply for new intersections, road projects and maintenance requirements and of course export sales continue to be at the forefront of our expansion program.

Signage products continue to contribute positive earnings to the Group as the only national supplier of road signs to the Australian market, with operations in every state. The continued attention by management and staff to cost control and factory efficiency combined with a focus on quality, service and reliability has led to the Group's signage products becoming the benchmark in a highly competitive market.

The outlook we believe is very positive taking into account the program to diversify into "Smart Cities" technology with IoT, the improvement to the Company's balance sheet following the debt restructure, new state-of-the-art products introduced and the benefit of significant long term customer supply and maintenance contracts which will benefit the business in the years ahead. Although we remain cautious given the uncertainty over government expenditure in an election year for the Federal, Victorian and NSW governments and we are not yet therefore in a position to provide earnings guidance for the financial year ending 30 June 2019, expectations are high for further positive earnings in the year ahead.

We are pleased to have your ongoing support and believe that we are well placed to achieve continued profitability in the year ahead.



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 operating and financial review in the Directors' Report.

### **Directors**

Mr. Garry Lowrey  
Mr. Con Liosatos  
Mr. Mark Hardgrave

### **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 Johnston Street  
Abbotsford VIC 3067  
Tel: 1300 850 505

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

### **Lawyers**

K&L Gates  
Level 25  
525 Collins Street  
Melbourne VIC 3000

### **Bankers**

Westpac Banking Corporation  
Level 6  
150 Collins Street  
Melbourne VIC 3000

### **Auditors**

ShineWing Australia  
Level 10  
530 Collins Street  
Melbourne VIC 3000

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**Traffic Technologies Ltd and Controlled Entities**  
**Financial Report for the year ended 30 June 2018**  
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**Traffic Technologies Ltd**  
**Directors' Report**

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Your Directors submit their report for the year ended 30 June 2018.

**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. Garry P Lowrey BBus MAppFin CA	(Age 56) Independent Non-Executive Chairman. Appointed November 2015.  Mr. Lowrey has over 30 years of experience in a variety of advisory and management roles for both private and public companies. Earlier in his career, he was a Director of Potter Warburg's Corporate Finance team, specialising in providing capital markets and mergers and acquisitions advice to small and mid-market companies. Mr. Lowrey was the Managing Director of Wilson HTM Investment Group, an ASX listed wealth management and investment group. Mr. Lowrey served as an Executive Director of Shaw and Partners Limited and is presently an Executive Director of Greenwich Capital Partners, a non-Executive Director of Argus Property Partners Pty Ltd and Chairman of Credit Repair Pty Ltd. Mr. Lowrey holds a Bachelor of Business degree from the University of Technology, Sydney and a Masters of Applied Finance from Macquarie University. He is a chartered accountant. Mr. Lowrey is a member of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees. Mr. Lowrey has not served as a Director of any other listed companies during the three years prior to June 2018.
Mr. Constantinos L Liosatos MAICD	(Age 56) Managing Director. Appointed April 2003.  Mr. Liosatos has over 30 years' experience in the construction industry, including over 25 years in the lighting industry specialising in research and design. He also has 15 years' experience in the traffic industry. He has been involved with major design and manufacturing projects for clients such as MCG Lighting, Etihad Stadium, the Melbourne Sport and Aquatic Centre and the Vodafone Arena. He led the VicRoads LED Signals Upgrade, Hong Kong Highways Department (Bus and Roadway Interchange) Upgrade and the WA Main Roads LED Signals Upgrade. Mr. Liosatos has owned and managed a multinational project lighting company, Moonlighting Pty Ltd. Mr. Liosatos has qualifications in Mechanical Design and Lighting Engineering. Mr. Liosatos was Chairman of the ITS World Congress 2016 Sponsorship Committee and is active on Australian Standards AS 2144 and AS 1158. Mr. Liosatos is the Managing Director of Traffic Technologies Ltd. Mr. Liosatos was appointed a Director of Traffic Technologies Ltd in April 2003. Mr. Liosatos is a member of the Risk and Corporate Governance committees. Mr. Liosatos has not served as a Director of any other listed companies during the three years prior to June 2018.
Mr. Mark W Hardgrave B Com ACA MAICD	(Age 60) Independent Non-Executive Director. Appointed January 2013.  Mr. Hardgrave has a corporate advisory and investment management background. He is also a Non-Executive Director of ASX listed company Wingara Ag Ltd. His previous role was as a Director of M&A Partners, a Melbourne based private investment and corporate finance group. Earlier in his career he worked in senior roles in a number of investment groups including BrenCorp Group, Merrill Lynch and the Thorney Investment Group. Mr. Hardgrave was previously Chief Executive Officer of Bennelong Group, which specialises in listed equities, property and private equity. Mr. Hardgrave holds a Bachelor of Commerce degree from the University of Queensland. He currently serves on the board of NFP group ReLink Australia. He is a chartered accountant and a member of the Australian Institute of Company Directors. Mr. Hardgrave is Chairman of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees.

**Traffic Technologies Ltd**  
**Directors' Report**

**Skills and Experience**

The following table shows the skills sets of each of the Board members:

	<b>Garry Lowrey</b>	<b>Con Liosatos</b>	<b>Mark Hardgrave</b>
Corporate Governance	✓	✓	✓
Traffic Management & Infrastructure	✓	✓	
ASX Listed Companies	✓	✓	✓
Human Resources	✓	✓	✓
Legal	✓	✓	✓
Finance	✓	✓	✓
Commercial	✓	✓	✓
Manufacture/assembly		✓	
Government Contracts		✓	
Information Technology		✓	✓

**Company**

**Secretary**

Mr. Peter K  
Crafter

LL.B (Hons.)  
MBA FCA CA  
MCT FAICD  
FCIS FGIA

(Age 61) 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 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.

**SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL**

Shares held in Traffic Technologies Limited:

	<b>Balance at 1 July 2017</b>	<b>Acquired through On-Market Trade</b>	<b>Acquired in Rights Issue</b>	<b>Balance at 30 June 2018</b>
<b>Directors</b>				
Mr. Garry Lowrey	500,000	-	6,666,667	7,166,667
Mr. Con Liosatos	21,808,919	-	9,605,913	31,414,832
Mr. Mark Hardgrave	1,548,388	-	1,666,666	3,215,054
<b>Executive</b>				
Mr. Peter Crafter	10,000	-	-	10,000
<b>Total</b>	<b>23,867,307</b>	<b>-</b>	<b>17,939,246</b>	<b>41,806,553</b>

**DIVIDENDS**

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2018 (2017: Nil).

**Traffic Technologies Ltd**  
**Directors' Report**

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**OPERATING AND FINANCIAL REVIEW**

**Review of Operations**

Traffic Technologies is Australia's premier traffic solutions company. Established in 2004 and listed on ASX in 2005, the Company's head office is in Eltham, Victoria with offices in all States of Australia and England.

The Group specialises in the design, manufacture and installation of traffic signals, traffic controllers, pedestrian countdown timers, electronic road signs, emergency telephones, road lighting products and "Smart City" control systems and supplies a wide range of directional and regulatory traffic signs and traffic control products to road traffic authorities, municipal councils and construction companies.

The Group, through its subsidiary, Aldridge Traffic Systems, has been the major participant in the traffic signals market in Australia for 50 years where customers are mainly state road authorities or contractors building or maintaining traffic intersections for state road authorities.

The Group, through its subsidiary, Quick Turn Circuits Pty Ltd (QTC), is involved in the manufacture of traffic controllers. A traffic controller is an automated device that regulates the sequencing and timing of traffic signals by monitoring vehicular and pedestrian demands and adjusting to meet these requirements. The controller has the ability to allow co-ordination of traffic flows between adjacent intersections when connected to a co-ordinated adaptive traffic system.

The Group is a key supplier to the road signage market through its seven offices across Australia. Customers include State Road Authorities, local councils and construction companies. The Group's signage products are distributed from depots around Australia with manufacturing focused in Victoria, Western Australia and the Northern Territory.

The Group exports its traffic controllers, traffic signals and associated products such as pedestrian countdown timers and emergency telephones to an increasing number of international customers.

A review of the operations and financial position of the Group is contained in the Managing Director's Operating and Financial Review.

**Material Business Risks**

The material business risks faced by the Group that could have a significant impact on the financial prospects of the Group and how the Group manages these risks include:

- Changes in Federal or State government expenditure on road infrastructure – the Group maintains regular contact with state road authorities to ensure that it can plan the resources required for major projects as far ahead as possible or allow for the deferral of major projects in times of economic slowdown.
- Adverse change in economic conditions affecting demand for the Group's products or services – the Group plans as far ahead as possible to adjust its cost base in times of economic uncertainty.
- Technological obsolescence – the Group works closely with road traffic authorities and incurs significant amounts of research and development expenditure to ensure that its products are state-of-the-art and competitive.
- Foreign exchange risk - a decrease in the Australian dollar exchange rate can affect import prices: the Group purchases components from a number of Asian countries denominated in US dollars. Conversely, an increase in the Australian dollar exchange rate can affect export opportunities: the Group sells its products to a number of countries around the world. The Group has a foreign exchange exposure through its term loan which is denominated in US dollars and a forward exchange contract has been taken out to hedge its currency exposure (see notes 11 and 12).
- General inflation risk, including labour costs – the Group constantly monitors its cost base and implements cost savings and operating efficiencies where possible.

**Traffic Technologies Ltd**  
**Directors' Report**

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- Availability of financing facilities – the Group is reliant on the continued availability of its financing facilities in order to conduct its operations. The Group ensures compliance with its facility agreements and negotiates extensions to its financing facilities when required.
- Competition – the Group maintains its competitive position by investing in research and development to ensure its products are state-of-the-art and by ensuring its products are priced competitively.
- Cyber Security – the Group has been addressing cyber security as part of its risk management strategy in the light of recent well-publicised breaches and increased risk in this area.
- Climate Change – the Group is not significantly exposed to climate change issues unless a carbon tax is reintroduced. A significant number of the Group's products use LED technology which is energy saving and reduces greenhouse gas emissions.

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

Significant changes in the state of affairs of the Group during the financial year were as follows:

The Company completed a rights issue of \$6.2m in April 2018. For further details, refer note 14.

The Company undertook a restructure of its borrowing facilities resulting in a gain on repayment of \$7.9m (2017: Nil). For further details, refer note 11.

**SIGNIFICANT EVENTS AFTER BALANCE DATE**

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

**ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory. There have been no significant known breaches of the Group's compliance with environmental regulations.

**SHARE OPTIONS**

As at the date of this report, there were no unissued ordinary shares of the Company under option.

**INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS**

During the financial year ended 30 June 2018, the Group paid premiums of \$59,292 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**

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**REMUNERATION REPORT (AUDITED)**

This Remuneration Report for the financial year ended 30 June 2018 outlines non-executive director and executive remuneration arrangements for Traffic Technologies Ltd (**Company**) in accordance with the requirements of the *Corporations Act 2001 (Cth)* (**Corporations Act**) and its Regulations.

For the purposes of this report, Key Management Personnel (**KMP**) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling all activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' includes the Managing Director and the Chief Financial Officer.

The disclosures in this Remuneration Report have been audited.

**1. Persons covered by this Remuneration Report**

This Remuneration Report applies to the following persons.

**Non-executive directors**

Mr. Garry Lowrey            Independent Non-executive Chairman

Mr. Mark Hardgrave       Independent Non-executive Director

**Executives**

Mr. Con Liosatos            Managing Director

Mr. Peter Crafter            Chief Financial Officer and Company Secretary

**2. Overview of the Company's remuneration policy**

The Company seeks to attract, retain and motivate skilled non-executive directors and executives of the highest calibre. The Company aims to ensure that the remuneration packages of non-executive directors and executives are appropriate and reflect a person's duties and responsibilities.

In this regard, the Company has put in place a Nomination & Remuneration Committee which supports and advises the Board in fulfilling its responsibilities to shareholders. The Nomination & Remuneration Committee is responsible for ensuring that the Board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of directors.

The remuneration policy of the Company has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering incentives to reward sustainable long-term performance and shareholder value creation.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

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

### **3. Details of executive remuneration structure**

#### **3.1 Objective**

The Company's objective is to ensure that executive remuneration is designed to promote sustainable long-term performance and shareholder value creation. In this regard, the Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- (a) reward executives for the Company's and individual performance;
- (b) align the interests of executives with those of shareholders;
- (c) link reward with the strategic goals and performance of the Company; and
- (d) ensure total remuneration is competitive by market standards.

#### **3.2 Approach to setting remuneration**

Remuneration levels are determined annually through a remuneration review that considers market data, remuneration trends, performance of the Company, individual responsibilities, individual performance and the broader economic environment.

##### **(a) Fixed remuneration**

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate and reasonable given the executive's experience, qualifications, core duties and responsibilities. Additionally, an executive's remuneration is determined with reference to remuneration paid by similar sized companies in similar industry sectors.

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash, superannuation contributions and non-monetary 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 Company.

An executive's remuneration is reviewed annually by the Nomination & Remuneration Committee.

##### **(b) Variable remuneration**

Performance based components of an executive's remuneration seek to align the executive's reward with the achievement of the Company's long term objectives and the creation of shareholder value over the short and long term. The relevant performance based components are STI and LTI (as described below).

#### **3.3 The current structure of executive remuneration**

The STI arrangements are in place and are effective for the 2018 financial year; however it is important to note that, although the Company has operated an STI bonus arrangement for a number of years, for the financial years, 2013-17 the executive team have waived their entitlements to an STI.

**Traffic Technologies Ltd**  
**Directors' Report**

The executive remuneration structure, including performance hurdles and performance targets, is outlined below:

**(a) Combination of fixed and variable remuneration**

<b>Remuneration</b>	<b>Components</b>	<b>Purpose</b>	<b>Link to Performance</b>
Total Fixed Remuneration ( <b>TFR</b> )	Comprises base salary, non-monetary benefits, and superannuation contributions.	To provide competitive fixed remuneration taking account of the role, market, experience and performance.	Company and individual performance are assessed during the annual remuneration review.
Short term incentives ( <b>STIs</b> )	The Company operates an STI at the discretion of the Board which is assessed based on the Company's performance above budget plan. Bonuses are paid in cash.	To reward executives for their contribution to achievement of Company outcomes according to specified KPI's.	Linked to achievement of operational targets and KPI's. Where actual financial performance exceeds budget plan by up to 100%, the Company makes payment of an STI bonus up to 20%.
Long term incentives ( <b>LTI</b> s)	The Company operates an LTI at the discretion of the Board. Options are allotted in accordance with our LTI plan.	To reward executives for their contribution to the creation of shareholder value over the longer term.	<p>The grant by the Company of the options will be dependent on the share price performance of the Company relative to the ASX 300 small ordinaries index. If the Company's share price performance exceeds the ASX 300 small ordinaries index for the relevant period, the LTI may be awarded for that financial year.</p> <p>Subsequent to being granted, the LTI options will only vest if the executive does not resign or is not terminated for cause within a two year period (after the end of the relevant financial year in which the options are granted). The exercise price of the options will be equivalent to the Company's share price on the last day of the relevant financial year.</p>

**Traffic Technologies Ltd**  
**Directors' Report**

**(b) Performance hurdles**

Performance hurdles are thresholds which are required to be met for an executive's remuneration to vest.

- (i) The following performance hurdles are used to determine whether variable remuneration vests for executives:

	<b>STI Targets</b>	<b>LTI Targets</b>
Managing Director	<p>10% of base salary if targeted EBIT is exceeded by 50%.</p> <p>20% of base salary if targeted EBIT is exceeded by 100%.</p> <p>Targets are based on achievement of KPI's set annually by the Nomination &amp; Remuneration Committee. A summary of the KPIs are outlined below.</p>	<p>10% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 10% for the relevant financial year.</p> <p>20% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 25% for the relevant financial year.</p> <p>40% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 50% for the relevant financial year.</p>
Chief Financial Officer	<p>5% of base salary if targeted EBIT is exceeded by 50%.</p> <p>10% of base salary if targeted EBIT is exceeded by 100%.</p> <p>Targets are based on achievement of KPI's set annually by the Nomination &amp; Remuneration Committee. A summary of the KPIs are outlined below.</p> <p>10% of base salary paid according to KPI's set by the Board.</p>	<p>5% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 10% for the relevant financial year.</p> <p>10% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 25% for the relevant financial year.</p> <p>20% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 50% for the relevant financial year.</p>

- (ii) What are the KPIs and why were they chosen?

**STIs**

The Company has chosen Earnings before Interest and Tax (**EBIT**) as its STI performance measure. EBIT is a common operational performance measure used by many companies. The Board considers this financial measure to be appropriate as it is reflective of the performance of the Company and aligns the Company's objective of delivering profitable growth and, ultimately, improved shareholder returns.

**LTIs**

The Company has chosen its share price performance relative to the ASX 300 small ordinaries index as its LTI performance measure. This is an external, relative, market-based performance measure against competing companies. It provides a direct link between senior executive reward and returns to shareholders.

- (iii) What is the performance period?

The performance hurdle for STI's are measured over a 12 month period. There will be no re-testing of performance hurdles.



**Traffic Technologies Ltd**  
**Directors' Report**

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The performance hurdle for LTI targets are measured over three years, being the relevant 12 month period and a requirement for the executive to remain with the Company for a further two years. There will be no re-testing of performance hurdles.

- (iv) When are performance hurdles not considered to be met?

Performance hurdles will not be considered to be met where an executive achieves the performance hurdle as a result of an acquisition by the Company.

**(c) Clawback**

The Company has the ability to reduce, cancel or clawback performance based remuneration in the event of serious misconduct or material financial misstatement.

**4. Details of Non-Executive remuneration structure**

**4.1 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.

**4.2 Approach to setting remuneration**

Each non-executive director receives a fixed fee for being a director and a fee for the additional time commitment made when serving as Chair. Non-executive Directors do not receive retirement benefits, other than statutory superannuation, nor do they participate in any incentive programs.

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. The latest determination was at the AGM held in 2005 when shareholders approved an aggregate remuneration of \$400,000 per year. The amount of remuneration paid to non-executive directors is reviewed annually against remuneration paid to non-executive directors of comparable companies. The board did not use external consultants during the financial year ended 30 June 2018.

It is considered good governance for Directors to have a stake in the Company on whose Board they sit. Non-executive Directors are encouraged to hold shares in the Company (purchased by the Director on market).

**4.3 Non-executive Director Agreements**

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

- (a) entrench a Director's rights to be indemnified by the Company to the maximum extent permitted by law;
- (b) 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
- (c) provides the non-executive Director with access to the Company's books and records relating 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.

**5. Performance outcomes**

**5.1 Executives**

- (a) Managing Director – Mr. Con Liosatos

The Managing Director, Mr. Liosatos, is employed under a rolling employment contract. A summary of Mr. Liosatos' entitlements for the financial year ended 30 June 2018 is as follows:

**Traffic Technologies Ltd**  
**Directors' Report**

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- TFR for the financial year ended 30 June 2018 was \$531,149.
- STI - Mr. Liosatos is entitled to a cash bonus of \$94,605 for the 2018 Financial Year.
- No LTI was awarded to Mr. Liosatos for the 2018 Financial Year.
- Employment may be terminated by the giving, by either party, of twelve 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.
- Further details of the executives' remuneration for the financial years ended 30 June 2017 and 30 June 2018 are included in the tables below.

(b) Chief Financial Officer – Mr. Peter Crafter

The Company Secretary and Chief Financial Officer, Mr. Peter Crafter, is employed under a rolling employment contract. A summary of Mr. Crafter's entitlements is as follows:

- TFR for the financial year ended 30 June 2018 was \$292,117.
- STI - Mr. Crafter is entitled to a cash bonus of \$24,792 for the 2018 Financial Year.
- No LTI was awarded to Mr. Crafter for the 2018 Financial Year.
- Employment may be terminated by the giving, by either party, of twelve 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.
- Further details of the executives' remuneration for the financial years ended 30 June 2017 and 30 June 2018 are set out in the tables below.

(c) Performance against targets

STI's – cash bonuses were awarded to Mr. Liosatos and Mr. Crafter for the 2018 Financial Year, having exceeded targeted EBIT by 100% (see bonus amounts disclosed above).

No LTI's were awarded for the 2018 Financial Year.

## 5.2 Non-executive Directors

Details of non-executive Directors remuneration for the financial years ended 30 June 2017 and 30 June 2018 are set out in the tables below. The Company considers the non-executive Directors' remuneration to be reasonable taking into account their duties, responsibilities, market, experience and performance.

## 5.3 Company Performance and Shareholder Returns

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net profit/(loss) \$'000)	\$6,072	\$1,011	(\$22,250)	\$420	(\$1,172)
EPS (cents)	1.88	0.37	(8.07)	0.15	(0.49)
Share price (cents)	3.3	3.6	2.6	3.9	5.6

Management remuneration is not related to the Company's performance and shareholder returns except to the extent disclosed above.

**Traffic Technologies Ltd  
Directors' Report**

**TABLE 1: REMUNERATION OF KEY MANAGEMENT PERSONNEL – YEAR TO 30 JUNE 2017**

	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 \$	\$	% performance related
<b>Year to 30 June 2017</b>									
<b>Key Management Personnel</b>									
<i>Non-executive Directors</i>									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Mr. Ken Daley (retired 24 Nov 2016)	24,063	-	-	2,286	-	-	-	26,349	-
<b>Sub-total non-executive Directors</b>	<b>190,487</b>	<b>-</b>	<b>-</b>	<b>18,096</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>208,583</b>	<b>-</b>
<i>Executives</i>									
Mr. Con Liosatos	473,025	14,228	-	44,937	-	9,236	-	541,426	-
Mr. Peter Crafter	247,921	21,085	-	23,552	-	5,272	-	297,830	-
	<b>720,946</b>	<b>35,313</b>	<b>-</b>	<b>68,489</b>	<b>-</b>	<b>14,508</b>	<b>-</b>	<b>839,256</b>	<b>-</b>
<b>Total</b>	<b>911,433</b>	<b>35,313</b>	<b>-</b>	<b>86,585</b>	<b>-</b>	<b>14,508</b>	<b>-</b>	<b>1,047,839</b>	<b>-</b>

**Traffic Technologies Ltd  
Directors' Report**

**TABLE 2: REMUNERATION OF KEY MANAGEMENT PERSONNEL – YEAR TO 30 JUNE 2018**

	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 \$	\$	% performance related
<b>Year to 30 June 2018</b>									
<b>Key Management Personnel</b>									
<i>Non-executive Directors</i>									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
<b>Sub-total non-executive Directors</b>	<b>166,424</b>	<b>-</b>	<b>-</b>	<b>15,810</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>182,234</b>	<b>-</b>
<i>Executives</i>									
Mr. Con Liosatos	492,962	13,187	94,605	25,000	-	10,614	-	636,368	15%
Mr. Peter Crafter	247,921	20,644	24,792	23,552	-	(20,557)	-	296,352	8%
	<b>740,883</b>	<b>33,831</b>	<b>119,397</b>	<b>48,552</b>	<b>-</b>	<b>(9,943)</b>	<b>-</b>	<b>932,720</b>	<b>13%</b>
<b>Total</b>	<b>907,307</b>	<b>33,831</b>	<b>119,397</b>	<b>64,362</b>	<b>-</b>	<b>(9,943)</b>	<b>-</b>	<b>1,114,954</b>	<b>11%</b>

**END OF AUDITED REMUNERATION REPORT**

**Traffic Technologies Ltd**  
**Directors' Report**

**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 Committee</b>		<b>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	Number eligible to attend	Number attended
Mr. Garry Lowrey	12	12	2	2	3	3	1	1	1	1
Mr. Con Liosatos	12	12	2	2	3	3	1	1	1	1
Mr. Mark Hardgrave	12	12	2	2	3	3	1	1	1	1

**BOARD COMMITTEES**

As at the date of this report the Company had an Audit Committee, a Nomination & Remuneration Committee, a Corporate Governance Committee and a Risk Committee of the Board of Directors. The eligibility and attendance of each of the Directors is disclosed in the table above. The chairman of each committee was:

- Audit – Mr. Mark Hardgrave
- Nomination & Remuneration – Mr. Mark Hardgrave
- Corporate Governance – Mr. Mark Hardgrave
- Risk - Mr. Mark Hardgrave

**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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191. The Company is an entity to which the Instrument 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.

Signed in accordance with a resolution of the Directors.



Mr. Garry Lowrey  
Independent Non-Executive Chairman  
29 August 2018  
Melbourne

**Auditor's Independence Declaration under Section 307C of the Corporations Act  
2001 to the directors of the Directors of Traffic Technologies Limited and Controlled Entities**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.



**ShineWing Australia**  
Chartered Accountants



Rami Eltchelebi  
Partner

Melbourne, 29 August 2018

**Traffic Technologies Ltd**  
**Corporate Governance Statement**

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The Board and management of Traffic Technologies Ltd are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

The Corporate Governance Statement is accurate and up to date as at 29 August 2018 and has been approved by the Board.

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement is available for review on the Company's website ([www.trafficltd.com.au](http://www.trafficltd.com.au)) and will be lodged together with an Appendix 4G at the same time that this Annual Report is lodged with ASX.

Appendix 4G identifies each Recommendation that needs to be reported against by the Company and provides shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on the Company's website ([www.trafficltd.com.au](http://www.trafficltd.com.au)).

**Traffic Technologies Ltd and Controlled Entities**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 30 June 2018**

	Note	Consolidated	
		2018 \$'000	2017 \$'000
<b>Revenue</b>	2	<b>56,670</b>	48,853
Other income	2	<b>8,003</b>	344
Changes in inventories of finished goods and work in progress		<b>(5,566)</b>	2,829
Raw materials and consumables used		<b>(29,961)</b>	(30,942)
Employee benefits expense	3	<b>(15,134)</b>	(12,962)
Occupancy costs		<b>(1,905)</b>	(1,872)
Advertising and marketing expense		<b>(296)</b>	(210)
Other expenses	3	<b>(1,651)</b>	(1,489)
Depreciation, amortisation and impairment expense		<b>(1,731)</b>	(1,872)
<b>Earnings before interest and tax (EBIT)</b>		<b>8,429</b>	2,679
Finance costs	3	<b>(1,548)</b>	(1,457)
<b>Net profit for the year before income tax</b>		<b>6,881</b>	1,222
Income tax expense	4	<b>(809)</b>	(211)
<b>Net profit for the year</b>		<b>6,072</b>	1,011
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<b>6,072</b>	1,011
<b>Earnings per share</b>		<b>Cents</b>	Cents
- Basic (cents per share)	5	<b>1.88</b>	0.37
- Diluted (cents per share)	5	<b>1.88</b>	0.37

*The accompanying notes form part of these financial statements.*



**Traffic Technologies Ltd and Controlled Entities**  
**Consolidated Statement of Financial Position**  
**As at 30 June 2018**

	Note	Consolidated	
		2018 \$'000	2017 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	17	4,044	660
Trade and other receivables	6	10,766	10,236
Inventories	7	10,164	13,210
Derivative financial instrument	12	619	-
<b>Total Current Assets</b>		<b>25,593</b>	24,106
<b>Non-Current Assets</b>			
Property, plant and equipment	8	1,253	1,265
Goodwill	9	10,554	10,554
Intangible assets	9	7,956	7,229
Deferred tax assets	4	-	145
<b>Total Non-Current Assets</b>		<b>19,763</b>	19,193
<b>TOTAL ASSETS</b>		<b>45,356</b>	43,299
<b>Current Liabilities</b>			
Trade and other payables	10	8,730	10,298
Interest bearing loans and borrowings	11	172	5,062
Provisions	13	2,570	2,388
Deferred tax liability	4	659	-
<b>Total Current Liabilities</b>		<b>12,131</b>	17,748
<b>Non-Current Liabilities</b>			
Interest bearing loans and borrowings	11	13,128	17,354
Provisions	13	200	98
<b>Total Non-Current Liabilities</b>		<b>13,328</b>	17,452
<b>TOTAL LIABILITIES</b>		<b>25,459</b>	35,200
<b>NET ASSETS</b>		<b>19,897</b>	8,099
<b>Equity</b>			
Contributed equity	14	54,755	49,029
Accumulated losses		(34,858)	(41,930)
Share-based payments reserve		-	1,000
<b>TOTAL EQUITY</b>		<b>19,897</b>	8,099

*The accompanying notes form part of these financial statements.*

**Traffic Technologies Ltd and Controlled Entities**  
**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2018**

	Note	Ordinary Shares	Share based payments Reserve	Accumulated Losses	Total
		\$'000	\$'000	\$'000	\$'000
<b>CONSOLIDATED</b>					
<b>At 1 July 2016</b>		49,029	1,000	(42,941)	7,088
Profit for the year		-	-	1,011	1,011
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	1,011	1,011
<b>At 30 June 2017</b>		<b>49,029</b>	<b>1,000</b>	<b>(41,930)</b>	<b>8,099</b>
Profit for the year		-	-	6,072	6,072
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	6,072	6,072
<b>Transactions with owners in their capacity as owners:</b>					
Rights issue	14	6,200	-	-	6,200
Share issue costs	14	(474)	-	-	(474)
Transfer share-based payment reserve	14	-	(1,000)	1,000	-
<b>At 30 June 2018</b>		<b>54,755</b>	-	<b>(34,858)</b>	<b>19,897</b>

*The accompanying notes form part of these financial statements.*

**Traffic Technologies Ltd and Controlled Entities**  
**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2018**

	Note	Consolidated 2018 Inflows / (Outflows) \$'000	2017 Inflows / (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		61,569	55,648
Payments to suppliers and employees		(57,748)	(50,670)
Interest paid		(1,552)	(1,331)
Income tax paid		(5)	(5)
Net cash provided by operating activities	17	2,264	3,642
<b>Cash flows from investing activities</b>			
Payment of development costs		(1,826)	(1,558)
Purchase of property, plant and equipment		(330)	(42)
Purchase of intangible assets		(289)	(192)
Net cash used in investing activities		(2,445)	(1,792)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	17	13,788	-
Repayment of borrowings	17	(15,663)	(2,376)
Payment of borrowing costs		(286)	-
Proceeds from share issue		6,200	-
Payments for share issue costs		(474)	-
Net cash provided by/(used in) financing activities		3,565	(2,376)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,384</b>	<b>(526)</b>
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>660</b>	<b>1,186</b>
<b>Cash and cash equivalents at end of the financial year</b>		<b>4,044</b>	<b>660</b>

*The accompanying notes form part of these financial statements.*

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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The financial report of Traffic Technologies Ltd (the Company) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 29 August 2018. 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 a for profit 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191. The Company is an entity to which the Instrument applies.

**b) New Accounting Standards for Application in Future Periods**

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– **AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).**

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments, revised impairment requirements and simplified requirements for hedge accounting.

The revised requirements include:

- simplifications to the classification of financial assets
- simplifications to the accounting of embedded derivatives
- an expected loss impairment model
- the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.
- a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items.

The financial assets and liabilities of the Group consist of cash, receivables and payables. The directors do not expect a material impact on transition to AASB 9.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

– **AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018)**

This Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The directors have made a preliminary/detailed assessment of the impact.

The revenue of the Group is mainly derived from sale of goods on short term contracts. The directors do not expect that there will be a material impact on transition to AASB 15.

– **AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).**

AASB 16 will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The directors expect that the adoption of AASB 16 will result in lease assets and liabilities being recognised on balance sheet and a change in how related expenses are incurred. The Group is tenant under a number of leases of its factories, depots and offices. It is expected that total property lease commitments of approximately \$2.5m will be recognised in the balance sheet as lease assets and liabilities and that annual rental of approximately \$1.4m will be reclassified from occupancy costs to depreciation and interest.

– **AASB 2014-10: *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (applicable to annual reporting periods beginning on or after 1 January 2018).**

This Standard amends AASB 10: *Consolidated Financial Statements* with regards to a parent losing control over a subsidiary that is not a “business” as defined in AASB 3: *Business Combinations* to an associate or joint venture, and requires that:

- a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
- any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest.

The directors do not expect a material impact when this standard is adopted.

The Group has adopted all new, revised and amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have a significant impact on the financial performance or position of the Group.

**c) Basis of consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Traffic Technologies Ltd) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

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. 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 the statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 factors it believes to be reasonable under the circumstances. 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.

***Significant accounting judgements***

*Impairment testing of non-financial assets*

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.

*Capitalised development costs*

Development costs are only capitalised by the Group 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, 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. Judgements are also required about the application of income tax legislation.

***Significant accounting estimates and assumptions***

*Long service leave provision*

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. The Group's obligations towards long service leave liabilities are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

*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.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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. Any change in the useful life or residual lives is treated as a change in accounting estimate and recognised in the statement of comprehensive income.

*Maintenance warranties*

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.



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**2. REVENUE**

**Accounting policy**

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:

*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, cessation of all involvement in those goods and generally title has passed (for shipped goods this is the bill of lading date).

*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.

*Interest income*

Interest income is recognised as interest accrues using the effective interest 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.

*Finance and other income*

Finance and other income is recognised when the right to receive the income is established.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<b>Revenue</b>		
Sale of goods	<u>56,670</u>	48,853
<b>Other income</b>		
Gain on repayment of debt (note 11)	7,883	-
Net gain on derivatives held for trading	619	-
Net exchange loss on foreign currency borrowings	(623)	-
Other income	124	344
Total other income	<u>8,003</u>	344

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**3. EXPENSES**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<b>Employee related expenses</b>		
Wages and salaries	10,198	9,258
Superannuation (defined contribution)	982	934
Other employee benefits expense	3,954	2,770
	<b>15,134</b>	<b>12,962</b>
 <b>Other expenses</b>		
Administrative costs	1,455	1,319
Public company costs	196	170
	<b>1,651</b>	<b>1,489</b>
 <b>Finance costs</b>		
Amortisation of capitalised transaction costs	24	127
Bank loans and overdrafts	1,148	1,159
Lease interest	24	27
Other	352	144
<b>Total finance costs</b>	<b>1,548</b>	<b>1,457</b>
 <b>Research and development costs</b>		
Research and development costs charged directly to cost of sales in profit or loss	69	9

**4. INCOME TAX**

**Accounting policy**

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. Current income tax expense charged to profit or loss is the tax payable on taxable income.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

**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 19.

**Tax Funding Arrangements and Tax Sharing Agreements**

The Company has entered into a tax funding agreement that sets out its funding obligations of the tax consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding agreement and reflect the timing of the head entity's obligation to make payments for the tax liabilities to the relevant taxation authority.

**Traffic Technologies Ltd and Controlled Entities**  
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**4. INCOME TAX (continued)**

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax consolidated group under the tax funding agreement.

**Income Tax Expense**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
The major components of income tax expense are:		
<b>Statement of Comprehensive Income</b>		
<i>Current income tax</i>		
Current income tax charge	5	5
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	804	206
Income tax expense reported in the statement of comprehensive income	809	211

**Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Accounting profit before income tax	6,881	1,222
Prima facie income tax expense at the Group's statutory income tax rate of 30% (2017: 30%)	2,064	367
Derecognition of deferred tax asset as a result of debt restructure	177	-
Non assessable gain on debt restructure	(2,815)	-
Non-refundable foreign tax offset	5	5
Recoupment of R&D tax offset	(240)	-
Recoupment of losses	-	(161)
Aggregate income tax expense	809	211
Weighted average effective tax rate	12%	17%

**Deferred tax balances**

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits 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. 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. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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**4. INCOME TAX (continued)**

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

	Balance at 1 July 2017	Charged/ (credited) to income	Balance at 30 June 2018
	\$'000	\$'000	\$'000
<i>Temporary differences</i>			
Intangible assets	(854)	(970)	(1,824)
Plant and equipment	-	(376)	(376)
Inventory	-	(60)	(60)
Employee provisions	798	104	902
Warranty provisions	12	-	12
Doubtful debts	-	11	11
Credit notes	12	(5)	7
Foreign exchange	1	-	1
Other capital expenditure	117	470	587
Other accruals and provisions	59	22	81
Deferred tax asset/(liability)	<u>145</u>	<u>(804)</u>	<u>(659)</u>

	Balance at 1 July 2016	Charged/ (credited) to income	Balance at 30 June 2017
	\$'000	\$'000	\$'000
<i>Temporary differences</i>			
Intangible assets	(760)	(94)	(854)
Employee provisions	760	38	798
Warranty provisions	23	(11)	12
Doubtful debts	46	(46)	-
Credit notes	15	(3)	12
Foreign exchange	16	(15)	1
Other capital expenditure	177	(60)	117
Other accruals and provisions	74	(15)	59
Deferred tax asset/(liability)	<u>351</u>	<u>(206)</u>	<u>145</u>

**Tax Losses**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
The following tax losses have not been recognised as a deferred tax asset:		
Tax losses – revenue	-	2,431
Tax losses – capital	-	-
Carried forward tax offsets	<u>1,726</u>	1,497
Total deferred tax assets	<u>1,726</u>	<u>3,928</u>

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

**Traffic Technologies Ltd and Controlled Entities**  
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**4. INCOME TAX (continued)**

**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.

**5. EARNINGS PER SHARE**

**Accounting policy**

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), 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 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.

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

**Earnings used in calculating earnings per share**

<b>Consolidated 2018 \$'000</b>	<b>Consolidated 2017 \$'000</b>
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*For basic and diluted earnings per share:*

Net profit attributable to ordinary equity holders of the parent	<b>6,072</b>	1,011
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**Weighted average number of shares**

<b>Consolidated 2018 Thousands</b>	<b>Consolidated 2017 Thousands</b>
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Weighted average number of ordinary shares used in calculating basic earnings per share	<b>323,685</b>	275,557
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>323,685</b>	275,557

There are no instruments 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 2018 (2017: nil). 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.

**Traffic Technologies Ltd and Controlled Entities**  
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**6. TRADE AND OTHER RECEIVABLES**

**Accounting policy**

Trade receivables, which generally have 30 day terms, are recognised initially at fair value plus any directly attributable transaction costs 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 may 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 difference between the receivables carrying amount and the present value of its estimated future cash flows, discounted at the original effective interest rate.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Trade receivables	8,778	8,237
Allowance for impairment loss	(35)	(9)
	8,743	8,228
Prepayments	951	1,188
Other receivables	1,072	820
	10,766	10,236

**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 \$64,000 (2017: \$9,000) 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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**6. TRADE AND OTHER RECEIVABLES (continued)**

Movements in the allowance for impairment loss were as follows:

	<b>Consolidated 2018 \$'000</b>	<b>Consolidated 2017 \$'000</b>
Balance at the beginning of the year	9	155
Charge for the year	64	9
Amounts recovered during the year	(10)	-
Amounts written off as uncollectible	(28)	(155)
Balance at the end of the year	35	9

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>2018</b>	<b>Group</b>	<b>8,778</b>	<b>5,686</b>	<b>1,615</b>	<b>-</b>	<b>874</b>	<b>-</b>	<b>568</b>	<b>35</b>
2017	Group	8,237	5,655	2,062	-	282	-	229	9

**\* - Table Legend**

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

Receivables past due but not considered impaired are: Group \$3,057,000 (2017: \$2,573,000). 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.

**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.

**Foreign exchange and interest rate risk**

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 15.

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**7. INVENTORIES**

**Accounting policy**

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.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Raw materials	3,785	6,090
Work in progress	157	685
Finished goods	<b>6,222</b>	6,435
	<b>10,164</b>	13,210

Inventory write-downs recognised as an expense totalled \$2,520,000 (2017: reversal \$50,000). The inventory write-down is included in the statement of comprehensive income in changes in inventories of finished goods and work in progress.

**8. PROPERTY, PLANT AND EQUIPMENT**

**Accounting policy**

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

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

	<b>2018</b>	<b>2017</b>
Plant and equipment	1 to 15 years	1 to 15 years
Plant and equipment under finance lease	1 to 15 years	1 to 15 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
Buildings	40 years	40 years
Leasehold improvements	10 years	10 years



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**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<b>Carrying values</b>		
<i>Plant and equipment:</i>		
At cost	4,896	4,827
Accumulated depreciation*	(4,324)	(4,328)
Total plant and equipment	<u>572</u>	<u>499</u>
<i>Plant and equipment under lease:</i>		
At cost	445	445
Accumulated depreciation*	(348)	(292)
Total plant and equipment	<u>97</u>	<u>153</u>
<i>Office furniture and fittings</i>		
At cost	1,102	1,189
Accumulated depreciation*	(1,045)	(1,121)
Total office furniture and fittings	<u>57</u>	<u>68</u>
<i>Office furniture and fittings under lease</i>		
At cost	137	137
Accumulated depreciation*	(136)	(122)
Total office furniture and fittings	<u>1</u>	<u>15</u>
<i>Motor vehicles</i>		
At cost	349	229
Accumulated depreciation*	(302)	(224)
Total motor vehicles	<u>47</u>	<u>5</u>
<i>Motor vehicles under lease</i>		
At cost	633	680
Accumulated depreciation*	(374)	(380)
Total motor vehicles under lease	<u>259</u>	<u>300</u>
<i>Buildings</i>		
At cost	208	208
Accumulated depreciation	(108)	(100)
Total land and buildings	<u>100</u>	<u>108</u>
<i>Leasehold improvements</i>		
At cost	667	875
Accumulated depreciation*	(547)	(758)
Total leasehold improvements	<u>120</u>	<u>117</u>
<i>Total property, plant and equipment</i>		
At cost	8,437	8,590
Accumulated depreciation	(7,184)	(7,325)
Total net book value	<u>1,253</u>	<u>1,265</u>

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**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

CONSOLIDATED	Plant & Equipment \$'000	Plant & Equipment under lease \$'000	Office Furniture \$'000	Office Furniture under lease \$'000	Motor vehicles \$'000	Motor vehicles under lease \$'000	Buildings \$'000	Leasehold improvements \$'000	Total \$'000
At 1 July 2017 net book value	499	153	68	15	5	300	108	117	1,265
Additions	190	-	20	-	47	84	-	37	378
Disposals	-	-	-	-	-	(47)	-	-	(47)
Depreciation expense	(117)	(56)	(31)	(14)	(5)	(78)	(8)	(34)	(343)
<b>At 30 June 2018 net book value</b>	<b>572</b>	<b>97</b>	<b>57</b>	<b>1</b>	<b>47</b>	<b>259</b>	<b>100</b>	<b>120</b>	<b>1,253</b>
At 1 July 2016 net book value	730	157	102	29	15	390	117	150	1,690
Additions	38	49	5	-	-	-	-	-	92
Depreciation expense	(269)	(53)	(39)	(14)	(10)	(90)	(9)	(33)	(517)
<b>At 30 June 2017 net book value</b>	<b>499</b>	<b>153</b>	<b>68</b>	<b>15</b>	<b>5</b>	<b>300</b>	<b>108</b>	<b>117</b>	<b>1,265</b>

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**8. 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 ADM Capital as disclosed in note 11.

**9. GOODWILL AND INTANGIBLE ASSETS**

**Accounting policy**

**Goodwill**

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. Acquisition-related costs are expensed as incurred.

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

**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 the statement of comprehensive income 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. 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 the statement of comprehensive income.

*Development costs*

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 which is generally 5 years (2017: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item 'depreciation, amortisation and impairment expense'.

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**9. GOODWILL AND INTANGIBLE ASSETS (continued)**

*Software costs*

Software costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Purchased software development is assessed to have a finite life and is amortised over a period of 1-4 years (2017: 1-4 years).

*Patents and trademarks*

Patents and trademarks acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Patents and trademarks are amortised on a straight line basis over a period of 3-10 years (2017: 3-10 years).

*Brand names*

Brand names are carried at cost less any accumulated amortisation and any accumulated impairment losses. Brand names acquired in business combinations are assessed to have a finite life and are amortised over a period of 10 years (2017: 10 years).

**Impairment of goodwill**

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 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.

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**9. GOODWILL AND INTANGIBLE ASSETS (continued)**

**Impairment of non-financial assets other than goodwill**

Intangible assets that have an indefinite useful life and those that are not yet available for use are not subject to amortisation but 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.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<b>Carrying values</b>		
<i>Development costs</i>		
At cost	<b>18,155</b>	16,329
Accumulated amortisation	<b>(9,898)</b>	(8,746)
Accumulated impairment	<b>(400)</b>	(400)
	<b>7,857</b>	7,183
<i>Software costs</i>		
At cost	<b>1,632</b>	1,391
Accumulated amortisation	<b>(1,589)</b>	(1,378)
	<b>43</b>	13
<i>Patents and trademarks</i>		
At cost	<b>486</b>	438
Accumulated amortisation	<b>(430)</b>	(405)
	<b>56</b>	33
<i>Goodwill</i>		
At cost	<b>33,042</b>	33,042
Accumulated impairment	<b>(22,488)</b>	(22,488)
	<b>10,554</b>	10,554
<i>Total intangibles</i>		
At cost	<b>53,315</b>	51,200
Accumulated amortisation*	<b>(34,805)</b>	(33,417)
Total net book value	<b>18,510</b>	17,783

\* - Includes impairment

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**9. GOODWILL AND INTANGIBLE ASSETS (continued)**

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

<b>CONSOLIDATED</b>	<b>Development Costs \$'000</b>	<b>Software Costs \$'000</b>	<b>Patents and Trademarks \$'000</b>	<b>Brand Names \$'000</b>	<b>Goodwill \$'000</b>	<b>TOTAL \$'000</b>
At 1 July 2017 net book value	7,183	13	33	-	10,554	17,783
Additions	1,826	241	48	-	-	2,115
Amortisation	(1,152)	(211)	(25)	-	-	(1,388)
<b>At 30 June 2018 net book value</b>	<b>7,857</b>	<b>43</b>	<b>56</b>	<b>-</b>	<b>10,554</b>	<b>18,510</b>
At 1 July 2016 net book value	6,659	75	58	40	10,554	17,386
Additions	1,558	190	4	-	-	1,752
Amortisation	(1,034)	(252)	(29)	(40)	-	(1,355)
<b>At 30 June 2017 net book value</b>	<b>7,183</b>	<b>13</b>	<b>33</b>	<b>-</b>	<b>10,554</b>	<b>17,783</b>

**Traffic Technologies Ltd and Controlled Entities**  
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**9. GOODWILL AND INTANGIBLE ASSETS (continued)**

**Impairment tests for goodwill**

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

Goodwill acquired through business combinations has been allocated to the Signals and Controllers cash-generating units.

(ii) *Key assumptions used in value in use calculations for the Signals and Controllers cash-generating units at 30 June 2018 and 30 June 2017*

The recoverable amounts of the Signals and Controllers cash-generating units have 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 cash flows have been extrapolated using the expected growth rate of 5% for the Signals and Controllers cash-generating units (2017: 5%).

The Group believes that the growth rate selected is justified based on expected growth in demand over the next five years in line with government projections. The growth rate used to extrapolate the cash flows for periods beyond the five year period is 3% (2017: 3%).

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

The pre-tax discount rate applied to the cash flow projections is 13% (2017: 13%), which is the Group's WACC.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2018. 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.

(iii) *Impairment testing*

The Group performed impairment testing at 30 June 2018 and 30 June 2017. There was no impairment of goodwill allocated to either the Signals or Controllers cash-generating unit at those dates. An impairment provision of \$20m was recorded against the value of goodwill in the Signals cash-generating unit as at 30 June 2016.

(iv) *Carrying amount of goodwill allocated to the cash-generating unit*

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Signals	<b>30,535</b>	30,535
Less: Impairment provision	<b>(20,000)</b>	(20,000)
	<b>10,535</b>	10,535
Controllers	<b>19</b>	19
Total	<b>10,554</b>	10,554

**Traffic Technologies Ltd and Controlled Entities**  
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**10. TRADE AND OTHER PAYABLES**

**Accounting policy**

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.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<i>Current</i>		
Trade creditors (i)	<b>5,346</b>	7,453
Sundry creditors and accruals (ii)	<b>3,134</b>	2,704
Deferred income	<b>250</b>	141
Current trade and other payables	<b>8,730</b>	10,298

(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.

(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 15.



**Traffic Technologies Ltd and Controlled Entities**  
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**11. INTEREST BEARING LOANS AND BORROWINGS**

**Accounting policy**

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.

	Nominal interest rate	Year of maturity	Consolidated 2018 \$'000	Consolidated 2017 \$'000
<b>Current borrowings</b>				
Term facility (secured) (i)			-	300
Working capital facility (secured)			-	4,650
Bank overdraft			-	22
Lease liabilities	2.9% - 8.2%	2018-2019	<b>172</b>	90
			<b>172</b>	5,062
<b>Non-current borrowings</b>				
Term facility (secured) (i)	7%	2021	<b>13,010</b>	17,150
Lease liabilities	2.9% - 8.2%	2019-2021	<b>118</b>	204
			<b>13,128</b>	17,354
<b>Reconciliation of term facility</b>				
			Consolidated 2018 \$'000	Consolidated 2017 \$'000
<b>Term facility balance comprises:</b>				
Term facility – principal loan amount payable			<b>12,500</b>	17,450
Term facility – exchange loss			<b>623</b>	
Less: capitalised transaction costs			<b>(113)</b>	-
			<b>13,010</b>	17,450

**Terms and conditions relating to the above financial instruments**

- (i) Term Facility - The Company completed a debt restructure in April 2018 under which the term facility with Westpac Banking Corporation was repaid and a loan was provided by an investment holding entity established by, and funds managed by Asia Debt Management Hong Kong Limited (ADM Capital) for the US dollar equivalent to A\$12.5 million. The debt restructure resulted in a gain on repayment of debt of \$7.9million (see note 2).
- (ii) The Company has taken out a one year derivative financial instrument expiring on 18 April 2019 to hedge the currency exposure on this loan (see note 12). Under the loan facility a contingent liability of USD \$485,000 exists should the counter-parties to the loan agreement and related derivative financial instrument fail to fulfil their repayment commitments. As it is anticipated that all parties will fulfil their repayment obligations no amount has been recognised as a liability in the financial report.
- (iii) The loan is secured by a fixed and floating charge over the Company's assets.

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**11. INTEREST BEARING LOANS AND BORROWINGS (continued)**

- (iv) The loan is for a term of 3 years. The Company can seek the financier's approval to extend the term for up to 12 months.
- (v) The loan has a commercial interest rate of 7% per annum, with an increase in the interest rate in years 2 and 3, assuming that the Company has not exercised its right to repay or re-finance the loan after the first 12 months of the loan term.
- (vi) Working Capital Facility - The working capital facility with Westpac Banking Corporation was repaid on 18 April 2018, except for a bank guarantee facility with Westpac Banking Corporation, secured by a cash deposit.
- (vii) Information regarding the effective interest rate risk and foreign currency exposure of borrowings is set out in note 15.
- (viii) During the current and prior financial year, there were no defaults or breaches on any of the loans.
- (ix) The carrying amount of the Group's current and non-current borrowings approximates fair value.

**Financing facilities available**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<i>Total facilities at reporting date</i>		
Term facility	<b>12,500</b>	17,450
Working capital facility comprising:		
- revolving cash advance facility	-	4,650
- bank overdraft facility	-	3,150
- bank guarantee facility	<b>265</b>	200
	<b>12,765</b>	25,450
<i>Facilities used at reporting date</i>		
Term facility	<b>12,500</b>	17,450
Working capital facility comprising:		
- revolving cash advance facility	-	4,650
- bank overdraft facility	-	22
- bank guarantee facility	<b>265</b>	165
	<b>12,765</b>	22,287
<i>Facilities unused at reporting date</i>		
Working capital facility comprising:		
- bank overdraft facility	-	3,128
- bank guarantee facility	-	35
	-	3,163

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**12. DERIVATIVES**

Derivatives are only used for economic hedging purposes and not speculative instruments.

<b>Current assets</b>	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Derivative financial asset for foreign currency forward contracts	<b>619</b>	-

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting year.

(ii) Fair value measurements

The Group uses a three level hierarchy to measure the fair value of financial instruments. Balances are classified into a level based on the lowest level of input that is significant to the entire fair value measurement.

- Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.
- Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Derivatives are measured at fair value are based on level 2 inputs. The fair value of foreign currency forward contracts is determined using forward exchange rates at balance sheet date.

The fair value of derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

**Traffic Technologies Ltd and Controlled Entities**  
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### 13. PROVISIONS

#### **Accounting policy**

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.

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. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### **Employee benefits**

##### *Short-term employee benefits*

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

##### *Other long-term employee benefits*

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

#### **Analysis of Total Provisions**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Current	<b>2,570</b>	2,388
Non-current	<b>200</b>	98
Total provisions	<b>2,770</b>	2,486

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**13. PROVISIONS (continued)**

**Movements in Provisions**

Movements in each class of provisions during the financial year are set out below:

	<b>Warranties</b>	<b>Employee Benefits</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Consolidated Group</b>			
Opening balance at 1 July 2017	39	2,447	2,486
Additional provisions	-	1,092	1,092
Amounts used	-	(808)	(808)
Unused amounts reversed	-	-	-
Balance at 30 June 2018	<u>39</u>	<u>2,731</u>	<u>2,770</u>

**Provision for Warranties**

A provision has been recognised for expected warranty claims on products supplied by the Group, based on current sales levels, current information available about past returns and repairs and the warranty period for 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 products supplied by the Group. Based on past experience, the Group does not expect the full balance of the current provision to be settled within 12 months. However, as the Group does not have an unconditional right of deferral, the balance is presented as current.

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**14. CONTRIBUTED EQUITY**

**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.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Ordinary shares	<b>54,755</b>	49,029
	<b>No. Of Shares '000</b>	<b>\$'000</b>
<b>Ordinary shares</b>		
<b>At 1 July 2016 and 30 June 2017</b>	<b>275,557</b>	<b>49,029</b>
Rights issue	206,668	6,200
Share issue costs	-	(474)
<b>At 30 June 2018</b>	<b>482,225</b>	<b>54,755</b>

**Rights Issue**

On 6 April 2018 the Company completed a rights issue of 206,667,810 ordinary shares at an issue price of \$0.03 per share on the basis of three shares for every four fully paid ordinary shares held, with such shares issued on and ranking for dividends after 6 April 2018.

**Terms and conditions of contributed equity**

Ordinary shares have the right to receive dividends as declared and, in the event of a 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.

**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 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 2017. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses. Operating cash flows are used to maintain and expand the Group's manufacturing and distribution assets, as well as to make the routine outflows of tax and repayment of maturing debt. The Group's policy is to borrow centrally through the parent entity, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

**Gearing ratio**

The Directors review the capital structure on a monthly basis. As a part of this review the Board considers the cost of capital and risks associated with each class of capital. The Group 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 at 30 June 2018 and 2017 were as follows:

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**14. CONTRIBUTED EQUITY (continued)**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Total borrowings (i)	<b>13,300</b>	22,416
Cash and cash equivalents	<b>(4,044)</b>	(660)
Net debt	<b>9,256</b>	21,756
Equity (ii)	<b>19,897</b>	8,099
Total capital	<b>29,153</b>	29,855
Gearing ratio	<b>32%</b>	73%

- (i) Total borrowings includes long and short-term interest bearing liabilities.  
(ii) Equity includes all capital and reserves.

**Share-based Payment Reserve**

The share-based payments reserve was 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 share-based payments reserve has been transferred to accumulated losses because there are no share-based payments outstanding.

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

*Financial instruments*

*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

*Classification and subsequent measurement*

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss. The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

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**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Financial Liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

*Derecognition*

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss. Financial risk management objectives and policies.

*Financial risk management objectives and policies*

The Group's principal financial instruments comprise a term loan facility, 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 has various 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 interest rate risk, foreign currency risk, credit risk and liquidity 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 currency 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 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.

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 the notes to the financial statements.



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**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*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 (2017: fair values).

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

	<b>Consolidated 2018 \$'000</b>	<b>Consolidated 2017 \$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	<b>4,044</b>	660
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost</i>		
Term bank facility (net of capitalised transaction costs)	<b>13,010</b>	17,450
Working capital facility	-	4,650
Bank overdraft	-	22
	<b>13,010</b>	22,122
<b>Net exposure</b>	<b>(8,966)</b>	(21,462)

At 30 June 2018 100% of the Group's borrowings were at a fixed rate of interest (2017: nil).

*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. 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:

	<b>Pre Tax Profit / (Loss) Increase / (Decrease)</b>		<b>Other Equity Reserves Increase / (Decrease)</b>	
<i>Judgments of reasonably possible movements:</i>	<b>2018 \$'000</b>	<b>2017 \$'000</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Group</b>				
+1% (100 basis points)	-	227	-	-
- 0.5% ( 50 basis points)	-	(114)	-	-

The movements in profit/loss are due to higher/lower interest costs from variable rate debt and cash balances.

*Foreign currency risk*

**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.

**Traffic Technologies Ltd and Controlled Entities**  
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**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(ii) *Transactions & balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance 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.

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 six months out to hedge the exposure generated. The exchange gain or loss on these transactions is recognised directly in the statement of comprehensive income.

During the year the Group entered into a borrowing facility denominated in US dollars. To manage the risk associated with the exposure of this balance to exchange rate fluctuations the Group entered into a foreign currency forward contract. This foreign currency forward contract is accounted for as held for trading with gains (losses) recognised in the statement of comprehensive income.

At balance date the Group had total commitments to purchase foreign currency of \$12.5m (2017: nil).

**Foreign currency exposure**

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	<b>2018</b>	2017
	<b>AUD</b>	AUD
	<b>\$'000</b>	\$'000
Loan (USD exposure)	<b>12,500</b>	-
Forward exchange contracts (USD exposure)	<b>619</b>	-

*Amounts recognised in profit or loss and other comprehensive income*

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	<b>2018</b>	2017
	<b>AUD</b>	AUD
	<b>\$'000</b>	\$'000
<i>Amounts recognised in profit or loss</i>		
Net foreign exchange gain on foreign currency derivatives not qualifying as hedges included in other income/other expense	<b>619</b>	-
Exchange losses on foreign currency borrowing included in other income	<b>(623)</b>	-
Total net foreign exchange gains/(losses) recognised in profit before income tax for the period	<b>(4)</b>	-

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Sensitivity**

As shown in the table above, the Group is primarily exposed to changes in the US dollar exchange rate. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US dollar-denominated financial instruments is illustrated in the table below. There would not be an impact on other components of equity for these exchange rate movements.

	<b>2018</b>	<b>2017</b>
	<b>USD</b>	<b>USD</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Impact on post tax profit</i>		
US/\$exchange rate – increase 5%	<b>(861)</b>	-
US/\$exchange rate – decrease 5%	<b>757</b>	-

The Group's profit is more sensitive to movements in the Australian dollar/US dollar exchange rates in 2018 than 2017 because of the US dollar denominated borrowings entered into during the year. The Group has taken out a forward exchange contract to hedge its currency exposure (see note 12).

*Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. 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.

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.

*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 11 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.

At 30 June 2018, 1.4% of the Group's debt is due to be retired in less than one year (2017: 1.7%), 0% of the Group's debt will mature within 18 months' time (2017: 97.3%) and 98.6% of the Group's debt will mature in more than 18 months but not more than 5 years (2017: 1%).

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*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 that reflects management's expectations of expected settlement of financial assets and liabilities, as illustrated in the table below.

<b>Year ended 30 June 2018</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>
Consolidated					
Financial assets					
Cash & cash equivalents	4,044	-	-	-	4,044
Trade & other receivables	10,766	-	-	-	10,766
	<b>14,810</b>	-	-	-	<b>14,810</b>
Financial liabilities					
Trade & other payables	8,730	-	-	-	8,730
Interest bearing loans & borrowings	172	-	13,128	-	13,300
Bank guarantees	-	-	265	-	265
	<b>8,902</b>	-	<b>13,393</b>	-	<b>22,295</b>
<b>Net maturity</b>	<b>5,908</b>	-	<b>(13,393)</b>	-	<b>(7,485)</b>
<b>Year ended 30 June 2017</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>
Consolidated					
Financial assets					
Cash & cash equivalents	660	-	-	-	660
Trade & other receivables	10,236	-	-	-	10,236
	<b>10,896</b>	-	-	-	<b>10,896</b>
Financial liabilities					
Trade & other payables	10,298	-	-	-	10,298
Interest bearing loans & borrowings	390	-	22,026	-	22,416
Bank guarantees	-	-	165	-	165
	<b>10,688</b>	-	<b>22,191</b>	-	<b>32,879</b>
<b>Net maturity</b>	<b>208</b>	-	<b>(22,191)</b>	-	<b>(21,983)</b>

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**16. EXPENDITURE COMMITMENTS**

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.

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<b>Operating leases – properties</b>		
Less than one year	1,042	1,353
Later than one year but less than five years	1,480	2,368
	2,522	3,721

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

	<b>Consolidated 2018 Minimum rentals \$'000</b>	Consolidated 2017 Minimum rentals \$'000
<b>Finance leases and hire purchase</b>		
Less than one year	146	189
Later than one year but less than five years	167	132
	313	321
Less future finance charges	(23)	(27)
Total finance lease and hire purchase liabilities	290	294
Reconciled to:		
Current liability	172	90
Non-current liability	118	204
	290	294

The Group has entered into finance leases and hire purchase contracts in respect of various items of plant and machinery and motor vehicles. These finance leases and hire purchase contracts typically run for periods of 4 years with an option to renew the lease for a further 3 years or to purchase the asset.

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**17. STATEMENT OF CASH FLOWS**

**Accounting policy**

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.

**Reconciliation of Cash**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Cash at bank and in hand	<b>4,044</b>	660

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

**Reconciliation of net profit after tax to net cash flows from operations**

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
<b>Net profit</b>	<b>6,072</b>	1,011
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment of non-current assets	<b>1,731</b>	1,872
Gain on repayment of debt	<b>(7,883)</b>	-
Foreign exchange gain	<b>(234)</b>	(42)
Amortisation of capitalised finance fees	<b>24</b>	127
Doubtful debts expense/(written off)	<b>26</b>	(146)
Inventories obsolescence expense/(benefit)	<b>2,520</b>	(50)
<b>Changes in assets and liabilities:</b>		
(Increase)/decrease in trade and other receivables	<b>(557)</b>	1,528
(Increase)/decrease in inventories	<b>525</b>	(2,830)
Increase/(decrease) in trade and other payables	<b>(1,048)</b>	1,874
(Increase)/decrease in deferred tax assets	<b>804</b>	206
Increase/(decrease) in provisions	<b>284</b>	92
<b>Net cash provided by operating activities</b>	<b>2,264</b>	3,642

*Non cash financing and investing activities*

During the year the Group acquired property, plant and equipment with an aggregate value of \$84,249 (2017: \$49,412) 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 Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**17. STATEMENT OF CASH FLOWS (continued)**

**Reconciliation of liabilities in financing activities**

	1 July 2017 \$'000	Cash flows \$'000	Fair value changes \$'000	Other \$'000	30 June 2018 \$'000
Lease liabilities	294	(4)	-	-	290
Borrowings	22,122	(1,229)	-	(7,883)	13,010
Derivative asset	-	-	(619)	-	(619)
<b>Total liabilities from financing activities</b>	<b>22,416</b>	<b>(1,233)</b>	<b>(619)</b>	<b>(7,883)</b>	<b>(12,681)</b>

**18. CLAIMS AND CONTINGENCIES**

*Guarantees*

As detailed in note 19, 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 11, the Company is party to a finance facility agreement with ADM Capital 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**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**19. RELATED PARTY DISCLOSURES**

**a) The Group's main related parties are as follows:**

(i) Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered Key Management Personnel. For details of disclosures relating to Key Management Personnel, refer to note 22.

(ii) Subsidiary entities

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

Name of Subsidiary	Principal Place of Business	Principal Activity	Ownership Held by 2018 %	Interest the Group 2017 %
Traffic Technologies Signal & Hardware Division Pty Ltd	Australia	Non-trading	100	100
Traffic Technologies Traffic Management Division Pty Ltd	Australia	Non-trading	100	100
De Neeffe Pty Ltd	Australia	Manufacture signs	100	100
Traffic Technologies Traffic Hire Pty Ltd	Australia	Non-trading	100	100
Sunny Sign Company Pty Ltd	Australia	Manufacture signs	100	100
Pro-Tech Traffic Management Pty Ltd	Australia	Non-trading	100	100
KJ Aldridge Investments Pty Ltd	Australia	Non-trading	100	100
Aldridge Traffic Group Pty Ltd	Australia	Non-trading	100	100
Excelsior Diecasting Pty Limited	Australia	Non-trading	100	100
Aldridge Traffic Systems Pty Ltd	Australia	Manufacture signals, lights etc.	100	100
Aldridge Plastics Pty Ltd	Australia	Non-trading	100	100
Quick Turn Circuits Pty Ltd	Australia	Manufacture controllers	100	100
Traffic Technologies International Limited	Hong Kong	Non-trading	100	100
Telensa Pty Ltd	Australia	Non-trading	100	100
Telensa Australia Pty Ltd	Australia	Non-trading	100	100

(iii) 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 Corporations (Wholly owned Companies) Instrument 2017/785. 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 and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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**19. RELATED PARTY DISCLOSURES (continued)**

The consolidated statement of profit or loss and statement of financial position of the closed group is equivalent to the Group's statement of profit or loss and statement of financial position.

**b) 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.

**20. SUBSEQUENT EVENTS**

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

**21. AUDITOR'S REMUNERATION**

Amounts received or due and receivable by:

	<b>Consolidated 2018</b>	Consolidated 2017
	\$	\$
Audit or review of the financial report of the entity and any other entity in the Group		
- ShineWing Australia	<b>79,500</b>	79,500

**22. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**a) Compensation 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.

	<b>Consolidated</b>	
	<b>2018</b>	2017
	\$	\$
<i>Compensation by Category:</i>		
<i>Key Management Personnel</i>		
Short-term employee benefits	<b>1,060,535</b>	946,746
Post-employment benefits	<b>64,362</b>	86,585
Other long-term benefits	<b>(9,943)</b>	14,508
	<b>1,114,954</b>	1,047,839

**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.

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

There were no share options outstanding at 30 June 2018 or at the date of this report (2017: nil).

**d) 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 Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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## 23. OPERATING SEGMENTS

### Accounting policy

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".

The Group has only one business segment: Traffic Products. The Group's chief operating decision maker (the Managing Director) reviews financial information on a consolidated basis and makes strategic decisions based on this consolidated information.

### 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 accounted for 13% of sales (2017: 8%). Revenue from the largest non-government customer accounted for 12% (2017: 11%) of sales.

### Geographical information

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

Revenue by geographic location:

	<b>Consolidated 2018 \$'000</b>	Consolidated 2017 \$'000
Australia	50,292	41,734
Overseas	6,378	7,119
Total	<u>56,670</u>	<u>48,853</u>

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

**Traffic Technologies Ltd and Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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**24. PARENT ENTITY INFORMATION**

The individual financial statements for the parent entity show the following aggregate amounts:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Balance sheet</b>		
Current assets	7,756	5,153
Total assets	55,475	53,008
Current liabilities	55,127	58,310
Total liabilities	68,146	75,771
<i>Shareholders' equity</i>		
Issued capital	54,755	49,029
Retained earnings	(67,426)	(72,792)
Share-based payments reserve	-	1,000
Total shareholders' equity	<b>(12,671)</b>	<b>(22,763)</b>
<b>Profit/(loss) for the year</b>	<b>4,365</b>	<b>(3,098)</b>
<b>Total comprehensive income</b>	<b>4,365</b>	<b>(3,098)</b>
<b>Guarantees entered into by the parent entity<sup>^</sup></b>	<b>265</b>	<b>165</b>

<sup>^</sup> 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 obligations under the terms of overdrafts, loans or other liabilities subject to the guarantee.

**Traffic Technologies Ltd**  
**Directors' Declaration**  
**For the year ended 30 June 2018**

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**DIRECTORS' DECLARATION**

The Directors of the Company declare that:

1. The consolidated financial statements and notes of Traffic Technologies Ltd are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Australian 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 2018 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. 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.
4. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

The members of the Closed Group identified in note 19 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 19.

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



Garry Lowrey  
Chairman

Melbourne  
29 August 2018

**ASX Additional Information**  
**As at 10 August 2018**

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 10 August 2018.

**a) 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      Number of Shares</b>
1 - 1,000	151      19,121
1,001 - 5,000	33      88,637
5,001 - 10,000	46      381,832
10,001 - 100,000	370      17,856,349
100,001 and over	264      463,878,756
	<b>864      482,224,695</b>
Holdings less than a marketable parcel	246      680,288

**b) 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. BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	63,819,177	13.23%
2. MR ROBERT MINNEY	44,560,719	9.24%
3. NATIONAL NOMINEES LIMITED	19,601,215	4.06%
4. MR LAMBROU LIOSATOU *	19,202,670	3.98%
5. BROWNLOW PTY LTD	18,444,878	3.82%
6. BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	17,606,063	3.65%
7. NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	15,294,150	3.17%
8. PETHOL (VIC) PTY LTD <MACDY NO 5 SUPER FUND A/C>	14,137,739	2.93%
9. J P MORGAN NOMINEES AUSTRALIA LIMITED	12,797,566	2.65%
10. QUOTIDIAN NO 2 PTY LTD	12,500,000	2.59%
11. LIOSATOS SUPERANNUATION PTY LTD <LIOSATOS S/F A/C> *	12,212,162	2.53%
12. GP MANAGEMENT P/L <G&R S/F A/C>	12,000,150	2.49%
13. CLAPSY PTY LTD <BARON SUPER FUND A/C>	9,848,360	2.04%
14. MR GARRY PATRICK LOWREY *	7,166,667	1.49%
15. MR PAUL DAVID NEATE	6,000,000	1.24%
16. NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	5,628,901	1.17%
17. VONETTA PTY LTD <TRBC S/F A/C>	5,509,177	1.14%
18. TARAKITA PTY LTD <JONES PROPERTY A/C>	5,461,905	1.13%
19. HYDRONOMEES PTY LTD <HYDRO-CHEM SUPER FUND A/C>	5,449,213	1.13%
20. MORRISON SECURITIES PTY LIMITED	5,250,000	1.09%
<b>Total</b>	<b>312,490,712</b>	<b>64.80%</b>

\* Associated with Directors.

**ASX Additional Information**  
**As at 10 August 2018**

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**c) 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*	31,414,832	6.51
Mr. Robert Minney	44,560,719	9.24

\* Associated with Directors.

**d) Voting Rights**

All ordinary shares carry one vote per share without restriction.

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

None.

**f) Unquoted equity securities shareholdings**

None.

**g) Options**

None.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRAFFIC TECHNOLOGIES AND CONTROLLED ENTITIES**

### **Report on the Audit of the Financial Report**

#### *Opinion*

We have audited the financial report of Traffic Technologies Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed during the audit
<p><b>Restructure of debt (Note 11)</b></p> <p>During the year, Traffic Technologies Ltd (TTI) had restructured its bank facility arrangements whereby the term facility with Westpac Banking Corporation was repaid.</p> <p>A secured loan for the USD equivalent of A\$12.5 million was advanced with an investment holding company managed by Asia Debt Management Hong Kong Limited (ADM Capital).</p> <p>The debt restructure resulted in A\$7.9 million being recognised as a gain on the repayment of debt.</p> <p>Further to the debt restructure, a one year derivative financial instrument was entered into by the Group to hedge the foreign currency exposure of the ADM Capital loan.</p> <p>Due to the significance of the event and accounting complexity on financial instruments, we have identified this as a key audit matter.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• We obtained the relevant debt restructure facility agreements and other documentation to identify the key terms and conditions of the borrowing arrangement with an accounting impact;</li> <li>• We recalculated the gain recognised on the Westpac facility repayment by testing against documentation provided by the banks and also the requirements of the relevant accounting standards;</li> <li>• We assessed the initial recognition and subsequent measurement of the ADM Capital loan including the derivative to determine whether these financial instruments have been appropriately recognised and measured;</li> <li>• We tested the Group's compliance with the bank covenants required under the borrowing arrangement;</li> <li>• We assessed whether the financial instruments have been appropriately classified on the Statement of Financial Position at year end; and</li> <li>• We reviewed the adequacy of disclosures included in the financial report to determine whether the debt restructure and accounting impact have been appropriately disclosed.</li> </ul>
<p><b>Impairment of Goodwill (Note 9)</b></p> <p>The Group holds \$10.554 million of Goodwill acquired through previous business combinations.</p> <p>Australian Accounting Standards require the Group to undertake an impairment analysis of assets where impairment indicators are identified from internal and external sources of information.</p> <p>Intangible assets of the Group are allocated to appropriate Cash Generating Units (CGUs) for impairment testing. Management's impairment assessment process is highly judgemental and are based on assumptions including:</p> <ul style="list-style-type: none"> <li>• Identifying the business' cash generating units;</li> <li>• Cash flow forecast;</li> <li>• Growth rates;</li> <li>• Terminal growth rates;</li> <li>• Discount rate;</li> </ul> <p>These assumptions are affected by expected future profitability of product lines (including new products) and the continuing profitability of the core business.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Enquired with management on the basis of assumptions applied in the value in use model to obtain an understanding of the key variables impacting on each CGU;</li> <li>• Obtained and evaluated the assumptions and methodology applied in management's value in use calculation including sales forecast, operating costs, capital expenditure and corporate overheads;</li> <li>• Performed sensitivity analysis on the key assumptions and variables to determine various outcomes of the value in use model in assessing whether certain CGUs are impaired; and</li> <li>• Reviewed the adequacy of the Group's disclosures about these assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of assets.</li> </ul>



Key Audit Matter	How the matter was addressed during the audit
<p><b>Capitalised Development Costs (Note 9)</b></p> <p>During the year the Group had capitalised development costs relating to traffic product development projects.</p> <p>For internally generated intangible assets, the Australian Accounting Standards require certain conditions to be satisfied prior to development costs being capitalised.</p> <p>This assessment can be complex as it requires management to differentiate costs between the research phase and development phase.</p> <p>As at 30 June 2018, the Group had disclosed a carrying value of \$7.9 million relating to products under development.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Tested a sample of capitalised development costs for the year to source documentation and verified whether the intangible asset recognition criteria had been satisfied for capitalisation. This includes determining whether the nature of the expense relates to research or development activity; and</li> <li>• Considered management’s assessment of the amortisation period relating to the subsequent measurement of intangible assets and determined whether this is in accordance with the Group’s accounting policy.</li> </ul>

*Information Other than the Financial Report and Auditor’s Report Thereon*

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2018, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We obtain an understanding of internal control relevant to the audit 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 Group's internal control.

We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

We conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Traffic Technologies Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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.



**ShineWing Australia**  
Chartered Accountants



Rami Eltchelebi  
Partner

Melbourne, 29 August 2018





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