REDFLEX HOLDINGS LIMITED

ACN: 069 306 216
ABN: 96 069 306 216
ASX CODE: RDF

APPENDIX 4D

AND REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting period	Half-year ended 31 December 2014
Previous corresponding period	Half-year ended 31 December 2013

APPENDIX 4D
HALF-YEAR REPORT
SIX MONTHS ENDED 31 DECEMBER 2014

RESULTS FROM OPERATIONS ($'000)

				H1 FY15	H1 FY14
Revenue and other income	Down	13.2%	to	59,875	69,019
Earnings before interest, tax, depn, amortn and impairment (EBITDAI)	Down	53.4%	to	9,349	20,071
Profit/(Loss) before tax attributable to members of the parent entity	Down	307.5%	to	(10,463)	5,042
Profit/(Loss) after tax attributable to members of the parent entity	Down	414.7%	to	(9,720)	3,089

				H1 FY15	H1 FY14
				Cents	Cents
Basic earnings per share	Down	414.7%	to	(8.78)	2.79
Diluted earnings per share	Down	420.4%	to	(8.78)	2.74
Net tangible asset backing per ordinary security	Down	9.3%	to	80.0	88.2

DIVIDENDS (DISTRIBUTIONS)	Amount per security		Franked amount per security	
	H1 FY15	H1 FY14	H1 FY15	H1 FY14
Final dividend in respect of FY2014	0.0 cents	3.0 cents	0.0 cents	2.0 cents
Interim dividend on corresponding prior period	0.0 cents	2.0 cents	0.0 cents	2.0 cents

The Directors have decided there will be no interim dividend declared on the first half year results of FY2015 (the period covered by this report)

	31 Dec 2014	31 Dec 2013	Decrease
Six-month average AU$/US$ exchange rate	AU$ = US$0.8906	AU$ = US$0.9214	(3.3%)
Balance date AU$/US$ exchange rate	AU$ = US$0.8156	AU$ = US$0.8873	(8.1%)

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

It is recommended that this half-year financial report be read in conjunction with the annual report for the year ended 30 June 2014 and be considered together with any public announcements made by Redflex Holdings Limited up to 27 February 2015 in accordance with the Company's continuous disclosure obligations of the ASX listing rules.

The financial report on pages 7 to 19 is prepared in accordance with IFRS. This release including the half-year financial report has been reviewed and the independent auditors' review report is attached.

* Note regarding non-IFRS financial information

1. Throughout this report, Redflex has included certain non-IFRS financial information, including EBITDAI, EBITDA, net debt and free cash flow.
2. This information is presented to assist in making appropriate comparisons with prior periods and to assess the performance of the company. EBITDA is the measure most frequently quoted in the industry and forms the basis upon which investors, financiers and analysts are briefed.
3. Non-IFRS information is not reviewed by Ernst and Young.

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2014

Directors' Report

Your directors submit their report for the half-year ended 31 December 2014.

Directors

The following persons were directors of Redflex Holdings Limited during the half-year and up to the date of this report. All directors held their position as Director throughout the entire half-year except for Mr Michael McConnell who was not re-elected at the AGM held on 13 November 2014. Mr Clark Davey was subsequently appointed as non-executive director on 9 January 2015.

Adam Gray	Chairman
Michael McConnell	Non-executive. Mr McConnell was not re-elected at the AGM held on 13 November 2014
Robert DeVincenzi	Non-executive
John Murphy	Non-executive
Herman Schwarz	Non-executive
Terry Winters	Non-executive
Paul Clark	Chief Executive Officer

Company Secretary

Marilyn Stephens, the Company Secretary of Redflex Holdings Limited, left the organization on 10 February 2015. Craig Durham joined Redflex Holdings Limited on 9 February 2015 as the Group General Counsel and Company Secretary.

OPERATING AND FINANCIAL REVIEW

Principal Activities

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

The Group comprises two main subsidiaries:

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

Consolidated Result

For the half-year ended 31 December 2014, revenue from operations was $59.9 million which is down 13.2% on the first half of the previous financial year (H1 FY2014: $69.0 million).

The reduced revenue was primarily attributable to:

- The termination of revenue in February 2014 from the Chicago contract.
- The Group's reduced revenue was partially offset by movements in the average AU$/US$ exchange rate between the comparative periods. The average AU$/US$ exchange rate for the half was $0.8906 compared to $0.9214 in the corresponding first half of FY2014.

Earnings Before Interest Tax Depreciation and Impairments (EBITDAI) was $9.3 million compared to $20.1 million in the previous corresponding period. The major factors contributing to the result were:

- Loss of the Chicago contract with net earnings ceasing in February 2014.
- One-off earnings in H1 FY2014 from international contracts completed.
- One-off costs relating to the company's organizational re-structure.
- Actions we have taken to further focus resources upon serving and retaining our important existing relationships in North America allowed us to achieve significant cost reductions, to partially offset declines during the period.

Net loss before tax was $10.5 million compared to a profit of $5.04 million in the previous corresponding period. Major factors, in addition to those detailed above, contributing to the result were:

- Impairment of the value of the Ohio and New Jersey related assets following, respectively, the recent passage of legislation and the expiration of a five year pilot program that decreased the viability of red light systems in these US states.

Net loss after tax was $9.7 million compared to a profit of $3.1 million in the previous corresponding period. The major factor in addition to those detailed above, contributing to the factor was:

- The write off of North American foreign tax credits due to the changing earnings profile of the business. These foreign tax credits will continue to be recognized off balance sheet.

Comprehensive Income

Movements in foreign currency translation for the H1 FY2015 of $12.8 million has led to total comprehensive income for the period of $3.1 million. This movement can reduce or increase in subsequent periods depending on foreign exchange movements.

Balance Sheet

Working capital increases from June 2014 relate to increased inventory in North America due to new mapping radar technology required for scheduled upgrades and new builds and higher receivables due to the timing of domestic projects being delivered.

Property, plant and equipment increases from June 2014 are predominantly due to foreign exchange movements between the periods in addition to the Student Guardian roll-out as cameras continue to get fitted to required buses as the program expands.

YEAR ON YEAR COMPARISON

A comparison of the Group's performance for H1 FY15 and H1 FY14 is as follows.

	H1 FY15 $'000	H1 FY14 $'000
EBITDAI (non IFRS measure)	**9,349**	**20,071**
Less:		
Impairments	5,518	288
Depreciation	11,147	11,774
Amortisation	2,807	2,299
Interest	340	668
Net profit/(loss) before tax	**(10,463)**	**5,042**

	Half year FY2015 $'000	Half year FY2014 $'000	Increase/ (Decrease) %
Segment revenue			
North American Traffic business	37,126	47,818	(22.3)
Australian/International Traffic business	22,747	21,201	7.3
Head Office interest income	2	0	100
Total Consolidated Revenue	**59,875**	**69,019**	**(13.2)**
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDAI)			
EBITDAI from combined Traffic business	11,444	22,065	(48.1)
Head Office costs	(2,095)	(1,994)	(5.1)
EBITDAI	**9,349**	**20,071**	**(53.4)**
Pre-tax profit/(loss)			
Pre-tax profit/(loss) from combined Traffic business	(8,361)	7,050	(218.6)
Head Office costs	(2,102)	(2,008)	(4.7)
Pre-tax profit from operations	**(10,463)**	**5,042**	**(307.5)**
Net profit/(loss) after tax	**(9,720)**	**3,089**	**(414.7)**

Review of North American Operations

Revenue for the six months ended 31 December 2014 decreased 22.4% to $37.1 million, from $47.8 million in H1 FY2014. The predominant reason for the reduction was the loss of the Chicago contract which ceased producing revenue in February 2014.

EBITDAI of $6.1 million was $9.0 million lower than H1 FY2014 due predominantly to the loss of the Chicago contract last year.

Profit before tax decreased to a loss of $9.7 million from a profit of $3.5 million in H1 FY2014. Impairments that have resulted from legislative changes in New Jersey and Ohio in addition to the loss of Chicago revenue were the major reasons for the lower result.

Earnings from the Student Guardian business were approximately in line with the prior corresponding period. The roll-out to Gwinnett County is now complete and we are seeing encouraging, albeit early, signs of improved results although revenue has been lower than anticipated (due primarily to delays in finalising the contract, and then a subsequent decision by the county to provide a 30 day warning period before initiating paid citation activity). Lower than anticipated incident volumes across the rest of the Student Guardian business also contributed to lower than planned revenue growth during H1 FY2015.

The overhead cost base of the North American operations has decreased by 8.7% ($1.4 million) for H1 FY2015 compared to H1 FY2014 driven predominantly by a reduction in personnel and significant reductions in legal expenditure. This reduction has been partially offset by the lower USD FX rate compared to the prior corresponding period.

Redflex International

Revenue for the six months ended 31 December 2014 increased 7.1% to $22.7 million, from $21.2 million in H1 FY2014. Increased development activity relating to North America (in particular Student Guardian cameras), improved performance from international (Middle East) contracts and higher Australian equipment sales have all contributed to this increased result.

EBITDAI of $5.4 million in H1 FY2015 was $1.6m lower than HI FY 2014. This was due to the recognized earnings from a one-off license sale in H1 FY2014 partially offset by improved earnings in H1 FY2015 delivered through the NSW speed camera project.

Profit before tax in H1 2015 decreased 62.7% to $1.6 million from $4.3 million in H1 FY2014. The increased revenue result detailed above was offset by higher amortisation charges as result of increased capitalized development work previously completed and the one-off income (license sale) recognized in H1 FY2014.

Financial Resources

The Group has a $36.8 million (US$30.0 million) revolving credit facility with a syndicate of three Australian banks, and, in addition, an $8.0 million working capital facility for guarantees and bonds required to support contracts with certain customers.

The slowing rate of new installations within the USA market has reduced the demand for capital to service that market. The cash flow from operations is expected to be sufficient to fund the Group's capital requirements over the next 12 month period.

The total drawn amount at 31 December 2014 was $18.4 million (US$15.0 million). The net debt position of the Group at 31 December 2014 was $7.6 million (including restricted cash).

The net cash flow from operations for H1 FY2015 was $5.2 million compared to $18.1 million in the prior corresponding period, when prior delayed receipts from the Middle East and Chicago contracts were collected.

Outlook for the remainder of the 2015 financial year

Following the result of H1 FY2015 the board remains committed to returning Redflex Holdings Limited to delivering sustainable profits going forward. The second half of FY2015 is likely to deliver a significantly reduced loss with direct actions focused towards:

- Continue to identify and invest in growth opportunities in international markets
- Protecting and enhancing the current base of profitable North American earnings
- Ensure the Student Guardian business profitability levels build upon recent improvements
- Delivering a centralized back-office function leading to a rationalization of the cost base, consistency of deliverables and improved support to the customer facing areas of the business
- Continue to reduce costs by conducting detailed analysis identifying non-profitable activities
- Review current Research and Development expenditure to ensure a targeted approach leading to future earnings streams
- Identify specific working capital areas with clear reduction targets including the collection of long term receivables and reduced inventory levels
- Close out current litigation matters and closely manage any ongoing legal exposures

With the previous six months being a challenging period for the company there has been some major changes in personnel with the addition of a new Chief Executive Officer, Chief Financial Officer and General Counsel/Company Secretary, each of whom brings relevant experience to contribute to the delivery of a clearly defined short and long term strategy. A significant amount of work and planning is underway with clear actions being developed to complete each of the points identified above in order to set up the organization to return to achieving more robust and sustainable earnings in 2016.

The company continues to explore and, as appropriate, pursue both longer term organic growth (enhanced technology and services, and key new geographic markets) and potential acquisitions that target new (but related) business activities.

Executive appointments subsequent to 31 December 2014

Following 31 December 2014 one director and two executive appointments have been announced and commenced:

- Clark Davey – Non-executive Director	Appointed 9 January 2015
- Brad Crump – Group Chief Financial Officer	Commenced 2 February 2015
- Craig Durham – Group General Counsel & Company Secretary	Commenced 9 February 2015

Rounding

The amounts contained in the half-year financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Auditor's Independence

The company has received the Auditor's Independence Declaration dated 27 February 2015.

Signed in accordance with a resolution of the directors.

Paul Clark

Chief Executive Officer
Melbourne
27 February 2015

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

In relation to our review of the financial report of Redflex Holdings Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ashley Butler
Partner
Melbourne
27 February 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half-year ended 31 December 2014

	Note	31-Dec-14 $'000	31-Dec-13 $'000
Revenue from operations			
Sale of goods and services		25,249	22,021
Revenue from fee for service contracts		34,624	46,989
Finance revenue		2	9
Total revenue		**59,875**	**69,019**
Cost of goods sold		12,499	10,556
Cost of fee for service contracts		14,318	15,980
Cost of sales		**26,817**	**26,536**
Gross profit		**33,058**	**42,483**
Sales and marketing related expenses		5,700	6,529
Administrative related expenses		17,485	14,807
Amortisation of intangibles		2,807	2,299
Depreciation – fee for service contract assets		10,330	11,458
Depreciation – other		817	316
Impairment of plant and equipment		5,518	288
Costs of investigation		524	1,076
		43,181	**36,773**
Profit/(Loss) before tax and financing costs		**(10,123)**	**5,710**
Finance costs		340	668
Profit/(Loss) before tax		**(10,463)**	**5,042**
Income tax expense/(benefit)		(743)	1,953
Net profit/(loss) for the period		**(9,720)**	**3,089**
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		12,811	2,911
Total comprehensive income for the period		**3,091**	**6,000**
Earnings per share attributable to ordinary equity holders of the parent company			
- basic for profit for half-year		(8.84) cents	2.79 cents
- diluted for profit for half-year		(8.84) cents	2.74 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	31-Dec-14 $'000	30-Jun-14 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	10,575	13,749
Trade and other receivables		20,140	18,299
Inventories		23,113	20,747
Income tax receivable		1,907	1,582
Other current assets		2,025	1,953
Total Current Assets		**57,760**	**55,830**
Non-Current Assets			
Property plant and equipment		65,012	61,281
Deferred tax asset		9,776	13,076
Intangible assets and goodwill		32,723	31,126
Other financial assets		441	1,127
Other non-current assets		11,038	8,947
Total Non-Current Assets		**118,990**	**115,557**
TOTAL ASSETS		**176,750**	**171,387**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables		18,501	17,826
Interest bearing borrowings	4	0	15,895
Income tax payable		406	917
Provisions		6,827	5,518
Other current liabilities		0	59
Total Current Liabilities		**25,734**	**40,215**
Non-Current Liabilities			
Interest bearing borrowings	4	18,154	0
Deferred tax liabilities		7,059	9,380
Provisions		4,503	4,026
Total Non-Current Liabilities		**29,716**	**13,046**
TOTAL LIABILITIES		**55,450**	**53,621**
NET ASSETS		**121,300**	**117,766**
Equity			
Contributed equity		101,765	101,765
Reserves		(2,097)	(14,908)
Retained earnings		21,632	30,909
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**121,300**	**117,766**
Net tangible assets per share		**80.00 cents**	**78.22 cents**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2014

	Contributed Equity	Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Retained earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000
At 1 July 2013	**101,765**	**(13,944)**	**3,037**	**34,392**	**125,250**
Profit for the half-year	0	0	0	3,089	3,089
Currency translation differences	0	2,911	0	0	2,911
Total comprehensive income for the period	**0**	**2,911**	**0**	**3,089**	**6,000**
Share based payments	0	0	250	0	250
Dividends paid	0	0	0	(3,323)	(3,323)
Transfer of expired equity instruments	0	0	(1,298)	1,298	0
At 31 December 2013	**101,765**	**(11,033)**	**1,989**	**35,456**	**128,177**
At 1 July 2014	**101,765**	**(17,490)**	**2,582**	**30,909**	**117,766**
Loss for the half-year	0	0	0	(9,720)	(9,720)
Currency translation differences	0	12,811	0	0	12,811
Total comprehensive income for the period	**0**	**12,811**	**0**	**(9,720)**	**3,091**
Share based payments	0	0	443	0	443
Dividends paid	0	0	0	0	0
Transfer of expired equity instruments	0	0	(443)	443	0
At 31 December 2014	**101,765**	**(4,679)**	**2,582**	**21,632**	**121,300**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2014

	Note	31-Dec-14 $'000	31-Dec-13 $'000
Operating activities			
Receipts from customers		56,209	69,907
Payments to suppliers and employees		(49,682)	(48,820)
Interest received		2	10
Interest paid		(283)	(516)
Income tax paid		(1,033)	(2,494)
Net cash flows from operating activities	6	**5,213**	**18,087**
Investing activities			
Purchase of property, plant and equipment		(8,109)	(8,243)
Capitalised development costs paid		(2,954)	(4,327)
Capital return on investment carried		686	0
Net cash flows (used in) investing activities		**(10,377)**	**(12,570)**
Financing activities			
Repayment of bank borrowings		0	(3,255)
Lease liability (repaid) incurred		0	(4)
Dividends paid		0	(3,323)
Net cash flows (used in) financing activities		**0**	**(6,582)**
Net (decrease) / increase in cash held		(5,164)	(1,065)
Effect of exchange rate changes on cash		1,990	526
Cash and cash equivalents at beginning of period		13,749	21,246
Cash and cash equivalents at end of the period	6	**10,575**	**20,707**

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

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Redflex Holdings Limited is an Australian incorporated company limited by shares that are publicly traded on the Australian Securities Exchange (ASX) with the code RDF.

The nature of the operations and principal activities of the Group are described in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and new accounting standards

Basis of preparation

This consolidated financial report for the half-year ended 31 December 2014 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual general purpose financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

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

New accounting standards

With regard to the amendments to AASB that have been adopted since 30 June 2014, there has not been an impact on the accounting policies of the Group. The Group has elected to not early adopt any new Australian Accounting Standards that have been issued but are not yet effective.

(b) Changes in accounting policies

There have been no changes in accounting policies during the half-year ended 31 December 2014.

(c) Change in accounting estimates

There were no significant changes in accounting estimates for the half-year ended 31 December 2014, other than the deferred tax asset item noted in (d) below.

(d) Significant accounting judgments, estimates and assumptions

The preparation of the half year financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts that might be necessary should the Company's judgments differ from future circumstances.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made at 31 December 2014. 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.

Depreciation and impairment of property, plant and equipment

The major Group assets are represented by property, plant and equipment consisting mainly of red light and speed camera detection equipment. These assets are installed in various cities throughout the USA, New Zealand and Mexico. The contract periods for which these assets are installed vary significantly between contracts, however most contract periods are at least five years and have extension options of either one year or two years.

The Group depreciates these assets over a seven year period on a straight line basis regardless of the length of the contract. The major components of the installation relate to the construction and civil engineering works associated with the installation, in addition to the camera and detection equipment. The company expects the infrastructure to last for decades once installed, whilst the camera and detection equipment is expected to last for a period approximating seven years.

Despite the longevity of the installation it is impaired upon termination or non-renewal of a contract to process traffic violations. Accordingly, it is difficult to assess the appropriate length of time over which to depreciate these assets.

The Group assesses impairment of all assets at each reporting date based on each contract and evaluates conditions specific to the Group and to the particular assets that may lead to impairment. These include contract termination date, any cost neutrality issues, legislative and legal challenges combined with economic and political environments. This review is performed on a contract by contract basis.

If an impairment trigger exists, the recoverable amount of the asset is determined and a write-down taken.

During the half year ending 31 December 2014, the pilot program in the State of New Jersey expired and will remain inoperable until or unless reauthorization legislation passes; and the Ohio legislature recently passed legislation significantly reducing the viability of red light systems operating within the state. If the operating systems in Ohio are deactivated and if the New Jersey program is not reauthorized, 12% of the annual revenue from the North American business may be at risk. Other than those infrastructure assets impaired and detailed in Note 3, the half year financial report does not include any adjustments relating to the recoverability and classification camera and detection equipment amounts or to the amounts and classifications of liabilities that might be necessary should the programs remain inoperable or not legislated, as management continue to assess the likelihood of the programs being continued, the value of recovered camera and detection systems from impacted approach sites, and the ability to redeploy recovered systems into new and existing approach installations.

Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits in both the Australian and North American tax jurisdictions.

At 31 December 2014, deferred tax assets relating to carried forward foreign tax credits have been adjusted by $3.1 million to reflect the decrease in anticipated future taxable profits from the operations of the North American business. This adjustment has been charged to deferred income tax expense, reducing the income tax benefit for the period in the Consolidated Statement of Comprehensive Income, with a corresponding decrease in deferred tax assets in the Consolidated Statement of Financial Position.

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

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

Uncertainty arising as a result of group tax restructure

During the year ended 30 June 2009, the Group’s global tax affairs were restructured to provide a more efficient flow of funds around the Group. The outcome of the restructure involves a significant degree of uncertainty, and as such the company commissioned independent advice from its professional legal and tax advisors. The outcome of the restructure could result in future potential tax liabilities of up to $10.65 million, with corresponding off-setting tax benefits arising over future years. The likelihood of any such current tax liability is not considered probable.

NOTES TO THE FINANCIAL STATEMENTS

Recoverability of receivables

The company continues to encounter uncertainties surrounding some contracts in the USA and the Middle East. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Company continues to provide against the likelihood of ultimate collectability. A USA based contract currently classified as a non-current receivable involves certain estimates made by management as to the recoverability of the receivable through mediation or other legal means, where the underlying funds generated by the customer program are maintained in a separate escrow account by the customer. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts that might be necessary should the Company's judgments differ from future circumstances.

Trade receivables are classified as non- current when their expected date of receipt is greater than 12 months.

3 SEGMENT INFORMATION

The operating businesses are organised and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers particular products and services to different markets. The Group identifies and reports on this basis to the chief operating decision maker (which for Redflex is the Group Chief Executive Officer).

The Group operates within two key markets, North America and Australia/International (which comprises all other businesses outside of North America). The Traffic business in the USA is predominantly a Build Own Operate and Maintain (BOOM) business providing fully outsourced traffic enforcement programs. The Australia/International Traffic business involves the sale of traffic enforcement products. This segment split segregates the operating units into revenue from re-occurring fee for service business and revenue related from the sale of goods and services.

The segmental split segregates the operating units into revenue from recurring fee for service business and revenue related to the sale of goods and services.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between operating segments. Those transfers are eliminated on consolidation.

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the half-years ended 31 December 2014 and 31 December 2013.

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2014

	Operating segments North America	Australian /International	Total
	$'000	$'000	$'000
Revenue			
Revenue from the sale of goods and services to external customers	2,502	22,746	25,248
Revenue from fee for service contracts	34,624	0	34,624
Finance revenue	0	1	1
Inter-segment revenue	0	3,772	3,772
Total segment revenue	**37,126**	**26,519**	**63,645**
Inter-segment elimination			(3,772)
Head office finance revenue			2
Total consolidated revenue			**59,875**
Result			
Earnings before interest tax, depreciation, amortization and impairments	6,074	5,370	11,444
Asset impairments	(5,518)	0	(5,518)
Inter-segment royalty	841	(841)	0
Depreciation	(10,331)	(809)	(11,140)
Amortisation	(722)	(2,085)	(2,807)
Segment result	**(9,656)**	**1,635**	**(8,021)**
Head office result			**(2,102)**
Profit before tax and finance charges			(10,123)
Finance charges			(340)
Loss before income tax			**(10,463)**
Income tax benefit			743
Net loss for the half			**(9,720)**
Assets and liabilities (31 December 2014)			
Segment assets	80,037	86,100	166,137
Head office assets			10,613
Total assets			**176,750**
Segment liabilities	47,005	17,571	64,576
Head office liabilities			(9,126)
Total liabilities			**55,450**

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2013

	Operating segments		
	North America	Australian /International	Total
	$'000	$'000	$'000
Revenue			
Revenue from the sale of goods and services to external customers	829	21,192	22,021
Revenue from fee for service contracts	46,989	0	46,989
Finance revenue	0	9	9
Inter-segment revenue	0	1,781	1,781
Total segment revenue	**47,818**	**22,982**	**70,800**
Inter-segment elimination			(1,781)
Head office finance revenue			0
Total consolidated revenue			**69,019**
Result			
Earnings before interest tax, depreciation, amortization and asset impairments	15,103	6,971	22,074
Asset impairments	(288)	0	(288)
Inter-segment royalty	868	(868)	0
Depreciation	(11,458)	(311)	(11,769)
Amortisation	(773)	(1,526)	(2,299)
Segment result	**3,452**	**4,266**	**7,718**
Head office result			**(2,008)**
Profit before tax and finance charges			5,710
Finance charges			(668)
Profit before income tax			**5,042**
Income tax expense			(1,953)
Net profit for the half			**3,089**
Assets and liabilities (31 December 2013)			
Segment assets	96,655	82,465	179,120
Head office assets			15,802
Total assets			**194,922**
Segment liabilities	57,578	14,898	72,476
Head office liabilities			(5,731)
Total liabilities			**66,745**

NOTES TO THE FINANCIAL STATEMENTS

4 INTEREST-BEARING BORROWINGS

	31-Dec-14 $'000	30-Jun-14 $'000
Current		
Bank borrowings	0	15,926
Deferred financing costs	0	(31)
	0	**15,895**
Non-Current		
Bank borrowings	18,391	0
Deferred financing costs	(237)	0
	18,154	**0**

Bank Indemnity Guarantees

The Group's bankers have issued to certain customers indemnity guarantees in respect of letters of credit, bid bonds and performance bonds for $1.90 million (30 June 2014: $1.783 million).

Financing Facilities Available

	31-Dec-14 $'000	30-Jun-14 $'000
Total facilities		
Bank borrowings	36,783	74,318
AU$ working capital facility	8,000	8,000
	44,783	**82,318**
Facilities used at reporting date		
Bank borrowings	18,391	15,926
Security for letters of credit issued to customers	1,900	1,783
	20,291	**17,709**
Facilities unused at reporting date	**24,492**	**64,609**

At 31 December 2014, the Group had a US$30.0 million (AU$36.8 million) secured revolving credit facility, and an AU$8.0 million working capital facility to address international and local business opportunities. This facility expires on 10 August 2017 and accordingly bank debt is classified as a non-current liability pending renewal of the facility.

In conjunction with two other Australian banks, the Commonwealth Bank of Australia has been granted a first and only priority senior security interest over the assets of Redflex Traffic Systems Inc and its subsidiaries, together with a fixed and floating charge over the assets and undertakings of Redflex Holdings Limited. There is no requirement to repay the loan principal during the life of the facility and any repaid amount of the loan principal is available to be redrawn.

Fair Value

The carrying amount of the Group's current and non-current borrowings approximate their fair value less the difference in respect to capitalized borrowing costs.

5 ISSUED AND QUOTED SECURITIES

Ordinary Securities	Total number	Number quoted	Issue price per security	Amount paid up per security
Issued at 1 July 2014	**110,762,310**	**110,762,310**		
On issue at 31 December 2014	**110,762,310**	**110,762,310**		

There has been no new issue of securities during the reporting period

5A ISSUED AND UNQUOTED PERFORMANCE RIGHTS

Unquoted performance rights	Total Number
Issued at 1 July 2014	**2,824,092**
Changes during the current half-year period	
Issued	0
Vested – performance to 1 October 2014	0
Cancelled – Outgoing CEO transition arrangements	(19,171)
Lapsed - performance to 1 October 2014	(764,633)
Outstanding at 31 December 2014	**2,040,288**

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

The annual grant of performance rights that was to have been made on 1 October 2014, has been deferred whilst the board reassesses the performance hurdles.

As no entitlements nor hurdles have been established, it is not possible to perform a valuation or valuation estimate on the tranche of performance rights that are likely to be issued, and it is also not possible to determine the expense at 31 December 2014.

6 STATEMENT OF CASH FLOWS RECONCILIATION

	Consolidated	
	31-Dec-14	31-Dec-13
	$'000	$'000
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,720	17,000
Restricted cash	3,855	3,707
	10,575	**20,707**
Reconciliation of net profit/(loss) after tax to net cash flows from operations		
Net profit/(loss) after income tax	**(9,720)**	**3,089**
Non cash flow items		
Depreciation expense	10,647	11,022
Asset retirement obligation depreciation	500	752
Amortisation of intangibles	2,807	2,299
Provision for employee entitlements	246	261
Impairment and write down of property, plant and equipment	5,518	288
Deferred financing costs amortization	57	153
Provision for doubtful debts	550	0
Share based payments	443	250
Change in operating assets and liabilities		
Decrease/(Increase) in prepayments	140	(55)
Decrease/(Increase) in receivables	(726)	3,320
Decrease/(Increase) in inventories	(1,354)	(2,278)
Increase/(Decrease) in taxation provisions	2,417	(3,107)
Decrease/(Increase) in deferred tax asset	652	3,238
Increase/(Decrease) in deferred tax liability	(3,951)	(1,237)
Increase/(Decrease) in deferred revenue	(649)	17
Increase/(Decrease) in payables	(2,204)	75
Decrease/(Increase) in deferred costs assets	(160)	0
Net cash from operating activities	**5,213**	**18,087**

7 CONTINGENCIES

There has been no change in contingent assets or liabilities since 30 June 2014.

Certain entities in the Group are party to various legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such actions and claims are not expected to have a material adverse effect on Redflex. The Board and the Company's legal advisors closely monitor these actions. Provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

City of Chicago – possible actions and outcomes

The Company has previously announced issues in regard to its US subsidiary's historical dealings with the City of Chicago, and the outcome of the internal investigation.

The Chicago City Authorities has authority to issue a variety of penalties for local ordinance violations ranging from monetary penalties to debarment. To date no monetary penalties have been presented to the Company.

The United States Department of Justice has also commenced investigation into the conduct of the Company, selected employees and external parties in relation to the Company's internal investigative findings. On 13 August 2014, the Department of Justice indicted a former company employee, a former company sales agent, and a representative of the City of Chicago. The Company was not indicted. As the Department of Justice continues its investigation and prosecution process, it is possible that the Company will be subject to monetary fines in association with the ultimate disposition of the matters. At this point in time it is not possible to estimate the potential timing for such a resolution, nor the level of potential monetary fine that the Company may face.

8 EXECUTIVE APPOINTMENTS AFTER BALANCE SHEET DATE

Following 31 December 2014 there have been the following director and executive appointments:

- Clark Davey – Non-executive Director	Appointed 9 January 2015
- Brad Crump – Group Chief Financial Officer	Commenced 2 February 2015
- Craig Durham – Group General Counsel & Company Secretary	Commenced 9 February 2015

Directors' Declaration for the half-year ended 31 December 2014

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

In the opinion of the directors,

(a) The half-year financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position as at 31 December 2014 and of its performance;

(ii) complying with Accounting Standards AASB 134 Interim Financial reporting and Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Paul Clark

Chief Executive Officer
Redflex Holdings Limited
Melbourne
27 February 2015

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

To the members of Redflex Holdings Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Redflex Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Redflex Holdings Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which follows the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Redflex Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Ashley C Butler
Partner
Melbourne

27 February 2015