

ASX ANNOUNCEMENT

26 February 2018

Redflex Holdings Limited | ABN 96 069 306 216

Redflex 

FY2018 First Half Year Results

Redflex Holdings Limited (**ASX: RDF**) releases its first half-year results for FY2018. **Attached** is the ASX Appendix 4D.

About Redflex

The Redflex Group has established itself as a world leader in traffic enforcement products and services, developing world leading enforcement camera technology and owning and operating one of the largest networks of digital speed and red-light cameras in the world. Redflex develops and manufactures a wide range of digital photo enforcement solutions including red light camera, speed camera and school bus stop arm camera systems all utilising the most advanced sensor and image capture technologies.

The Redflex Group runs its own systems engineering operations, system integration technologies and innovation centre for research and development. With our continuous development of new safety products, the Redflex Group has been helping to reduce collisions and to save lives for more than 20 years.

Redflex Holdings Limited was listed on the Australian Securities Exchange in January 1997.

For further information:

Mark J. Talbot
Group Chief Executive Officer
Redflex Holdings Limited
mtalbot@redflex.com
+61 3 9093 3324

Neville Joyce
Group Commercial Manager
Redflex Holdings Limited
neville.joyce@redflex.com.au
+61 3 9093 3324

Redflex Holdings Limited

31 Market Street (P.O. Box 720), South Melbourne, Victoria, Australia 3205 t: +613 9093 3324

e: redflexholdingslimited@redflex.com.au

www.redflex.com



REFLEX 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 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting period	Half-year ended 31 December 2017 "H1 FY18"
Previous corresponding period	Half-year ended 31 December 2016 "H1 FY17"

**APPENDIX 4D
HALF-YEAR REPORT
SIX MONTHS ENDED 31 DECEMBER 2017**

<u>RESULTS FROM OPERATIONS</u>				<u>H1 FY18</u>	<u>H1 FY17</u>
				<u>(\$'000)</u>	<u>(\$'000)</u>
Revenue from operations	Down	15.7%	to	53,230	63,118
Profit before depreciation, amortisation, finance costs and tax (PBITDA)	Down	20.8%	to	5,538	6,988
Loss before tax	Improved	84.4%	to	(4,987)	(31,961)
Loss after tax	Improved	58.8%	to	(10,810)	(26,262)
				<u>H1 FY18</u>	<u>H1 FY17</u>
				<u>Cents</u>	<u>Cents</u>
Basic / diluted loss per share	Improved	60.5%	to	(9.37)	(23.70)
Net tangible asset backing per ordinary security	Down	33.5%	to	35.31	53.12
<u>DIVIDENDS (DISTRIBUTIONS)</u>					
No dividends have been declared in respect of H1 FY18 or H1 FY17					

A review of the results for Redflex Holdings Limited (“Redflex” or “the Company”) and its consolidated entities (collectively, “the Group” or “we” or “our”) is included in the attached Directors’ Report.

It is recommended that this Interim Financial Report for the half-year ended 31 December 2017 (“Half-Year Report”) be read in conjunction with the Annual Report for the year ended 30 June 2017 and be considered together with any public announcements made by Redflex up to 28 February 2018 in accordance with the Redflex’s continuous disclosure obligations (a copy of which is available on the Company’s website (www.redflex.com/index.php/en/home-investor)).

This Half-Year Report is prepared in accordance with International Financial Reporting Standards (“IFRS”). This Half-Year Report has been reviewed by the Group’s auditors, PricewaterhouseCoopers (“PwC”), and PwC’s conclusion is attached.

Unless otherwise stated, all currencies are denominated in Australian dollars.

Note regarding non-IFRS financial information

1. Throughout this Half-Year Report, Redflex has included certain non-IFRS financial information, including PBITDA, net debt and free cash flow.
2. This information is presented to assist readers in making appropriate comparisons with prior periods and to assess the performance of the Group. PBITDA or EBITDA as it is sometimes called, is a measure frequently quoted in the industry and forms the basis upon which many investors, financiers and analysts are briefed.
3. Non-IFRS information is not reviewed by PwC.

INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2017.

Directors

The following persons were Directors of Redflex during the half-year and up to the date of this Half-Year Report. All directors held their position as Director throughout the entire half-year unless otherwise stated;

Adam Gray	Chairman
Mark Talbot	Managing Director (Appointed 29 th November 2017)
Robert DeVincenzi	Non-Executive Director
Herman Schwarz	Non-Executive Director
Clark Davey	Non-Executive Director
David McIntyre	Non-Executive Director
Terry Winters	Non-Executive Director

Company Secretary

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

OPERATING AND FINANCIAL REVIEW

Redflex Group Overview

Redflex Holdings Limited ("Redflex" or "the Company") and its subsidiaries (collectively, "the Group") began operations in 1995 and the Company's shares were listed on the ASX in January 1997.

Since inception the Group has established itself as a world leader in the automated traffic enforcement products and services market. Redflex develops and manufactures a wide range of high-performing digital photo enforcement solutions including red light, speed, automatic number plate recognition ("ANPR") and school bus stop arm systems, using advanced sensor and image capture technologies. The Group also owns and operates, through specific customer contracts, one of the largest networks of digital speed and red-light enforcement systems in the world.

The Redflex Group is comprised of two main subsidiaries: Redflex Traffic Systems Inc. ("RTSI"), based in the United States of America ("USA"), focuses on the Americas; and Redflex Traffic Systems Pty Ltd ("RTSPL"), based in Australia, focuses on the Australian and International markets.

In the USA, the Company predominantly operates a Build-Own-Operate-Maintain ("BOOM") business model, where it provides enforcement and processing services to largely municipal customers on a fully outsourced multi-year contracted basis. The Australian and International business offers a full suite of automated enforcement products and services via direct, distribution and BOOM contracts.

Group Performance

The focus in the current financial year has been to re-establish the Company under new leadership and to ensure that it has the appropriate financial capacity and resources to pursue profitable growth into the future. To this end significant progress has been made during the first half of the year:

- Mr Mark Talbot commenced as Group Chief Executive Officer on 21 August 2017. Mr Talbot has extensive experience in the automated enforcement, infringement and transaction processing industries having previously worked with Conduent and Xerox's Transportation Sector. He has spent his initial months with the Company meeting with our global customers and ensuring that our products, services and operating model are aligned to exceed customer expectations.
- We have reorganized our sales, engineering and operations teams under a global model to better leverage product investment and expertise, allowing us to focus on expanding our current customer relationships and focusing resources in targeted growth areas.
- The Company conducted a successful accelerated non renounceable prorata rights issue which raised a further \$15.6 million of capital (net of after tax transaction costs). Following completion of the rights issue, the balance sheet has

been strengthened to ensure that the Company has appropriate resources to cultivate and pursue its significant pipeline of sales opportunities as well as make targeted investments to build organizational capability.

- Credit facilities were established with Western Alliance Bank to support the operating and working capital requirements for the U.S. based business.

During the second half of the financial year we will continue to focus on maturing our organizational model as our new leadership evaluates market opportunities and the resource requirements to deliver earnings growth. While we maintain a strong pipeline of sales opportunities we recognize that the timing of some projects in the pipeline may be uncertain based on customer decision timeframes. We are confident that the steps we are taking in the current year will leave the Company well placed to pursue growth into the next financial year and beyond.

Consolidated Result

For the half-year ended 31 December 2017 revenue from operations was \$53.2 million which is down 15.7% compared to the first half of the previous financial year (H1 FY17: \$63.1 million).

The decrease in revenue was primarily attributable to:

- Conclusion of the Saudi Arabian traffic violation processing contract in January 2017.
- Completion of a number of installation projects in the United Kingdom and New Zealand during the prior financial year which have transitioned to maintenance support.
- Lower revenue from the Americas predominantly from the termination of a program in Rochester, NY in H1 FY17 and lower revenue from Mexico.

The Group PBITDA was \$5.5 million compared to \$7.0 million in the prior comparative period. Lower revenue discussed above impacted the PBITDA outcome. The revenue shortfall was partly offset by improved margins in the Americas business and reduced operating expenses across the Group.

Net loss before tax for the Group was \$5.0 million in H1 FY18 compared to a loss of \$32.0 million in the previous corresponding period. The result in the prior period was driven by the recognition of the value of the full settlement relating to the City of Chicago legal matters and the impairment of trade receivables in Saudi Arabia.

Net loss after tax for the Group was \$10.8 million in H1 FY18 compared to a loss of \$26.3 million in the previous corresponding period. The recognition of tax expense in the period reflects the reduction of U.S. based deferred tax assets due to the reduction in the Federal corporate tax rate to 21% in that jurisdiction.

Balance Sheet

Key balance sheet movements relate to the issue of additional share capital following completion of the accelerated non renounceable prorata rights issue during the period. This resulted in additional equity of \$15.6m

The Group's cash position has increased by \$11.0 million for the half year ended December 2017 reflecting the impact of the equity raising, new debt drawdowns partly offset by payment of the second instalment of the Chicago settlement.

The reduction in the liability associated with the City of Chicago settlement has been offset by the drawdown of term debt against with Western Alliance Bank during the period.

Deferred tax assets have been revalued downward reflecting the lower Federal Income Tax rate in the U.S.

YEAR ON YEAR COMPARISON

A comparison of the Group's performance for H1 FY18 and H1 FY17 is as follows.

	H1 FY18 \$'000	H1 FY17 \$'000
Profit before interest, tax, depreciation, and amortisation (PBITDA)	5,538	6,988
<i>Less: Significant items, depreciation, amortization and finance charges:</i>		
Legal settlement with the City of Chicago	-	25,294
Executive termination costs and property exit charges	598	-
Legal costs associated with debt recovery	708	-
Impairment of trade receivables	-	3,672
Net write-down of inventory	-	271
Depreciation	6,312	7,644
Amortisation	2,441	2,013
Net finance costs	466	55
Loss before tax	(4,987)	(31,961)

	H1 FY18 \$'000	H1 FY17 \$'000	% Change
Segment revenue			
The America's Traffic business	32,001	36,086	(11.3%)
Australian/International Traffic business	21,229	27,032	(21.5%)
Total Consolidated Revenue	53,230	63,118	(15.7%)
Profit before interest, tax, depreciation, and amortisation			
PBITDA from combined Traffic business	6,360	7,973	(20.2%)
Head Office costs	(822)	(985)	(16.5%)
PBITDA	5,538	6,988	(20.7%)
Pre-tax loss			
Pre-tax loss from combined Traffic business	(4,165)	(30,967)	(86.6%)
Head Office costs	(822)	(994)	(17.3%)
Pre-tax loss from operations	(4,987)	(31,961)	(84.4%)
Net loss after tax	(10,810)	(26,262)	(58.8%)

Review of the America's Operations

Revenue for the six months ending 31 December 2017 decreased 11.3% to \$32.0 million compared to \$36.1 million for H1 FY17. When adjusted for foreign exchange movements during the period, underlying revenue in US\$ declined by 9%. The decline is driven primarily by the termination of the Rochester, NY program during H1 FY17 and lower revenue from Mexico.

Despite lower revenue, PBITDA grew by 7.5% to \$5.4 million. The improved result reflects improved yields from existing programs, cost efficiencies and increased revenue in non traditional product streams.

Customer renewal rates during the six months to 31 December 2017 remained steady. Revenue from our mobile solution in the U.S. grew during the period, and we are aggressively pursuing photo enforcement opportunities in Canada. Through our operating partnership with a local distributor, we maintain a presence in Mexico. Our position in this market continues to be evaluated on the basis that market risk is appropriately managed.

Redflex International

Revenue for the six months ending 31 December 2017 decreased 22% to \$21.4 million compared to \$27.5 million for the comparative period in FY17. The decline in revenue is predominantly driven by the conclusion of the Saudi Arabian traffic violation processing centre in January 2017. Revenue has also declined as a number of installation projects in the United Kingdom and New Zealand were completed during the prior financial year and have transitioned to maintenance support.

During FY17 the International business focused on lifting its service performance levels for existing customers and building its pipeline of new opportunities in targeted markets. This focus required the business to make additional investment in its engineering, product and project delivery capability. As service improvements have been established in the early part of FY18, the business has removed costs associated with remediation activity. As such, the revenue shortfall has been partially offset by lower costs resulting in PBITDA for the International business of \$1.0 million, a decline of \$1.9 million compared to the prior year.

The business has developed a significant pipeline of sales opportunities with both existing and prospective customers and markets. While recognizing that the timing of some opportunities can be uncertain, it is anticipated that the pipeline will drive additional project related work in the International business during the second half of FY18 and beyond.

During the period a written settlement agreement was reached to recover a long term debt from Etihad Alafandi (EAA), a former Saudi Arabian customer. The settlement amount of A\$3 million was due to be paid on or before 29 December 2017. As at the date of reporting, the settlement amount is yet to be received. As such, the value of the debt remains fully provided for in the Group's financial statements. Legal costs associated with the recovery of the debt have been expensed during the period. The Company continues to vigorously pursue collection of the settlement amount.

Financial Resources

On 18 December 2017, the Company announced that its U.S. subsidiary, Redflex Traffic Systems Inc, had entered into a US\$10 million credit facility agreement with Western Alliance Bank consisting of a US\$5 million revolving line of credit and a US\$5 million three year term loan. These facilities will be used to support operating and working capital requirements for the U.S. business.

Maturity for the revolving credit facility is 14 December 2018 and the term loan is 14 December 2020.

As at 31 December 2017 the Company has an outstanding term loan of US\$5 million, of which US\$0.8 million is due within twelve months. No balance is outstanding against the revolving credit facility.

The Company also has a secured A\$10 million bilateral working capital facility with the Commonwealth Bank of Australia. This facility expires 21 March 2018. As at 31 December 2017 nil balance is outstanding under this facility.

The Company has a cash balance A\$19.2 million which represents an increase of \$11.0 million since June 2017. In addition, the Company holds a A\$2 million working capital facility for bank guarantees and bonds required to support bids and contracts with certain customers of which A\$1.9 million has been used for bank guarantees.

Subsequent events

Other than the matters disclosed within this Directors' Report in respect of the litigation settlement and the new bilateral working capital facility there has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect the operations of the Group.

Rounding

The amounts contained in this report and in the financial report have been rounded (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Auditor's Independence

The Group has received the Auditor's Independence Declaration dated 26 February 2018.

Signed in accordance with a resolution of the directors.



Adam L Gray

Chairman
Melbourne
26 February 2018



Auditor's Independence Declaration

As lead auditor for the review of Redflex Holdings Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Redflex Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to be 'JP', written in a cursive style.

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
26 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2017

	Note	31-Dec-17 \$'000	31-Dec-16 \$'000
Revenue from operations		53,230	63,118
Total revenue		53,230	63,118
Cost of goods sold		24,988	30,301
Cost of sales		24,988	30,301
Gross profit		28,242	32,817
Sales and marketing related expenses		3,934	4,594
Administrative related expenses		18,770	21,235
Profit before depreciation, amortisation, finance costs and tax		5,538	6,988
Legal settlement with the City of Chicago		-	25,294
Executive termination costs and property exit charges		598	-
Legal costs associated with debt recovery		708	-
Impairment of trade receivables		-	3,672
Amortisation of intangibles		2,441	2,013
Depreciation of plant and equipment		6,312	7,644
Net write down of inventory		-	271
Loss before tax and financing costs		(4,521)	(31,906)
Net finance costs		466	55
Loss before tax		(4,987)	(31,961)
Income tax expense / (benefit)	4	5,823	(5,699)
Net loss for the period		(10,810)	(26,262)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation		(998)	1,788
Total comprehensive income for the period		(11,808)	(24,474)
Earnings per share ("EPS") attributable to ordinary equity holders			
- basic / diluted EPS for the half-year ended		(9.37) cents	(23.70) cents

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	31-Dec-17 \$'000	30-Jun-17 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		19,210	8,199
Trade and other receivables		21,861	23,880
Inventories		5,837	6,104
Other current assets		3,000	2,832
Total Current Assets		49,908	41,015
Non-Current Assets			
Plant and equipment		35,885	40,296
Deferred tax asset	4	17,035	23,164
Intangible assets		22,926	23,343
Other financial assets		441	441
Other non-current assets		183	103
Total non-current assets		76,470	87,347
TOTAL ASSETS		126,378	128,362
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables		15,056	24,693
Interest bearing liabilities	5	842	-
Income tax payable		772	1,384
Provisions		8,498	9,240
Total Current Liabilities		25,168	35,317
Non-Current Liabilities			
Trade and other payables		10,014	11,255
Interest bearing liabilities	5	5,565	-
Deferred tax liabilities	4	5,741	6,081
Provisions		4,322	4,746
Total Non-Current Liabilities		25,642	22,082
TOTAL LIABILITIES		50,810	57,399
NET ASSETS		75,568	70,963
Equity			
Contributed equity	6	117,387	101,765
Reserves		4,273	4,480
Accumulated losses		(46,092)	(35,282)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		75,568	70,963

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 2017

	Contributed Equity \$'000	Foreign Currency Translation Reserve \$'000	Employee Equity Benefits Reserve \$'000	Accumulated losses \$'000	Total Equity \$'000
At 1 July 2016	101,765	3,646	2,341	(3,790)	103,962
Loss for the half-year	-	-	-	(26,262)	(26,262)
Currency translation differences	-	1,788	-	-	1,788
Total comprehensive income for the period	-	1,788	-	(26,262)	(24,474)
Cost of share based payments	-	-	657	-	657
At 31 December 2016	101,765	5,434	2,998	(30,052)	80,145
At 1 July 2017	101,765	2,299	2,181	(35,282)	70,963
Loss for the half-year	-	-	-	(10,810)	(10,810)
Currency translation differences	-	(998)	-	-	(998)
Total comprehensive income for the period	-	(998)	-	(10,810)	(11,808)
Issue of share capital, net of costs	15,622	-	-	-	15,622
Cost of share based payments and options	-	-	791	-	791
At 31 December 2017	117,387	1,301	2,972	(46,092)	75,568

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2017

	31-Dec-17 \$'000	31-Dec-16 \$'000
Operating activities		
Receipts from customers	53,319	64,715
Payments to suppliers and employees	(51,596)	(51,689)
Chicago settlement payment	(6,406)	-
Interest received	-	3
Interest paid	(204)	(1)
Income tax paid	(375)	-
Net cash (used in) / inflows from operating activities	(5,262)	13,028
Investing activities		
Purchase of property, plant and equipment	(3,494)	(6,177)
Capitalised development costs paid	(1,807)	(2,022)
Net cash used in investing activities	(5,301)	(8,199)
Financing activities		
Proceeds from borrowings	6,406	-
Proceeds received from capital raising net of costs	15,288	-
Net cash inflow from financing activities	21,694	-
Net increase in cash held	11,131	4,829
Effect of exchange rate changes on cash	(120)	273
Cash and cash equivalents at beginning of period	8,199	12,442
Cash and cash equivalents at end of the period	19,210	17,544

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Redflex Holdings Limited (“Redflex” or “the Company”) and its subsidiaries (collectively, “the Group”) is an Australian incorporated company limited by shares that are publicly traded on the Australian Securities Exchange (ASX) with the code RDF.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and new accounting standards

Basis of preparation

This consolidated financial report for the half-year ended 31 December 2017 (“the Half-Year Report”) has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

The Half-Year Report does not include all notes of the type normally included within the annual general purpose financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the Group’s Annual Report.

It is recommended that the Half-Year Report be read in conjunction with the Annual Report for the year ended 30 June 2017 and considered together with any public announcements made by the Company in accordance with the Group’s continuous disclosure obligations under ASX listing rules (a copy of which is available on the Company’s website (www.redflex.com)).

The Half-Year Report has been prepared on a going concern basis, which assumes the normal continuity of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

(b) Changes in accounting policies

There have been no changes in accounting policies during the half-year ended 31 December 2017.

(c) Change in accounting estimates

There were no significant changes in accounting estimates for the half-year ended 31 December 2017.

(d) Significant accounting judgments, estimates and assumptions

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

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made at 31 December 2017. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Impairment of goodwill, plant and equipment and capitalised development costs

At each reporting date the Group assesses whether there is an indicator that assets contained within one of the Group’s Cash Generating Unit’s (“CGU’s”) may be impaired. When an indicator of impairment exists, the Group makes a formal assessment of the recoverable amount generated by the relevant CGU. Where the carrying amount of assets contained within the CGU exceeds its recoverable amount the assets contained within the CGU are considered impaired and written down to their recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

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

The Company performed its annual impairment test in June 2017. However, as a result of performance in the Australian and International traffic operations business an indicator of impairment existed as at 31 December 2017. Under the requirements of *AASB 136 – Impairment of Assets* as an indicator of impairment existed in the Australian and International traffic operations CGU at 31 December 2017 a full impairment test was performed for this CGU. The Company continued to apply a value in use methodology to the test. Based on the results of this test the recoverable amount of \$57.7 million was above the carrying value of the CGU's assets and it was determined that an impairment charge was not required. The modelling used a pre-tax discount rate of 12.6% and a long term growth rate to cash flows into perpetuity of 2%.

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

- Sales growth rate decreased by 10% compared to the current modelling;
- The long term growth rate decreased to (4%) as compared to the current modelling;
- Pre-tax discount rate increased to 16.91% as compared to the current modelling.

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

Depreciation of property, plant and equipment

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

Despite the longevity of the installation it is impaired upon termination or non-renewal of a contract to process traffic violations (and, in some instances, the outcome of many of these events is outside the control of the Group). Accordingly, it is difficult to assess the appropriate length of time over which to depreciate these assets.

Amortisation of capitalised development costs

Capitalised development costs are mainly attributed to capitalised labour associated with the development of new technology within the traffic enforcement industry. The contract periods for which the technology is used varies significantly and similar technology can be utilised for multiple contracts.

The Group amortises these assets over a seven to ten year period on a straight line basis regardless of the length of individual contracts for which the technology is used. The Group expects the technology to last for a period of seven to ten years from inception, due to varying requirements of its customers. Management assesses development costs at each reporting date and if the technology is no longer in use it is considered impaired. Accordingly, it is difficult to assess the appropriate length of time over which to amortise these assets.

Recoverability of receivables

The Group continues to encounter uncertainties surrounding some contracts in certain countries including in the Middle East and Mexico. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Group continues to provide against the likelihood of ultimate collectability. Current provisions held for the Middle East and Mexico are \$3.6 million and \$5.5 million respectively. In the prior year provisions of \$3.6 million and \$3.0 million were recorded in respect of overdue balances in the Middle East and Mexico.

Long service leave provision

In determining the present value of the liability, probabilities have been applied in estimating the proportion of employees who will be entitled to long service leave and a percentage applied to reflect pay increases through promotion and inflation.

Asset retirement obligations

The asset retirement obligation liability is based on what management expects future costs will be based on experience in terminated contracts.

NOTES TO THE FINANCIAL STATEMENTS

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, The Americas (incorporating Canada, the USA and South America) and Australia/International (which comprises all other businesses outside of the Americas). The Americas business is predominantly a Build Own Operate and Maintain ("**BOOM**") business providing fully outsourced traffic enforcement programs. The Australia/International business involves the sale of traffic enforcement products.

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

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the half-years ended 31 December 2017 and 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2017

	Operating segments		Total \$'000
	The Americas \$'000	Australian /International \$'000	
Revenue			
Revenue from operations	32,001	21,229	53,230
Inter-segment revenue		155	155
Total segment revenue	32,001	21,384	53,385
Inter-segment elimination			(155)
Total consolidated revenue			53,230
Result			
Profit before interest tax, depreciation and amortisation	5,400	960	6,360
Legal costs associated with debt recovery	-	(708)	(708)
Impairment of trade receivable	-	-	-
Executive termination and property exit costs	-	(598)	(598)
Depreciation	(5,064)	(1,248)	(6,312)
Amortisation	-	(2,441)	(2,441)
Inter-segment royalty	770	(770)	-
Segment result	1,106	(4,805)	(3,699)
Head office result			(822)
Loss before tax and finance charges			(4,521)
Finance charges			466
Loss before income tax			(4,987)
Income tax expense			5,823
Net loss for the period			(10,810)
Assets and liabilities			
Segment assets	62,540	52,330	114,870
Head office assets			11,508
Total assets			126,378
Segment liabilities	37,782	10,933	48,715
Head office liabilities			2,095
Total liabilities			50,810

NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENT INFORMATION – Continued

Half-year ended 31 December 2016

	Operating segments		Total \$'000
	The Americas \$'000	Australian /International \$'000	
Revenue			
Revenue from operations	36,086	27,032	63,118
Inter-segment revenue	-	496	496
Total segment revenue	36,086	27,528	63,614
Inter-segment elimination			(496)
Total consolidated revenue			63,118
Result			
Profit before interest tax, depreciation and amortisation	5,024	2,949	7,973
Write-down of inventory	(271)	-	(271)
Legal settlement with the City of Chicago	(25,294)	-	(25,294)
Impairment of trade receivables	-	(3,672)	(3,672)
Depreciation	(6,677)	(958)	(7,635)
Amortisation	-	(2,013)	(2,013)
Inter-segment royalty	796	(796)	-
Segment result	(26,422)	(4,490)	(30,912)
Head office result			(994)*
Loss before tax and finance charges			(31,906)
Finance charges			55
Loss before income tax			(31,961)
Income tax benefit			(5,699)
Net loss for the period			(26,262)
Assets and liabilities			
Segment assets	80,863	54,813	135,676
Head office assets			8,624
Total assets			144,300
Segment liabilities	47,031	15,060	62,091
Head office liabilities			2,064
Total liabilities			64,155

*Includes corporate depreciation of \$9,000

NOTES TO THE FINANCIAL STATEMENTS

4 INCOME TAX

The major components of income tax expense for the years ended 31 December 2017 and 31 December 2016 are:

Consolidated income statement

	31-Dec-17	31-Dec-16
	\$'000	\$'000
Current income tax		
Current income tax expense / (benefit)	34	(10,679)
Deferred tax		
Relating to origination and reversal of temporary differences	5,789	4,980
Income tax expense / (benefit) reported in the consolidated statement of comprehensive income	5,823	(5,699)

A reconciliation between tax expense and the product of accounting loss multiplied by Australia's domestic tax rate for the half-years ended 31 December 2017 and 31 December 2016 is as follows:

	31-Dec-17	31-Dec-16
	\$'000	\$'000
Accounting loss before income tax	(4,987)	(31,961)
At the statutory income tax rate of 30% (H1 FY17: 30%)	(1,496)	(9,588)
Adjustments of current income tax in previous years	162	75
Impact of tax rate differential on foreign operations	124	(932)
Research and development tax incentives	-	(77)
Impairment of deferred tax asset on fixed assets	750	-
Adjustment to carrying value of deferred tax asset as a result of change in US tax rate*	6,282	-
Tax effect of Group tax re-structure	-	4,580
Under provision in prior years	1	243
Income tax expense / (benefit) reported in the consolidated statement of comprehensive income	5,823	(5,699)

* During the period to 31 December 2017 the U. S. government amended reduced the federal tax from 34% to 21%. The deferred tax asset has been reduced in respect of this change.

NOTES TO THE FINANCIAL STATEMENTS

4 INCOME TAX - CONTINUED

Deferred Tax

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	31-Dec-17 \$'000	30-Jun-17 \$'000	31-Dec-17 \$'000	30-Jun-17 \$'000
(i) Deferred tax liabilities				
Capitalised development costs	5,725	6,060	335	13
Other	16	21	5	43
Gross deferred tax liabilities	5,741	6,081		
(ii) Deferred tax assets				
Employee Entitlements	927	1,128	(201)	(64)
Provisions	3,899	5,677	(1,778)	2,561
Deferred tax asset on fixed assets	3,407	5,190	(1,783)	(1,760)
Deferred tax asset on Legal settlement with the City of Chicago	2,296	5,930	(3,634)	5,930
Deferred tax asset on net operating losses	2,779	2,299	480	(1,997)
Carry forward research & development tax offset	3,124	3,124	-	912
Other	603	(184)	787	254
Gross deferred tax assets	17,035	23,164		
Deferred tax charge			(5,789)	5,892

At 31 December 2017 there is no recognised nor unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of the consolidated entity's subsidiaries, as the consolidated entity has no liability for additional taxation should such amounts be remitted.

5 INTEREST BEARING LIABILITIES

	31-Dec-17 \$'000	30-Jun-17 \$'000
Current		
Term Loan	842	-
	842	-
Non-current		
Term loan	5,565	-
	5,565	-

Bank indemnity guarantees

The Group's bankers have issued indemnity guarantees to certain customers in respect of letters of credit, bid bonds and performance bonds for \$1.9 million (June 2017: \$1.9 million).

NOTES TO THE FINANCIAL STATEMENTS

5 INTEREST BEARING LIABILITIES - CONTINUED

Financing facilities available

	31-Dec-17 \$'000	30-Jun-17 \$'000
Total facilities committed		
Revolving line of credit	6,407	-
Term loan	6,407	-
Total available facilities	12,814	-
Facilities used at reporting date		
Revolving line of credit	-	-
Term loan	6,407	-
Security for letters of credit issued to customers	1,900	1,900
Facilities unused at reporting date	8,307	1,900

During the period the Company entered into a US\$ 10 million credit facility agreement with Western Alliance Bank consisting of US\$ 5 million revolving line of credit and a US\$ 5 million three-year term loan

6 ISSUED AND QUOTED SECURITIES

Ordinary Securities	Total number	Date
Issued at 1 July 2017	110,909,765	
Vesting of performance rights	494,560	5 Sep 2017
Vesting of performance rights	416,389	2 Oct 2017
Issue of shares	37,273,571	11 Dec 2017
On issue at 31 December 2017	149,094,285	

6A ISSUED AND UNQUOTED PERFORMANCE RIGHTS

Unquoted performance rights	Total Number	Date
Issued at 1 July 2017	6,050,272	
Changes during the current half-year period		
Issue of performance rights	1,597,523	21 Aug 2017
Vesting of performance rights	(494,560)	5 Sep 2017
Lapse of performance rights	(1,082,267)	5 Sep 2017
Vesting of performance rights	(416,389)	2 Oct 2017
Lapse of performance rights	(3,013,952)	2 Oct 2017
Issue of performance rights	2,019,194	2 Oct 2017
Lapse of performance rights	(453,448)	14 Dec 2017
Issue of performance rights	165,066	14 Dec 2017
Outstanding at 31 December 2017	4,371,439	

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

NOTES TO THE FINANCIAL STATEMENTS

6B ISSUED AND UNQUOTED OPTIONS

Unquoted options	<u>Total Number</u>	<u>Date</u>
Issued at 1 July 2017	-	
Changes during the current half-year period		
Issue of options*	2,218,195	21 Aug 2017
Outstanding at 31 December 2017	<u>2,218,195</u>	

*Options were issued to Mark Talbot on 21 August 2017. The options have an exercise price of 50.86 cents and vest over a 48 month period commencing from 21 February 2018 in each case conditional on Mr Talbot being engaged at the vesting date. The options expire 5 years after vesting.

7 CONTINGENCIES

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

8 SUBSEQUENT EVENTS

Other than the matters disclosed within this Directors' Report in respect of the litigation settlement and the new bilateral working capital facility there has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect the operations of the Group.

DIRECTORS' DECLARATION

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 2017 and of its performance;
 - (ii) complying with Accounting Standards AASB 134 Interim Financial reporting and Corporations Regulations 2001; and
- (b) As detailed in Note 2(a) of the half-year financial report, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Adam L Gray
Chairman
Redflex Holdings Limited
Melbourne
26 February 2018



Independent auditor's review report to the members of Redflex Holdings Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Redflex Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, 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, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Redflex Holdings Limited. The consolidated entity comprises the Company and the entities it controlled during that 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 control as the directors determine is 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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Redflex Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

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

Jason Perry
Partner

Melbourne
26 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au